FACTORS INFLUENCING THE DEVELOPMENT OF RISK MANAGEMENT
STRATEGIES BY SAFARICOM LIMITED

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DECLARATION

STUDENT’S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature:

……………………………………………Date:…………………………………

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SUPERVISOR’S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

Signature………………………………….….Date…………………………………..

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LECTURER: UNIVERSITY OF NAIROBI
DEDICATION

This project is dedicated to my parents Brigitta and Camiluse whose love and support is beyond measure. You made me who I am today.
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A special thank you to my supervisor, Professor K’Obonyo for his critique, support and guidance. You were always available in person and on phone.

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Special thanks to my classmates, Brenda Odwesso, Amelia Omolo, Mercy Amara Onyango and Mary Karimi: your teamwork during the entire MBA program is treasured.

To my siblings, thank you for the love and support during the program.
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ABSTRACT

The operating environment of any profit making firm is exposed to various risks which if not managed would result in revenue leakages and fraudulent actions. Telecommunication firms have to continuously invest expertise and effort in risk management programs. These programs should be in line with the overall aims and objectives of the firm.

The objective of the study was to determine the factors influencing the development of risk management strategies in Safaricom Limited. The study adopted a case study design and the researcher conducted the interviews. The interviewees were the managers in risk management division in Safaricom. Content analysis was used to analyze the data. From the findings, the study concluded that Safaricom Limited does an assessment of its risk profile followed by an evaluation of its risk policy. The company considers its level of risk tolerance in developing its strategy. The company considers the prevailing and future economic environment, existing mitigation strategies in place and potential return on taking a given risk. Risk management is embedded both at the strategic and management level and furthermore, it is everyone’s responsibility at Safaricom. The management normally develops risk management strategies from past events as not all outcomes are predictable. In developing its risk management policy, Safaricom limited have an operational Risk management framework that includes Business Continuity Plan and a Disaster Recovery Plan. The pros and cons of each strategy being considered are carefully balanced when being considered for implementation.
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CHAPTER ONE:

INTRODUCTION

1.1 Background of the study
A comprehensive framework of risk management is applicable equally to a conventional firm (Iqbal and Mirakhor, 2007). The process of risk management is a two-step process. The first is to identify the source of the risk, which is to identify the leading variables causing the risk. The second is to devise methods to quantify the risk using mathematical models, in order to understand the risk profile of the instrument. Once a general framework of risk identification and management is developed, the techniques can be applied to different situations, products, instruments and institutions. It is crucial for firms to have comprehensive risk management framework as there is growing realization that sustainable growth critically depends on the development of a comprehensive risk management framework (Greuning and Iqbal, 2007). A robust risk management framework can help firms to reduce their exposure to risks, and enhance their ability to compete in the market (Iqbal and Mirakhor, 2007).

There is a lot of risk in the telecommunication business. In the process of providing communication and financial services, they assume various kinds of risks. Over the last decade the understanding of the place of telecommunication industry within the financial sector has improved substantially. Over this time, much has been written on the role of telecommunication industry in the financial sector, both in the academic literature and in the financial press. Suffice it to say that market participants seek the services of these communication institutions because of their ability to provide market knowledge, transaction efficiency and effective communication capability. In performing these roles they generally act as a principal in the transaction. As such, they use their own balance sheet to facilitate the transaction and to absorb the risks associated with it (Santomero, 1997).
To be sure, there are activities performed by telecommunication firms which do not have direct balance sheet implications. These services include agency and advisory activities such as trust and investment management, private and public placements through best efforts or facilitating contracts, standard underwriting, or the packaging, securitizing, distributing and servicing of mobile money in the areas of consumer. These items are absent from the traditional financial statement because the latter rely on generally accepted accounting procedures rather than a true economic balance sheet. Nonetheless, the overwhelming majority of the risks facing the telecommunication firms are in both internal and external capacities. It is in this area that the discussion of risk management and the necessary strategies and procedures for risk management and control has centered (Altman, 1993).

1.1.1 The concept of strategy

Porter (1980) noted that strategy is about competition and the means by which an organization tries to gain a competitive advantage. He has described a category consisting of three general types of strategies that are commonly used by businesses. The three generic strategies are as follows: strategic scope and strategic strength. Strategic scope was demand-side dimension and looks at the size and composition of the market to be targeted. Strategic strength was supply-side dimension and looks at the strength or core competency of the firm. In addition, he identified two competencies that he felt were most important: product differentiation and product cost (efficiency). Porter simplifies the scheme to the three best strategies: cost leadership, differentiation, and market segmentation (or focus). Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope (Harrington, S.E. and Niehaus, G. R. 1999).

The essential managerial dictum of strategy is that being a market leader accrues to those firms whose distinctive organization has a superior fit with the business and societal environment within which they operate (Andrews, 1971). As Porter (1984 & 1994) noted, drawing heavily upon industrial organization economies and structure-conduct-
performance paradigm, this perspective has been used effectively to explain why certain firms have superior performance in particular market places. Day and Wensely (1988) argue that strategies consist of skills and resources that are available for use by firms in a competitive industry. They define superior skills in terms of staff capability, systems, or marketing savvy not possessed by a competitor. A superior resource is defined in terms of physical resource that is available to help strategy implementation. Examples include operating scale, location, comprehensiveness of a distribution system, brand equity, or manufacturing or processing assets. They conclude that establishing a generic strategy-based positional advantage in the market place will provide a firm with superior performance.

