

**STRATEGIES ADOPTED BY POSTAL CORPORATION OF KENYA TO  
GAIN COMPETITIVE ADVANTAGE IN THE MAIL SUB SECTOR IN  
KENYA**

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the school of Business, University of Nairobi**

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## DECLARATION

This is my original work and has not been submitted for any other award at any other University

Signature\_\_\_\_\_

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D61/P/8065/01

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

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## **DEDICATION**

I dedicate this work to my son Kevin, daughter Lynn and my dear wife Rose in enabling me complete this project in time.

## **ACKNOWLEDGEMENT**

I am grateful to my Supervisor, Dr. Martin Ogutu for his invaluable assistance towards completing this project. I should also not forget to mention the management of Postal Corporation of Kenya for their co-operation and valuable discussions without which this project would not have been possible.

Lastly but not least, I wish to sincerely thank my family for their patience and understanding during the project period

## TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
ABSTRACT.....	vii
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study.....	1
1.1.1 Concept of Strategy.....	1
1.1.2 Concept of Competitive Advantage.....	3
1.1.3 Mail sub sector in Kenya.....	4
1.1.4 Postal Corporation of Kenya.....	5
1.2 Problem Statement .....	7
1.3 Research Objectives.....	8
1.4 Research Significance.....	8
1.5 Study Limitations.....	8
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>9</b>
2.1 Concept of Strategy.....	9
2.2 Concept of competitive advantage.....	12
2.3 .1 Porter’s generic strategies.....	14
2.3.2 Ansoff product market strategies.....	15
2.3.3 Cooperative strategies.....	16
<b>CHAPTER THREE: METHODOLOGY.....</b>	<b>17</b>
3.1 Research Design.....	17
3.2 Data Collection.....	17
3.3 Data Analysis.....	18
<b>CHAPTER FOUR: FINDINGS AND DISCUSSIONS.....</b>	<b>19</b>
4.1 Competition.....	19

4.1.1 Response to competition.....	19
4.1.2 Competitive advantages enjoyed by PCK.....	20
4.2 Functional Strategies for competitive advantage.....	21
4.2.1 Marketing Strategies.....	21
4.2.2 Human resource department .....	21
4.2.3 Logistics and facilities.....	21
4.2.4 Finance and strategy.....	22
4.2.5 Corporate communications.....	22
4.2. 6 Research and business development .....	22
4.2.7 Information and Communication Technology.....	22
4.2.8 Procurement .....	23
4.2. 9 Legal services.....	23
4.2.10 Operations.....	23
4.3 Cooperative and product Market strategies.....	24
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	26
5.1 Summary of findings.....	26
<a href="#">5.2 Conclusions.....</a>	<a href="#">27</a>
5.3 Recommendations.....	28
5.3.1 National recommendations.....	28
5.3.2 Postal Corporation of Kenya.....	29
5.3.3 Recommendations for further study.....	30
References.....	31
Appendix 1.....	34
Interview Guide.....	34

## **ABSTRACT**

In the last ten years the mail sub sector in Kenya has witnessed one of the phenomenal growths in Kenya with registered players in the market hitting one hundred and fifty by June 2009 (CCK statistics June 2009). The same period witnessed an exponential growth in usage of mobile telephone services with subscription levels reaching sixteen million while the internet penetration levels reached an estimated 33.3 %. These factors have made the mail sub sector quite competitive. According to Porter (1994) competition is at the core of success or failure of a firm and firms adopt various strategies to enable them gain competitive advantage which can be eventually leveraged to result in superior service to the customers and superior profits to the firm. A resource based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation.

This study sought to establish the strategies adopted by Postal Corporation of Kenya to gain competitive advantage in the mail sub sector in Kenya in the light of increased competition. It was conducted through a case study and data was collected through an interview guide administered to eleven senior members of staff heading departments and responsible for strategy formulation and implementation at Postal Corporation of Kenya. The data collected was analyzed through conceptual and qualitative analysis and it was established that PCK has adopted various business, functional and operational strategies to gain competitive advantage in the mail sub sector in Kenya though the efforts are slow in bearing fruit. The study limitations included unavailability of interviewees and their unwillingness to disclose the strategies adopted by PCK to gain competitive advantage.

The study concludes that though PCK has adopted various strategies to gain competitive advantage, they are slow in bearing fruit and hence indicating challenges in strategy planning and implementation. It thus recommends further studies on strategic planning and implementation at PCK. It further recommends adoption of Ansoffs product market strategies for growth and competitive as well as cooperative strategies for gaining competitive advantage in the mail sub sector in Kenya.





## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

The mail sub sector was previously monopolized by the defunct Kenya Posts and Telecommunications Corporation (KPTC) which performed both regulatory and operational functions. However in 1998 KPTC act was repealed giving rise to three new entities namely Postal Corporation of Kenya (PCK) Telkom Kenya Limited and Communication Commission of Kenya (CCK) to offer postal, telecommunication and industry regulatory services respectively. This government move effectively liberalized the communications industry and separated regulatory and operational services. In the last ten years the mail sub sector in Kenya has witnessed one of the phenomenal growths in Kenya with registered players in the market hitting one hundred and fifty by June 2009 (CCK statistics June 2009) and a host of other un-registered players. The same period witnessed an exponential growth in usage of mobile telephone services with subscription levels reaching sixteen million while the internet penetration levels reached an estimated 33.3 %.

According to PCK market share survey (2006), the increase in competition in scope and technology based is thought to have affected postal Corporation of Kenya mail business negatively. Porter (1997) argues that competition is at the core of the success or the failure of a firm. Thompson and Strickland (1999) argue that organizations adopt strategies to help them acquire competitive advantages in the markets in which they operate that lead them to offer superior value to its customers resulting in high profits to themselves. This study aims at finding out the strategies adopted by Postal Corporation of Kenya to gain competitive advantage in the mail sub sector in Kenya.

#### **1.1.1 Concept of Strategy**

The roots of strategy in business can be traced to early 1950s after the Second World War. Due to the destruction caused by the war in Europe and Japan, the United States of America (USA) came up with a Marshall plan to reconstruct the areas. The US companies took advantage and exploited the opportunities available. Various Scholars tried to put forward theories on strategy based on this premise.

Drucker (1954) looks at strategy as a way to move a company's business from its current position to its desired future position. He further stated that strategy management involves analytical thinking and commitment of resources to action. Chandler (1962) looks at strategy and its relationship to structure arguing that structure follows strategy and the strategy has to fit in the internal dynamics of an organization. He added that strategic management is the basic long-term goals and objectives, adoption of the courses of action and allocation of resources necessary for carrying out these goals.

Scholes (1999) defines strategy as the direction and scope of the organization over the long-term, which achieves advantages for the organization through its configuration of resources within the changing environment to meet the needs of the market and fulfill stakeholders' expectations. Pearce and Robinson (1977) defined strategy as a large scale, future oriented plan for interacting with competitive environment to achieve company objectives. Mintzberg (1991) gave a four-pronged definition of a strategy. He looked at strategy as a Plan or a guide or a course of action into the future, Ploy or a maneuver intended to outwit rivals in a competitive situation, Pattern or consistency over time and Position/ perspective, a unique/ valuable position involving a different set of activities.

Strickland and Thompson (1999) defines strategy as the direction an organization has chosen to take , markets and customers to focus on manner in which to operate and compete, ways to allocate resources and energies and approaches to use to do business. Thus there is no universally accepted definition of strategy. However there is agreement that strategy helps to match organizational resources with the available opportunities while keeping check of environmental threats and weaknesses inherent in an organization.

According to Strickland and Thompson (1999) Strategy gives guidance and coherence to the entire organization by helping to understand where the organization is headed in addition to providing unity of purpose. Through environmental analysis, it makes managers and other workers more alert to new opportunities and threatening developments and hence steer resources into strategy supportive result-producing areas. It also provides a rationale for evaluating competing budget requests. The main

purpose of business strategy is to enable an organization acquire competitive advantage in the market in which it operates.

### **1.1.2 Concept of Competitive Advantage**

Competitive advantage is an edge over competitors gained by offering greater value, either by means of lower prices or by providing greater benefits and service that justify higher prices (Wikipedia 2009). Barnes (2001) suggests that a firm is said to have competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors. He added that for competitive advantage to have meaning customers must perceive a difference between one firm's products and Service attributes and those of competitors, resulting from a capability gap between the firm and its competitors and these aforementioned differences in attributes and capability gap are expected to endure over time.

Porter (1987) observes that competition is at the core of the success or the failure of a firm. He notes that Competitive advantage exists where the firm is able to deliver the same benefits as competitors but at a lower cost and therefore gaining Cost Advantage or deliver superior benefits that exceed those of competing products and hence gain Differentiation Advantage or focus on a small market segment which it can serve better than competitors and hence acquire focus advantage. He noted that the primary factors of competitive advantage are innovation, reputation and relationships.

Porter (1987) further argues that competitive advantage comes from the value that organizations create for their customers that exceed the cost of producing it. Organizations create value by performing a series of activities that he identified as a value chain. Value chain of a business consists of a collection of activities undertaken in the course of designing, producing, and marketing, delivering, and supporting its product or service. In addition to the firm's own value creating activities, it operates in a value system of vertical activities including those of upstream supplies and downstream channels members. To achieve a competitive advantage the firm must perform one or more value creating activities in a way that creates more overall value than do competitors. Superior value is created through lower costs or superior benefits to the consumer.

A resource based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. The unique resources and capabilities together form distinctive competencies. These competencies enable innovation, efficiency, quality and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

### **1.1.3 Mail sub sector in Kenya**

Mail can be defined as letters and packages that are sent and delivered and can be divided into physical and electronic mail. This project will be specifically concerned with physical mail though mention will be made of the substitution effect of electronic mail to the traditional mail. Physical mail is classified into letters, parcels and courier mail based on the urgency and weight. The mail market internationally is coordinated by Universal Postal Union (UPU); a United Nations body formed in 1874 and headquartered in Geneva, Switzerland. The 191 member body, Kenya inclusive, is the primary forum for cooperation between postal sector players. It guides member countries formulate their domestic strategies by borrowing from the global strategy and customizing it to fit local conditions. The global strategy has a lifespan of four years and is crafted in strategy forums referred to as UPU congresses.

Prior to 1999 the communications sector which the mail sub sector is part of was a monopoly of Kenya Posts and Telecommunications Corporation and handled both operational and regulatory functions. However after repeal of KPTC act in 1998, the two functions were separated and Postal Corporation of Kenya was to offer postal services, Telkom Kenya to offer telecommunication services while Communication Commission of Kenya was to offer regulatory services. Since then the mail sub sector in Kenya has witnessed tremendous growth and as at June 2009 there were 150 registered operators. The Categories of licensed postal and courier operators are: forty three International, three regional, five international inbound, twenty seven intra-city, and one public postal licensee (PCK). A study carried out by PCK (competitor research, 2006) to identify competitors in the mail identified the following competitors as posing the biggest threat: DHL, FedEx, Universal Parcel Service (UPS), and TNT in the international market and G4Securicor Courier, Bus and freight companies, real and on time deliveries in the local market.

The key to these competitors success was found to be reliable, secure and fast services that PCK was not offering. There was also the substitution of mail services by the faster and cheaper technology based short message services (SMS), electronic mail (e-mail) and mobile telephony. Indeed according to CCK June 2009 statistics, mobile subscriber numbers by June 2009 had risen to over sixteen million and internet usage penetration levels of thirty three percent. CCK statistics (June 2009), estimate the postal courier market share to be three percent in a market estimated to be worth Kenya shillings seven billion.

#### **1.1.4 Postal Corporation of Kenya**

Postal Corporation of Kenya (PCK) is a government Parastatal created by Postal Corporation Act 1998, after the split of KPTC into three separate entities. The three entities are: Postal Corporation of Kenya (PCK), Telkom Kenya and Communications Commission of Kenya (CCK) to provide postal, telecommunication and industry regulation services respectively. PCK offers postal services which are mail, financial, agency and courier services in the domestic and international market in competition with other players in the market. It however retains a monopoly in postal rental boxes and mails weighing less than three hundred fifty grams in an attempt to help it offer universal Postal services and still be commercially viable. Other players are required by law to charge five times the cost PCK charges to qualify for this class of mail. CCK was mandated to enforce the law but has been unable due to inadequate capacity.

The postal Statistics (2003-2007) indicate that PCK operates a network of sixty one head post offices, four hundred and eighteen departmental offices and three hundred ninety two sub post offices. It has 388281 private letter boxes, 1014 private letter bags 1134 private letter posting bags 1356 public counter positions, 312 stamp vending machines and 4061 stamp vending licenses. It has a Board directors appointed by the minister for Information and communication to oversee the activities of the organization. Top management is comprised of a Postmaster general (PMG) who is the chief executive officer, eight General Managers responsible for Human Resource Development, finance and Strategy, Information and Communication Technology, Mail, Courier, Financial and Agency services, Corporation Secretary, Logistics and Facilities, Research and one head of department in charge of Marketing. There are one

hundred nineteen Middle and one hundred and sixty seven lower level managers. Total staff complement as at June 2009 was four thousand two hundred

According to postal statistics (2003-2008) mail contributes 75% to total Revenue. However in the same period PCK has registered an average of negative six percent growth in domestic mails posted, negative five growth in international letters posted and negative three percent growth in domestic parcels posted. International parcels posted registered an average growth seventeen percent.

PCK is facing competition from both international and domestic service providers. A recent study by PCK (2006) identified the following competitors as posing the biggest threat: DHL, FedEx, UPS, and TNT in the international market and G4Securicor Courier, Bus and freight companies, real and on time deliveries in the local market. The study also estimated PCK's market share to be 3% in courier and 60% in ordinary mail. According to CCK June 2009 statistics, the mobile subscriber numbers have risen to 16million to date and there is marked increase in electronic mail and commerce usage with an estimated penetration level of 33.3 %.