1.1.2 Risk Management strategies

Business risk is defined as the potential for events, actions, or inactions to result in the client's failure to meet its key business objectives, or its failure to define business objectives that are responsive to its key stakeholders. Financial statement risk is the risk that the client's financial statements, prior to the performance of any audit procedures, will be materially misstated. Financial statement risk as defined is combined risk, which is the product of inherent risk and control risk (Furash, 1994). Difficulties could arise if risk manager wished to install a system for checking a particular product that conflicted with production management’s views of what can be achieved or exceeds budgets allocated by the finance department. Thus objective setting is a collaborative process (Armstrong and Brodie, 1994).

Boodman (1987) postulates that any new action in the corporation; a new plant location, production process, personnel/contractual commitment is a potential source of exposure to loss. First and foremost, awareness of the risk function must be created through the organization. All staff and personnel involved in the changes must be aware of the potential risks. There is need therefore to create a risk management function within the corporate structure with a clear mandate to review and monitor all activities in the firm and identify those of sizeable risk. A provision to support the function should be made
complete with a broad spectrum of technical and business skills needed to; identify, quantify and treat the risk.

Hedging has been found to be a desirable tool for risk management by most firms. Hedging refers to taking two positions whose gains and losses will offset each other for the purpose of limiting risk (Dofman, 2004). For example, when an insured firm suffers a loss, it gains the right to collect insurance proceeds. The firm has therefore hedged its loss exposure because the event that gives rise to the damage (loss) also gives rise to an offsetting gain (the claim against the insurance company). Nowadays financial arrangements allow risk managers to construct hedges against various types of losses. These hedges involve derivative securities. A derivative security refers to a financial instrument whose value is based on the value of an underlying financial asset or commodity.

Froot, Scharfstein and Stein (1992) provided a general framework for thinking about risk management strategies that found it favorable for firms to hedge and the type of hedging that was optimal. Similarly, Wagner (2001) in a review of current risk management techniques for firms operating in the agribusiness industry developed the concept of strategic demand for hedging as a tool for price risk management. Geczy, Minton and Schrand (2000) took a different approach in their study, by examining firm’s choices among various risk strategies in the natural gas industry. Their study focused on how different strategies were used in combination. This study revealed that pipelines used more than one strategy and furthermore, gave evidence that firms pursuing hedging activities had similar firm characteristics and were significantly different from non-hedgers.

Gentzoglanis (2005) went further and broke down the different types of hedging used in the telecommunications industry as a tool to manage financial risk. They were namely; natural hedge and financial hedge. A natural hedge is used to offset the operating cash flow while a financial hedge is an offsetting debt obligation (such as loan) or some type of financial derivative such as an interest rate swap. The strategy a telecommunications firm chooses to hedge risk depends on the company’s risk tolerance, which is a
combination of the management’s philosophy towards risk and the specific goals of the treasury.

Common risk avoidance practices include at least three types of actions. The standardization of process, contracts and procedures to prevent inefficient or incorrect financial decisions is the first of these. The construction of portfolios that benefit from diversification across customers and that reduce the effects of any one loss experience is another. The implementation of incentive-compatible contracts with the institution's management to require that employees be held accountable is the third. Additionally, the firm could make use of risk reducing tools like product diversification insurance and marketing to minimize the probability of loss (Piggott et al, 2006). In each case the goal is to rid the firm of risks that are not essential to the financial service provided, or to absorb only an optimal quantity of a particular kind of risk. (Jorion, 1997)

According to Marshall and Siegel (1996), there are also some risks that can be eliminated, or at least substantially reduced through the technique of risk transfer. Markets exist for many of the risks borne by the telecommunication firm. Interest rate risk can be transferred by interest rate products such as swaps or other derivatives. Borrowing terms can be altered to effect a change in their duration. Finally, the firm can buy or sell financial claims to diversify or concentrate the risks that result from servicing its client base. To the extent that the financial risks of the assets created by the firm are understood by the market, these assets can be sold at their fair value. Unless the institution has a comparative advantage in managing the attendant risk and/or a desire for the embedded risk they contain, there is no reason for the firm to absorb such risks, rather than transfer them (Morsman, 1993).

There are two classes of assets or activities where the risk inherent in the activity must and should be absorbed at the firm level. In these cases, good reasons exist for using firm resources to manage firm level risk. The first of these includes financial assets or activities where the nature of the embedded risk may be complex and difficult to communicate to third parties. This is the case when the firm holds complex and
proprietary assets that have thin, if not non-existent, secondary markets. Communication in such cases may be more difficult or expensive than hedging the underlying risk. (Al-Tamimi, 1996)

Moreover, revealing information about the customer may give competitors an undue advantage. The second case included proprietary positions that are accepted because of their risks, and their expected return. Here, risk positions that are central to the firm's business purpose are absorbed because they are the raison d'être of the firm. Service risk inherent in the lending activity is a clear case in point, as is market risk for the trading desk of firms active in certain markets. In all such circumstances, risk is absorbed and needs to be monitored and managed efficiently by the institution. Only then will the firm systematically achieve its financial performance goal (Berger, 1995).