Table 1 PCK Mail Volumes 2003-2007

Year	Domestic letters posted	International letters posted	Domestic Parcels posted	International parcels posted	Total Courier Items Handled
2003	104223339	21811240	54600	10645	291594
2004	9744019	23368663	53523	12577	300666
2005	76555311	18564000	40053	10470	240304
2006	70490499	14759000	36659	13802	319140
2007	79030632	13329217	35056	18545	445841

Source; Postal Statistics 2008

## 1.2 Problem Statement

Strickland and Thompson (1999) summarizes the concept of strategy by stating that, among several alternatives, strategy defines the direction an organization has chosen to take, markets and customers to focus on, manner in which to operate and compete, ways to allocate resources and energies and approaches to use to do business. This is important to a business as it gives guidance, coherence and unity of

purpose to the entire organization. It also makes managers and other workers more alert to new opportunities and threatening developments which in turn helps promote the development of a constantly evolving business model that will produce sustained profits for the business.

Strickland and Thompson (1999), argue that the goal of much business strategy is to achieve a competitive advantage which enables businesses create superior value for their customers and superior profits for themselves. Competitive advantage is an edge over competitors gained by offering greater value, either by means of lower prices or by providing greater benefits and service that justify higher prices (Wikipedia 2009). Porter (1987) notes that Competitive advantage exists where the firm is able to deliver the same benefits as competitors but at a lower cost and therefore gaining Cost Advantage or deliver the same benefits that exceed those of competing products and hence gain Differentiation Advantage.

According to mail statistics 2003-2007, Mail contributes 75% to the total PCK revenue. PCK is facing competition from both international and domestic mail service providers, mobile telephony, electronic mail and commerce and this has lead to declining mail revenues at average rate of six percent per year (Postal statistics 2003-2008). Currently postal courier mail market share is three percent in a market estimated to be worth Kenya shillings seven billion. ([www.cck.go.ke](http://www.cck.go.ke)). Thus PCK seems to have lost competitiveness in the mail sector. This study aims at determining the strategies PCK has adopted in order to gain competitive advantage in the mail sub sector in Kenya.

Previous studies into establishing strategic responses to competition by organizations in Kenya, like Njogu (2007), Juma (2007), Naminda (2004), Muhindi (2007), Mwarey (2008), Munyoki (2007), Mwenda (2007), and Ongaro (2004) have not focused on the mail sub-sector in Kenya. No studies were found to have been carried out in the mail sub sector in Kenya or elsewhere. This study will determine the strategies PCK has adopted in order to gain competitive advantage in the mail sub sector. It will also contribute towards the paltry data on the mail sub-sector in Kenya and aid in policy formulation at PCK and national level.

The following research questions will be addressed:

- i. What are the sources of competitive advantage in mail sub sector?
- ii. What strategies has PCK employed in order to gain competitive advantage in the mail sub sector?

### **1.3 Research Objectives**

- i. To establish competitive advantages enjoyed by PCK in the mail sub sector in Kenya
- ii. To determine strategies adopted by Postal Corporation of Kenya to gain competitive advantage in the mail sub sector in Kenya.

### **1.4 Research Significance**

This study will determine the strategies PCK has adopted to gain competitive advantage in the mail sub sector in Kenya. It will also contribute towards the paltry data on the mail sub-sector in Kenya and aid in strategy formulation at PCK.

### **1.5 Study Limitations**

The main limitations to this study were: -

- i) Unavailability of interviewees and meetings had to be scheduled after work.
- ii) Some interviewees were reluctant to give detailed information on the strategies they were adopting for competitive advantage fearing the same could be leaked to the competitors.
- iii) The organizations employment secrecy act hindered provision of detailed information by the interviewees.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Concept of Strategy**

There is no universally accepted definition of strategy and various scholars have used different approaches to define strategy. Two broadly used approaches are design and process or experience approach. The design approaches look at strategy as a logical process where strategy is formulated through rational analysis of the organization and its environment with an aim of matching organizational resources to opportunities available and hence creating a winning formula (Scholes, 1999). The formulated Strategy is then communicated and implemented throughout the organization and hence giving coherence and direction to the actions and decisions of individuals or organizations as a whole ultimately guiding the organization to superior performance through establishing competitive advantage.

Some of the popular design approach definitions of strategy include: Johnson and Scholes (1999) who define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of the market and stakeholder expectation. Thompson and Strickland (1998) define strategy as the game plan management has for positioning the company in its chosen market area, competing successfully, pleasing customers and achieving good business performance. .

The process school argues that strategies are not developed by senior managers and then communicated to everyone for implementation and it is unrealistic to separate strategy formulation from strategy implementation. Thus strategy is constantly adjusted in light of experience. Critics of this school argue that strategy tends to downplay the role of systematic analysis in strategy process and instead lays greater emphasis on intuition and experience.

The third school combines the two views. Thus strategy is formulated through systematic analysis of the organization and its environment and shaped overtime by various experiences like politics. Mintzberg (1994) has elaborated this thinking through his model of deliberate, emergent and realized strategy. Deliberate or intended strategy is strategy formulated by management, emergent strategy is that

strategy that becomes apparent through the passage of time, while realized strategy is that realized or observed as a result of both intended and emergent strategy (Mintzberg, 1994). Mintzberg further stated that strategic planning gave rise to deliberate strategies, and realized strategy was the outcome of both deliberate and emergent strategies and rational considerations are important as well as political and behavioral considerations on the strategy process.