1.1.3 Factors affecting the development of Risk Management Strategies

In the same way as any other function within the organization risk management should formulate a strategy aimed at achieving organizations’ overall aims and objectives. Thus risk management, in conjunction with, the other departments should conceive of objectives and strategies to fulfill the mission of the organization and the aims of the function. As risk management objectives could conflict with those of other departments it is important that aims and objectives are set in collaboration with the organization as a whole (Johnson & Scholes, 2004).

All departments of the organization will have to pursue the overall aims and objectives of the organization and in order to do so must set their own objectives and strategies. Similarly, risk management will also have to ensure that it is taking the same direction as the organization consequently it should have a statement of intent in line with the mission statement. In order to provide an understanding of the nature of the process a short summary of the setting of strategies and objectives will be considered here. Johnson & Scholes, (2004) posit that in order to achieve the mission the organization will normally set objectives that are to be achieved in five or more years’ time. These are called long term objectives and are aimed at achieving the mission. Objectives are more specific than aims or missions and therefore are stated more clearly. Usually they are measurable so
that the group responsible for achieving them knows when this has occurred. This is not always the case as some objectives are ongoing and therefore never achieved. For example an objective to be aware of the effects of the operation of the organization on the environment is worthwhile even though it is not measurable and is on-going.

Studies carried out by Grabowski and Roberts (1999), Galorath (2006), Carey (2001) and Hasanali (2002) found the following factors important in the development of risk management strategies; Commitment from top management, communication, culture, organizational structure, trust, information technology and training.

Commitment from top management has been found to be important in influencing the success level of the organizational system. Top management support is therefore a critical success factor that includes; developing project procedures including initiation, training programs establishing a project management office support quality management and many other activities. They also affect decision making to manage risk and authorize business process change. Successful mitigation of risk is thus heavily dependent upon commitment and support of the top management (Ifinedo, 2008; Zwikael, 2008).

Good communication is extremely important for most organizations. This is because different staff members will always hold different views and its only through dialogue that effective delivery of messages is achieved. Internal communication should support business strategies and improve business processes as well as performance. This is especially important for the leadership because communication sets clear mutual expectations, objectives and goals. It further ensures that team members support both where the team is now and where they want to be (Quirke 1996).

Hasanali (2002) describes culture as the combination of shared history, expected unwritten rules and social customs that compel behavior. It’s the set of deep seated beliefs that are ever present to influence the perception of actions and communication of all employees. Grabowski and Roberts (1999) suggests that risk management requires the combination of several cultures that make a system into a cohesive whole in which values
of the member organization can be built around the need for fostering a culture of reliability. Teamwork can develop some behavior by sharing individual beliefs, conducting meetings and seeking consensus for management to succeed. Culture is important because within effective risk management, knowledge transfer requires individuals to come together, interact, exchange ideas and share knowledge. Culture creates individuals constantly encouraged to generate new ideas, knowledge and solutions.

Organizational structure involves an organization’s internal pattern of relationships, authority and communication. Hunter (2002) supports the idea that organizational structure provides the authority to predetermine the way employees work. Therefore one of the most important aspects for effective risk management is organizational structure because it provides the concept, guidelines, direction and support to the employees that is conducted by the steering committee. Setting clear objectives and guidelines is important for effective risk management.

Mayer, Davis and Schoorman (1995) define trust as the situation where one party (trustor) is willing to rely on the actions of another party (trustee) based on the expectation that the other party will perform a particular action that is important to the trustor irrespective of the ability of that party to monitor and control that other party. Trust is important because of the strong desire to understand the most effective way of creating cooperation within an organization. Trust is key because it enables cooperation. Risk management needs cooperation and teamwork encourages success. Grabowski and Roberts (1999) postulate that trust permits organization’s members to focus on their mission undisturbed by doubts of other members’ roles, responsibility and resources. Since risk management engages in activities that share commitment, one of the ways of encouraging effective risk management is through enhancing trust.

It is inevitable that the success of an organization depends on the quality of staff that it has. Its therefore important that an adequate number of staff is well equipped with relevant skills for special departmental or managerial positions. Carey (2001) showed that
the ability to respond to changing needs in the business environment was related to the development of risk training courses and involvement of staff in responding to early warning systems. Training sessions should be set up through the directorate manager for members of staff and through the risk management team of consultants.

Finally, it has been established that information technology is an important factor in the presence of increased competition, higher performance levels, globalization and liberalization. Rolland (2008) proposes the use of information technology to drive effective risk management. Information technology creates an important link between effective risk management and corporate performance. Information technology provides data security by employee level, limiting a user's access by time, line of business, business activity and individual risk. Information technology tools collect data used in the past so companies can learn through experience and avoid repeating the same mistakes. The effective risk management information make more valuable for decision making. Therefore, Information Technology is another imperative factor for successful risk management.

1.1.4 The Telephony Industry in Kenya

The Kenyan telecommunication industry has grown from fixed landline phones to the use of mobile phones. The service was initially offered by the then state owned Kenya Posts and Telecommunications Corporation. In this era, penetration to the rural areas was hampered due to too much cabling. Presently, apart from the telephony communication through fixed lines, there exist 4 mobile operators, namely; Safaricom Limited, Airtel Kenya, Orange Telkom and Essar Telecom, offering different kinds of services to subscribers. The growth in the telecommunication industry could be attributed to the growth in ICT in the country (Wasike, 2011).

Kangangi (2009) observed that in the Kenyan mobile phone industry, there was a strong correlation between service efficiency, porting speed, the intensity of competition in the market, marketing campaigns, market maturity, mobile phone subsidies, contractual obligations, customer base construction and customer usage level. The introduction of
Mobile Number Portability in the industry also benefitted the mobile customers apart from reducing the switching costs.
Okioga, Motumbwa and Onsongo, (2012) in their analysis of the factors that enhanced retention to a particular mobile service provider in Kisii Township, found that among the factors subscribers preferred most and that retained them in particular networks included; calling rates, mobile banking, internet access, clarity and the number of other callers with the same provider. Eriksson (2008) in a similar study on cell phone use by people in rural Kenya, found that the use of Short Message Service (SMS) was viewed as the most cost effective way of communication. Furthermore, it was established that the Mpesa function enabled users to make money transactions since most users in these areas didn’t have bank accounts. Mpesa was also found to be a factor that enhanced retention to a particular service provider.

The growth in the mobile phone industry could be attributed to the following factors; Government initiatives that have liberalized the Telkom industry hence allowing many players to enter the market, a stable regulatory environment that ensures fair competition amongst the operators and tariffs that are not state influenced, improved network infrastructure that covers a wider geographical area, changing consumer behavior from the basic use of the phone such as voice calls, to use of other services like the internet, availability of cheap phones from most network operators after removal of taxes on handsets, loyalty programs for customers depending on the amount of money spent on voice or data services, mobile money banking where cash can be transferred at a low cost makes it an attractive way for people to use mobile phones and finally, the use of mobile internet services that has gained popularity since most Kenyans do not have internet in their homes, hence prefer to access the same form their phones (Ibid).

1.1.5 Safaricom Limited

The information provided in this section is all based on safaricom website www.safaricom.co.ke. Safaricom limited is the leading provider of converged communication solutions in Kenya. Safaricom, which started as a department of Kenya Posts & Telecommunications Corporation in 1993 was awarded a GSM licence in 1999. Safaricom Limited was incorporated on 3 April 1997 under the Companies Act as a
private limited liability company. It was converted into a public company with limited liability on 16 May 2002.

Safaricom’s aim is to remain the leading Mobile Network Operator in Kenya. With a growing subscriber base, the company has employed over 2300 employees and opened 35 retail shops across the country. The firm has a wide dealer network and provides a broad range of first-class products and services for telephony, broadband internet and financial services. The company has over seventeen million subscribers which gives a positive influence on the company’s profitability.

Safaricom limited has strategic association with overseas mobile telephony company, Vodafone, one of its shareholders. Safaricom limited announced net profits of $220 million in the 2011 financial year. Safaricom limited has a variety of services that it offers to its clients. These include wireless phone services, internet services, electronic money transfers and mobile phones. Apart from the voice product and services, Safaricom limited also has data services. Using the short message service, consumers are able to communicate more cheaply and efficiently. This product and service is widely used by all subscribers. On top of this, Safaricom limited introduced the Black Berry a wireless handheld device which supports push e-mail, mobile telephony, text messaging, internet faxing, web browsing and other wireless information services.

In addition, Safaricom limited has the roaming service offered to both Safaricom limited subscribers and incoming roamers roaming from foreign networks. The basic concept of roaming revolve around the idea that a customer can visit another network and be able to originate a call, receive a call, send and receive SMS. Safaricom limited also introduced the M-PESA service in 2007. The service allows one to transfer money using a mobile phone. It’s an innovative mobile payment solution that enables customers to complete simple financial transactions using a mobile phone. One can transfer a minimum of 100 up to a maximum of 70,000 Kenya shillings. Other services include toll free numbers, voice mail services, directory services, and, information and security services.
1.2 Statement of the Problem

Gentzoglanis (2005) defines risk as the probability that an uncertain outcome will occur. From the above definition, the following are the different types of risks that have been identified as imminent within the telecommunication industry: Market risk, Credit risk, liquidity risk, operational risk and regulatory risk. Grabowski and Roberts (1999), Galorath (2006), Carey (2001) and Hasanali (2002) found that following were the critical factors to consider in formulating risk management strategies within an organization: commitment, communication, culture and organizational structure. Commitment from top management which was found to be important in influencing the success level of the organizational system. Communication sets clear mutual expectations, objectives and goals. Culture, because within effective risk management, knowledge transfer requires individuals to come together, interact, exchange ideas and share knowledge therefore encouraged to generate new ideas, knowledge and solutions.