Porter (1987) argued that strategic planning had gone out of fashion in the late 1970s and needed to be rethought and recast with increased emphasis on implementation. This entailed linking planning and action, instituting strategy and budgetary cycle sequence and incorporating managers in both planning and implementation. Strategic management involves five stages namely: situation analysis, development of a strategic vision and business mission, setting of objectives, crafting of strategy, implementation of strategy performance evaluation and corrective action (Strickland and Thompson, 1999). Situational analysis refers to the analysis of organizations external and internal environment. This information will enable the organization come up with a winning strategy by matching its strengths to the available opportunities, managing threats to ensure they don't have adverse effects on business and also taking care of its weaknesses. The most important situational considerations are the industry's competitive conditions and organizations competitive capabilities, resources, internal strengths, weaknesses and market position.

Development of strategic vision and business mission is intended to provide long-term direction to an organization. Vision defines the organizations future technology, product and customer scope while the mission explains the company's present business scope. Objectives are set to convert strategic vision and business mission into specific performance targets, results and outcomes the organization wants to achieve. This helps to track the organizations progress (Strickland 1999). There are two types of objectives namely financial and strategic. Financial objectives are geared towards financial results while strategic objectives are geared towards increased competitiveness and strong business position.

Crafting strategy involves defining “how” to achieve targeted results in the light of organizations situation and prospects. Specifically company strategy is concerned with, how to grow business, how to satisfy customers, how to out compete rivals, how to respond to changing market conditions and how to manage each functional piece of the business and develop needed organizational capabilities (Thompson and Strickland 1999). Strategies could be corporate, business, functional and operational. Implementing strategy involves the assessment of what it will take to develop the organizational capabilities and reach the targeted objectives on schedule. It answers the questions what is to be done, by whom, when and at what cost. Organizational variables as propounded by Mckinsey in his 7-s framework, that is, strategy, structure, system, style, staff, shared values and skills (capabilities of the organization as a whole) need to be integrated for effective implementation of strategy. Performance evaluation is achieved by measuring actual results against planned performance, analyzing the gaps and taking corrective action.

There were no studies found on strategy at Postal Corporation or in the mail sub sector in general. However Ansoff (1965), Gershefski (1970), and Herold (1970) all conclude that organizations which practice strategic planning achieve higher levels of performance as compared to those that do not. In a review of 28 studies of manufacturing firms, 20 studies revealed better performance with formal planning, 5 studies revealed no difference and 3 revealed planning to be detrimental to performance (Armstrong1991). Thus an organization is not assured of survival by chance. Aosa (1992) carried out investigation of aspects of strategy formulation within large private manufacturing companies in Kenya and revealed that there are several problems on strategy implementation. These include lack of commitment to strategy, unlighted systems, lack of necessary resources and the uncontrollable factors in the external environment. Warsame 2002, Mutonyi 2003, Bett 2003 have carried out researches on strategic planning in different organizations and found out that some carry out this exercise without the full knowledge of the changing environment in which they operate and thus end up by adopting emergent rather than the planned strategies.