Organizational structure is also important as it provides the concept, guidelines, direction and support to employees that is conducted by the steering committee (Hasanali, 2002). Trust was equally considered to be key because risk management needed cooperation and teamwork to encourage success. Finally, training and information technology equipped staff with relevant skills for special departmental or managerial positions. This enabled them respond to changing needs in the business environment.

Safaricom’s objective with risk management is to embed the process into the day to day running of the business in a practical manner. This involves continual proactive identification and understanding of risk factors and events that may impact business objectives, development of appropriate response strategies and continual monitoring and reporting. This is done through the implementation of various risk management and governance mechanisms that include measuring effective implementation by the various chief officers and other managers of corporate governance, embedding the risk management procedures into day to day activities such as business planning, operational reviews, projects etc. and finally assurance from internal audit on internal control environment (www.safaricom.co.ke).
Ongechi (2009) studied risk management strategies used by Fina Bank Limited in lending to SMEs. He concluded that there is need for a good definition of outputs and solid performance measures which requires well defined training program for the employees. He recommended regular overall evaluations and audits of benefits and drawbacks of the implemented policies in order to learn from experiences. Abuya (2008) on the other hand studied strategic risk management practices among state corporations in Kenya and found that risks curtail achievement of an organization’s goals and objectives. He concluded that state corporations do not carry out an enterprise-wide management of risks, even though effective risk management is critical in achieving the goals and objectives of organizations. Khan and Ahmed, (2001) and Noraini, (2005) similarly examined the perception and level of risk management practices by firm. Most of the studies already done on risk management have focused on financial institutions and state corporations.

Locally, to the knowledge of the researcher, none of the studies conducted looked at the factors affecting the development of risk management strategies in the organizations they studied. The researcher did not find any study that focused on risk management strategies applied by operators in the telecommunication industry. This creates a research gap considering the dynamic nature of the industry, particularly the threat of new entrants, financial developments and market regulation. These dynamics pose considerable risks to the industry operators’, particularly Safaricom that stands to lose a lot being the industry leader. The researcher aims at closing the existing gap by carrying out this study given that little has been done in terms of case studies looking into the risk management strategies of a large telecommunication firm. This study seeks to fill the gap by seeking answers to the question: what are the factors affecting the development of risk management strategies in Safaricom limited?

1.3 Research objective
To determine factors influencing the development of risk management strategies at Safaricom limited.
1.4 Value of the study

The research findings are expected to contribute to a better understanding of promoting strategic thinking among the managers of the Safaricom limited when addressing both internal and external risks issues affecting their firm. Furthermore, the findings will be useful to other telecommunication firms that operate within the same set up as Safaricom Limited.

The research will form a basis for further research in this area among academics and lastly, the study will form a reference in the field of strategic management within its core concepts of strategic responses to environmental risk.
CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

In this section, both the theoretical and empirical literature is presented so as to provide the theoretical construct of the study and furthermore highlight what has been captured in the different studies and the knowledge gap that this particular study will fill.

Section 2.1 explains the concept of strategy, section 2.2 discusses the different risk management strategies that have been employed by corporates and finally section 2.3 discusses the different factors affecting risk management strategies.

2.2 The concept of Strategy

Porter (1980) argues that, strategy is about competition and the means by which an organization tries to gain a competitive advantage. The three generic strategies are as follows: strategic scope and strategic strength. Strategic scope was demand-side dimension and looks at the size and composition of the market to be targeted. Strategic strength was supply-side dimension and looks at the strength or core competency of the firm. In addition, he identified two competencies that he felt were most important: product differentiation and product cost (efficiency). Porter simplifies the scheme to the three best strategies: cost leadership, differentiation, and market segmentation (or focus).

The four possible corporate strategies are; market penetration, product development, market development and diversification as strategies that managers could consider as ways to grow the business via existing and/or new products, in existing and/or new markets. However, he points out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new
facilities. Therefore, diversification is meant to be the riskiest of the four strategies to pursue for a firm. According to him, diversification was a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry in which the business is already in. At the corporate level, it is generally entering a promising business outside of the scope of the existing business unit (Ansoff, 1980).

Strategy development was multidimensional process that must involve rational analysis and intuition, experience, and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives (Henry, 1978).

Equally important, a strategy serves as a vehicle for achieving consistent decision making across different departments and individuals. Hamel & Prahalad (1989) view organizations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such coordination requires that the strategy process acts as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of large companies. The shift of responsibility of strategic planning from corporate planning departments to line managers and the increased emphasis on the discussion of the businesses and the corporate headquarters (as opposed to the formal approval of written plans) are part of this increased emphasis on strategic planning as a process for achieving coordination and consensus within companies (Buzzell & Gale, 1989).

2.3 Risk Management Strategies
Risk management framework is important for firms. In conjunction with the underlying frameworks, basic risk management process that is generally accepted is the practice of
identifying, analyzing, measuring, and defining the desired risk level through risk control and risk transfer. BCBS (2006) hold that risk management processes, require supervisors to be satisfied that the firms and their telecommunication groups have in place a comprehensive risk management process. This would include the Board and senior management to identify, evaluate, monitor and control or mitigate all material risks and to assess their overall capital adequacy in relation to their risk profile. In addition, as suggested by Al-Tamimi (2002), in managing risk, telecommunication industry can follow comprehensive risk management process which includes eight steps: exposure identification; data gathering and risk quantification; management objectives; product and control guidelines; risk management evaluation; strategy development; implementation; and performance evaluation (Baldoni, 1998; Harrington and Niehaus, 1999).

There are many conceptual studies that show the important aspects of risk management process that firms need to have in order to practice risk management (Tchankova 2002; Kromschroder and Luck, 1998; Luck 1998; Fuser et al, 1999; Barton et al, 2002). Some empirical findings such as Al-Tamimi and Al-Mazrooei (2007) show positive relationships between risk management practices and the various aspects of risk management process, and some findings (e.g. Boston Consulting Group, 2001; Al-Tamimi, 2002; KPMG, 2003; Parrenas, 2005; Al-Tamimi and Al-Mazrooei, 2007) show the important aspect of risk management practices by various communication institutions. In the context of telecommunication, studies made on theoretical side of risk and risk management in telecommunication (Iqbal and Mirarkor, 2007; Akkizidis and Khandelwal, 2008; Grais and Kulathunga, 2007; Haron and Hin Hock, 2007; Greuning and Iqbal, 2007; Sundararajan, 2007; Archer and Haron, 2007) explain the framework and the aspect of risk management process, and some empirical evidence (Khan and Ahmed, 2001; Noraini, 2005) examine the perception and level of risk management practices by Firms.
From the literature, it is evident that understanding risk and risk management is an important factor of risk management practices. The risks associated with the provision of telecommunication services differ by the type of service rendered.

For the sector as a whole, however, the risks can be broken into six generic types: systematic or market risk, service risk, counterparty risk, liquidity risk, operational risk, and legal risks.

2.4 Factors affecting the development of Risk Management Strategies

As indicated in section 1.1.3 the following are some of the factors to consider when formulating risk management strategies; Studies carried out by Grabowski and Roberts (1999), Galorath (2006), Carey (2001) and Hasanali (2002), came up with different factors to be considered in the formulation of risk management strategies, namely: Commitment from top management which was found to be important in influencing the success level of the organizational system. Communication, because it sets clear mutual expectations, objectives and goals. Culture, because within effective risk management, knowledge transfer requires individuals to come together, interact, exchange ideas and share knowledge therefore encouraged to generate new ideas, knowledge and solutions.

Organizational structure was equally found to be important because it provides the concept, guidelines, direction and support to the employees that is conducted by the steering committee (Hasanali, 2002). Trust was found to be key because risk management needed cooperation and teamwork encourages success. Finally, training and information technology were found to be critical factors because training equipped staff with relevant skills for special departmental or managerial positions. Risk identification is the first stage of risk management (Tchankova, 2002) and a very important step in risk management (Al-Tamimi and Al-Mazrooei, 2007). The first step in organizing the implementation of the risk management function is to establish the crucial observation areas inside and outside the corporation (Kromschroder and Luck, 1998).

A successful risk management strategy should be proportionate to the level of risk in the organization, aligned with other corporate activities, comprehensive in its scope,
embedded into routine activities and dynamic by being responsive to changing circumstances. It is therefore essential that risk management policy be an integral part of the management given its cyclical nature (Ranong and Phuenngam, 2009).

In addition, level of management’s risk tolerance is also factor. Senior management and board of directors should be active participants in the identification and consideration of risk/reward tradeoffs. This should be done by creating a risk management function within the corporate structure with a clear mandate to manage the risks of the corporation (Boodman, 1987). Enterprise risk management should be designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of organization’s objectives. Identification of risk priorities should be facilitated to identify the most significant risks which senior management should focus on and capture the reasons for decisions made about what is and what is not tolerable exposure. It is from this background that measures like hedging will be undertaken depending on the management’s view and confidence level (Gentzoglapis, 2005).
CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction
This chapter presents methods that will be used to collect and analyse data. It presents the research design, data collection and data analysis method that will be used. A detailed description of the research design that will be employed is given, followed by a brief justification of why the particular design was chosen.

Finally, the data source for this study is identified and a description for this kind of data is given. The mode of data collection identified and the instrument is briefly described as well. A brief explanation of the data analysis method to be used is provided and finally, the data presentation technique is indicated.

3.2 Research design
This study will be a case study. A case study is a research design that investigates contemporary phenomenon within its real life context when the boundaries between the phenomenon and context are not clearly evident and in which multiple sources of evidence are used (Yin, 1984). A case study has been chosen because it will assist the researcher to have an in-depth understanding of the issues that are unique to Safaricom as far as risk management strategies are concerned.

A case study is most appropriate where a detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear. This study falls in this category since it aims at establishing the strategies employed by Safaricom so as to manage risk. This study will use qualitative information in the analysis of the subject matter.
3.3 Data collection
The study will make use of primary data. Primary data refers to information collected firsthand from the source, Mugenda and Mugenda (2003). In this study, Primary data will be obtained from managers at the Safaricom limited on the factors influencing the firm in the development of risk management strategies using face to face interviews.

The respondents will be the manager(s) who deal with mitigation of risk management at Safaricom namely Enterprise risk manager, Revenue assurance manager, Fraud manager, Internal audit manager, Information systems audit manager, and, anti-money laundering manager. An interview guide is attached as appendix I.