## **2.2 Concept of competitive advantage**

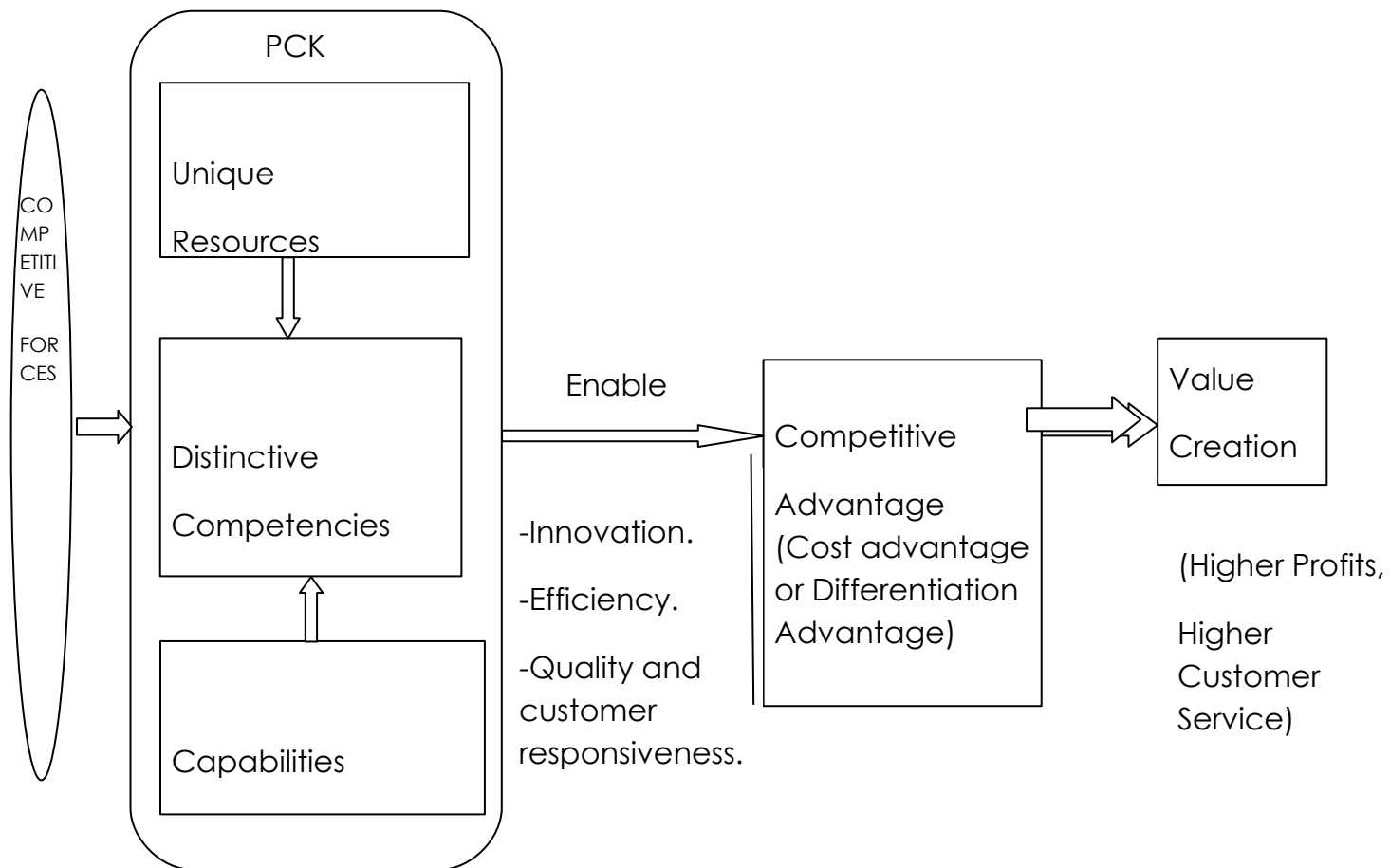
Porter (1987) observes that competition is at the core of the success or the failure of a firm. He notes that Competitive advantage exists where the firm is able to deliver the same benefits as competitors but at a lower cost and therefore gaining cost advantage or deliver the same benefits that exceed those of competing products and hence gain differentiation advantage. Porter further argued that competitive advantage comes from the value that firms create for their customers that exceed the cost of producing it. Firms create value by performing a series of activities known as a value chain. (Porter, 1987)

Value chain of a business consists of a collection of activities undertaken in the course of designing, producing, and marketing, delivering, and supporting its product or service. Each of these activities gives rise to costs and the combined costs define the firms internal cost structure. A firm's cost structure is a function of how the overall costs of the activities it is performs in doing business compare to the overall costs of the activities performed by rivals (Strickland 1999) Value chain is thus the primary tool for strategic cost analysis. In addition to the firms own value creating activities, it operates in a value system of vertical activities including those of upstream supplies and downstream channels members. Organizations integrate their activities vertically or backward to strengthen a company's position through cost reduction or creating of a differentiation based advantage. Sustaining a company's competitive edge is best grounded on competencies and capabilities critical to market success and satisfying customers (Porter, 1985).

A resource based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. The unique resources and capabilities together form distinctive competencies. These competencies enable innovation, efficiency, quality and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage. Hitt (1995) argues that the resource based view (RBV) of competitive advantage assumes that each firm is a collection of unique resources and capabilities. These resources and capabilities are source of organizations strategy and competitive

advantage. He further states that superior value is earned when an organization uses its core competencies to establish competitive advantage over rivals.

**Figure 1 Conceptual framework, resource based view of competitive advantage adapted from Hitt M A (1995) Strategic Management, pg 17**



### 2.3 Strategies for competitive advantage

Organizations use various strategies to gain competitive advantage. These include, Porters generic strategies, Ansoff product market strategies, resource based strategy, cooperative strategies, operational strategies, offensive and defensive strategies.

### **2.3 .1 Porter's generic strategies**

Porter (1987) argued that there are five generic competitive strategies that an organization can use to gain competitive advantage. These include: low cost provider strategy, broad differentiation strategy, best cost provider and focus strategy. Low cost provider strategy aims at operating the business in a highly cost effective manner leading to being the lowest cost provider in the market. This can be done by performing value chain activities and managing the factors that drive down costs of value chain better than competitors or restructuring the organizations value chain to bypass some cost- producing activities altogether. There are many ways of controlling the cost drivers. These include: economies or diseconomies of scale, learning and experience curve effects, vertical integration and outsourcing, full capacity utilization in high fixed cost activities, timing considerations associated with first mover advantages (Thompson and Strickland, 2000).

Organizations can achieve a cost advantage by reconfiguring their value chain by shifting to e-business technologies, simplifying product design and offering no frills service. They can also shift to a less capital intensive, more streamlined and flexible technological process, and avoid use of high cost raw materials or component parts in addition to relocating facilities closer to suppliers. They can also re-engineer business process to consolidate work steps and cut out low value added activities.

Differentiation strategy involves delivery of superior benefits that exceed those of competing products as perceived by consumers that they can command premium prices (Porter, 1994). Differentiation strategy is an attractive competitive approach whenever buyer's needs and preferences are too diverse to be fully satisfied by a standardized product or service or by sellers with identical capabilities. This strategy is successful where an organization studies buyer needs and behavior carefully to learn what buyers consider important and willing to pay for and incorporating buyer desired attributes into its product or service offering that will set it visibly and distinctively apart from rivals. Organizations can pursue differentiation strategy through superior service, multiple features, convenience, quality service, technological leadership, innovation etcetera. A differentiator's basis for competitive advantage is either product service offering whose attributes differ significantly from

the offerings of rivals or a set of capabilities for delivering customer value that rivals don't have or can't copy (Porter, 1994).

Best cost provider strategy according to Porter(1994), aim at giving more value for money by delivering superior value through satisfying their expectations on key quality service features and performance attributes and hence exceeding their expectations on price. To become best provider, a firm must have the resources and capabilities to achieve good to excellent quality at a lower cost than rivals it may also incorporate appealing features at a lower cost than rivals. Focus strategy aims at serving a target niche market or by developing an ability to offer niche buyers something different from rival competitors Porter (1994). A focused strategy based on either low cost or differentiation is attractive when the target market is big enough to be profitable and has potential for growth and industry leaders do not see presence in the niche as crucial to their own success (Thompson and Strickland,1999) It may also be costly or difficult for multi-segment competitors to put capabilities to meet the specialized needs of the target market niche and at the same time satisfies the expectations of their mainstream customers.

### **2.3.2 Ansoff product market strategies**

Ignore Ansoff (1965) developed a product market grid that provides business growth strategies. The product market grid is based on existing products and markets and new products and markets. Market penetration strategy involves penetrating an existing market with existing products. This can be achieved by gaining competitors' customers, attracting more users of your product and convincing current users to use more of your product or service (Kotler and Armstrong, 2002).

Product development strategy involves developing new products for existing market. Thus an organizational develops new products or improved products for the existing markets. By knowing the present market need a firm may see opportunities in developing new products or modifying product features, add more types or sizes to better satisfy the customer (McCarthy and Perreault, 1993). Market development strategy involves trying to increase sales by selling existing products to new markets

through advertising in different media to reach new target customers or adding new channels of distribution or new stores in new areas. (McCarthy and Perreault, 1993). Diversification strategy involves developing new products for new markets. This is the riskiest of the four Ansoff strategies as it involves unknown products for unknown markets.

### **2.3.3 Cooperative strategies**

Many organizations are turning to cooperative strategies that involve ways of responding to strong competitive pressures between organizations where resources, capabilities and core competencies are combined to pursue mutual interests (Hitt, 1995). Cooperative strategies may be short term or long term and may include partial or contractual ownership. These strategies help the organization in accessing new markets, entering new businesses, introduction of new products, overcoming trade barriers, avoiding predatory competition, gaining access to complementary resources, sharing risk, research and development expenses, and risk capital (Hitt, 1995).

Cooperative strategies includes strategic alliances, partnerships, mergers, acquisitions, integrations, outsourcing and offensive as well as defensive strategic moves to secure competitive advantage and protect a firm's position. Strategic offensives can be either aimed at competitor's strengths or at their weaknesses and they can involve end runs or grand offensives on many fronts (Porter, 1994). They can be designed as preemptive strikes or guerrilla actions. The target of the offensive strike can be a market leader, a runner up or the smallest or weakest firms in the industry. Defensive strategies to protect a company's position usually take the form of making moves that put obstacles in the path of would be challengers and fortify the company's position while undertaking actions to dissuade rivals from even trying to attack. (Thompson and Strickland, 1999)



## **CHAPTER THREE: METHODOLOGY**

### **3.1 Research Design**

The study was conducted through a case study. This method enabled the researcher to probe and obtain an in depth understanding of the strategies adopted by postal corporation of Kenya to gain competitive advantage in the mail sub sector in Kenya. Young, (1960) and Kothari, (1990) concur that a case study often provides focused and valuable insights to a phenomenon that may be vaguely known and less understood

.