3.4 Data Analysis
The data collected will be analyzed using content analysis since the data will be qualitative in nature. The main goal of data analysis is to produce convincing conclusions and to eliminate alternative explanation. Data analysis involves reviewing, categorizing, tabulating, and recombining evidence to ascertain meaning related to the study’s initial aim and objective, research questions and issues (Miles and Huberman, 1994). In content analysis according to Mugenda and Mugenda (2003), useful information about a phenomenon being studied is obtained, and then try to establish patterns and relationships from the information gathered and relate trends. Content analysis is a technique for making objective inferences and systematically identifying specified characteristics of messages (Ibid).

To conduct the conceptual content analysis, the data collected will be coded on the theme basis of factors considered by Safaricom in development of risk management strategies. Content analysis allows for both quantitative and qualitative operations and will provide invaluable insights over time through the analysis of texts. Coding will be done to the data and this will then be followed by analysis using statistical packages such as SPSS. Where relevant, information will be presented in the form of graphs and tables. This will then be used to come up with findings and conclusions for the study.
CHAPTER FOUR:

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction
This chapter presents the findings from the data collected from the respondents and analyzed using content analysis method. The managers in risk management division at Safaricom limited gave responses to the questions in the interview guide in the Appendix I of this research study.

4.2 Research Findings
This study set out to determine factors affecting Safaricom limited in the development of risk management strategies. The following were the findings as per responses received after the interviews conducted. First, the company normally assesses the risk profile then subsequently considers the company’s risk policy. Assessment of the risk profile involves the following four steps; first, a list is populated of all the possible risks from whichever source regardless of the type of risk. These risks are then categorized into broad groups then the exposure to each risk is analyzed in the third step. In the fourth step, the alternatives available in mitigating each type of risk are analyzed and the expertise available within the company to mitigate the risk is considered.

Listing of risks is an enormous task, it would therefore be prudent to make them manageable by sorting them into broad categories. The risks could either be firm specific or market risks, the former being risks that affect the specific firm alone while the latter being risks affecting multiple firms within the industry. There could also be continuous or event risks, continuous risks are present over long durations while event risks are unpleasant events that have economic consequences. Exchange rate fluctuation could serve as an example of continuous risk while political unrest would be an example of event risk. Some risks are normally catastrophic while others are small and of minor consequence.
These findings are akin to the findings by BCBS (2006) who held that risk management processes, requires supervisors to be satisfied that the firms have in place a comprehensive risk management process. These, they argued would include the Board and senior management to identify, evaluate, monitor and control or mitigate all material risks and to assess their overall capital adequacy in relation to their risk profile. Al-Tamimi (2002) similarly postulated that in managing risk, telecommunication industry players could follow comprehensive risk management process which includes eight steps: exposure identification; data gathering and risk quantification; management objectives; product and control guidelines; risk management evaluation; strategy development; implementation; and performance evaluation (Baldoni, 1998; Harrington and Niehaus, 1999).

Apart from the two factors mentioned above, Safaricom also considers its risk policy, though yet to be formalized. The additional factors the company considers are; the prevailing and future economic environment, the existing mitigation strategies in place and potential return on taking a given risk. This emphasized the point raised by Ranong and Phuenngam (2009) who postulated that risk strategies need to be dynamic and responsive to changing circumstances.

At Safaricom, risk management is embedded both at the operational and strategic level within the company. This finding reaffirms the position taken by Grabowski and Roberts (1999), Galorath (2006), Carey (2001) and Hasanali (2002), who found that commitment from top management was very important in influencing the success level of the risk management strategy within the organizational system. It was evident that the firm had engrained the concept of risk management within its company culture and this was made effective by the knowledge transfer to employees at different levels within the company on the essence of instilling risk management within the firm’s culture.

Government regulation was found to act as a guideline in the formulation of risk management strategies because it is a potential area where risks could emanate. A good
example is the change in legal environment which could serve as a risk to the business in terms of changing the rules within which business is conducted. Like all other companies within the telecommunications business, the firm considers new entrants in the market whenever they’re developing risk management strategies. As earlier mentioned in a study done by Doffman (2004), hedging and forward contracts were a common risk management strategy employed by safaricom limited. Finally, the company gets feedback on risk management strategy both upwards and across the company by presentations to the Executive Committee, the Board Audit Committee and at the strategic level, at the Board.

The below table summarizes the findings.

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Applicable managing strategy</th>
<th>Factors considered in applying a particular strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statement</td>
<td>Risk transfer</td>
<td>Risk profile of the company</td>
</tr>
<tr>
<td>risk</td>
<td>Risk avoidance</td>
<td>Risk policy</td>
</tr>
<tr>
<td>Firm specific risks</td>
<td>Risk reduction</td>
<td>Risk categorization</td>
</tr>
<tr>
<td>Market risks</td>
<td>Insurance programs</td>
<td>Commitment from top management</td>
</tr>
<tr>
<td>Event risks</td>
<td>Hedging</td>
<td>Culture</td>
</tr>
<tr>
<td>Continuous risks</td>
<td>Forward contracts</td>
<td>Level of risk tolerance</td>
</tr>
<tr>
<td>Operational risks</td>
<td>Business Continuity Plan</td>
<td>Prevailing and future economic environment</td>
</tr>
<tr>
<td></td>
<td>Disaster Recovery Plan</td>
<td>Government regulation(s)</td>
</tr>
<tr>
<td></td>
<td>Regular risk assessments</td>
<td>New entrants into the market</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Existing mitigation strategies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Potential return on taking risk</td>
</tr>
</tbody>
</table>

Table 1: SUMMARY OF RISKS AND MANAGERIAL STRATEGIES FOR ADDRESSING THEM
CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter the study gives a summary of the findings and conclusions arising from the findings.

5.2 Summary of findings and conclusions

In developing its risk management policy, Safaricom Limited does an assessment of its risk profile followed by an evaluation of its risk policy. The company considers its level of risk tolerance in developing its strategy though this is yet to be formalized within the company. Above this, the company considers the prevailing and future economic environment, existing mitigation strategies in place and potential return on taking a given risk. Risk management is embedded both at the strategic and management level and furthermore, it is everyone’s responsibility at Safaricom. Every member of staff is encouraged to embed it in everyday operations and decision-making. Safaricom takes new entrants into consideration when developing risk management strategies since new entrants have a major impact on the operating environment. Government policies are also key as Safaricom has to ensure it complies with the set regulations.

The company management gets feedback on risks via presentations to the executive committee, at the Board audit committee and at the board. The management normally develops risk management strategies from past events as not all outcomes are predictable.
They normally use historical data to develop the new policies. The company accommodates a certain level of risk depending on the potential impact and contribution to strategic objectives of the risk. Finally, hedging and forward contracts are some of the strategies used by the company in managing financial risks.

In developing its risk management policy, Safaricom limited should have an operational Risk management framework that includes Business Continuity and a Disaster Recovery Plan (BCP/DRP). Operational Risks range from threats of loss of key personnel, settlement failure, and compliance failure, theft, systems failure and building damage. Operational risk management should aim at ensuring the integrity and quality of the operations within Safaricom limited. The company should therefore employ a variety of tools including audit, recruitment policies, system controls, and business continuity planning to achieve this. An assessment of Safaricom’s risk profile should be done then followed by an evaluation of its risk policy.

The development of a BCP/DRP should not be seen as a one-off project but should become an integral part of the day-to-day operations of the company. The process of developing, implementing, testing and maintaining the BCP/DRP should provide the company with the practical steps that ensure this occurs. Implementation of the above will result in the firm benefitting from what is normally referred to as the “upside of risk”, a term that refers to opportunities that exist in a risky environment.

5.3 Recommendation
Based on the findings, this study recommends that Safaricom limited formally documents its level of risk tolerance to match its business portfolio for continued reference within
the company. Proper assessment of risks and prioritizing them appropriately ensures that resources are utilized profitably to tackle risks that are likely. Safaricom also requires to document the acceptable level of residual risk since all risks can never be avoided or mitigated. Business Continuity Planning deals with identified residual risks.

5.4 Limitations of the study
Obtaining approval from the management at Safaricom limited to conduct the study in the organization was a lengthy and time consuming process. The researcher had to allow the corporate communications team at safaricom limited some time to review the responses received from the respondents, a process that was also time consuming. The reasercher had to adjust her schedule to fit the respondents’ who were based in a different location.

5.5 Suggestions for further research
This study recommends that the following areas be considered for future:-

Determinants of risk management strategies in the telecommunications industry in Kenya.

The impact of risk management strategies on profitability amongst the telecommunication firms.

The relationship between market structure and risk management strategies within the telecommunications industry.

Risk management: the competitive advantage.

Determinants of risk management strategies in the ten most profitable firms in Kenya.
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APPENDIX I: INTERVIEW GUIDE

1. List the strategies that Safaricom uses to manage risk.

2. Which of the following factors are considered in the development of Risk Management strategies?
   a) Risk Profile
   b) Policy on risk
   c) Level of management’s risk tolerance
   d) Mention any additional factors the company considers

3. What are the broad parameters that the company considered in executing its Risk Management strategies?

4. Are all managers regardless of their levels involved in the development of risk management strategies?

5. How do government policies influence the formulation of risk management strategies in your company?

6. Do organizational politics influence development of risk management strategies by the company?

7. Does Safaricom consider new entrants in the mobile industry when developing risk management strategies?

8. How do economic changes influence development of risk management strategies?

9. Is there a risk awareness culture at Safaricom? How often are awareness sessions conducted?

10. How does safaricom manage: (a) financial and (b) market risks?

11. How are safaricom’s staff involved in risk management?
12. How does management get feedback on risks?

13. Are there occasions when Safaricom’s management has developed risk management strategies as a response to what has occurred?

14. Are there regular analyses of risk situations to provide data that can inform development of new risk management strategies?

15. What is the amount of risk that the company is willing and able to keep in executing its business strategy?

16. Does the company consider the level of risk when developing the risk management strategies?

17. Mention any other risk-related issues that the company has experienced or dealt with in the past.