### **3.2 Data Collection**

The study involved collection of primary and secondary data. The secondary data was extracted from existing literature in PCK corporate strategic plans 2003/ 2007 and 2008/2013, postal statistics (2003- 2007) , universal postal union congress strategies arrived at in Beijing (2000) Bucharest (2004) and Nairobi (2008). The primary data was collected using an interview guide. The interview guide was used to interview top staff at Postal Corporation of Kenya who are involved in decision making and strategy formulation and are thus well versed with strategies being implemented at PCK to regain competitive advantage. These interviewees are, Postmaster general, General Managers in charge of Human resource and development, Mails, Courier, Logistics and facilities, Legal services, Marketing, Research and development, Finance and Strategy and heads of department responsible for corporate communications and procurement. The interview guide used was divided into three sections namely, Competition, Competitive advantage and Strategies for competitive advantage.

### **3.3 Data Analysis**

Considering the kind of data envisaged as per the interview guide a conceptual and qualitative content analysis was used. Nachmias & Nachmias (1996) define content analysis as a technique for making inferences by systematic and objectively identifying specified characteristics of messages and using the same approach to relate trends. Nyamweya (2004) and Mbogo (2003) who employed this kind of approach concur that it is useful in gaining fresh material in even what was thought to be unknown.

## **CHAPTER FOUR: FINDINGS AND DISCUSSIONS**

### **4.1 Competition**

The eleven departments interviewed reported that in the last ten years postal mail has been declining at an average rate of six percent per year. This was mainly attributed to the increased competition resulting from liberalization of the communication market in addition to the substitution effect of internet technologies and mobile telephony. Postal expenditure on the hand has been increasing at even a higher rate as a result of high vehicle fuel and maintenance and repair costs due to poor road conditions. The high numbers of staff have also contributed to the high expenditure costs in terms of salaries, benefits and medical costs. This effectively means that PCK mail profitability has been adversely affected by the increased competition.

Last years' postal statistics (2008/2009) indicate that mail revenues totaled Kenya shillings 2.5 billion in a market estimated to be Kenya shillings seven billion (CCK Statistics June 2009). Thus PCK mail market share can be estimated currently at thirty percent and hence indicating a serious drop in last ten years when it had the monopoly in mail business in Kenya. PCK customer base has also been affected negatively by the increased competition as customers opt for more efficient and reliable mail service providers in addition to using e-mail, mobile telephone short message services in place of traditional mail. Organizations such as Safaricom ltd have adopted electronic mailing to send its annual reports to its shareholders thus denying PCK revenue in prepaid mail services a key revenue earner. Kenya power and lighting company, a major customer of PCK in bills postage payments is currently doing trials on prepaid power billing system and when complete will deal a major blow to PCK mail revenues.

#### **4.1.1 Response to competition**

The eleven departments reported that as result of the negative impact of competition on PCK's profitability, market share and customer base, a number of strategic responses have been adopted for competitiveness. These include the constitution of Strategic change management team with the mandate to review, the strategic plans prioritizing quick wins for PCK business in the face of heightened competition,

review existing products with a view to introducing cost effective products and services, and review procurement process with a view of automation and adherence of public procurement and disposal act. The team was also mandated to review existing systems, projects and programs to ensure value for money and come up with innovations that will leverage UPU and other postal operators experience for the benefit of PCK.

PCK has also created departments of research and development, Marketing and customer service to spearhead research and new product development in addition to enhancing sales and marketing activities. A customer call center has also been created to effectively respond to customer enquiries. Partial automation of key mail processes to improve on efficiency and utilization of casual labor to sort mail to reduce costs of mail processing has been done. The organization has also has adopted strategic planning process and it is currently implementing the second Corporate strategic plan 2008-2012. It is also outsourcing non core activities to concentrate on its core activities and also cut cost and hence enjoy low cost advantage. Staff skills development and recruitment of key functional managers from the competitive market have also been done with the aim of having a highly skilled and innovative workforce.

#### **4.1.2 Competitive advantages enjoyed by PCK**

The eleven departments interviewed reported that PCK enjoyed both low cost and differentiation advantages. The sources of the low cost advantage are the low pricing strategy which makes postal services cheaper as compared to those of competitors, membership of the Universal Postal union enabling it enjoys new postal technologies for free through technology transfer in addition to systems and vehicle purchase funding through the universal service fund. The organization also enjoys low labour costs as compared to its competitors. The organizations large network enabling greater reach, customer convenience and economies of scope as compared to competitors is a source of differentiation advantage. The organization has a well known and identifiable brand 'POSTA', It also offers multiple services to a wide range of customers and has a well trained workforce in postal operations able to offer superior and customized services to its multiple clients.

## **4.2 Functional Strategies for competitive advantage.**

### **4.2.1 Marketing Strategies**

The Marketing department has spearheaded development of customer service charter stipulating services on offer and level of quality that customers can expect. It has also developed an interactive website to enhance interaction and transaction with PCK. The function has in liaison with user departments developed new mail products including Postal dispatch, mail room management and bahasha kasha service for the existing market though awareness in the market has not been adequately created. The function has outsourced advertising services to media consultants as it lacks competence in the field. Currently the department in liaison with other departments is working towards ISO 9001/ 2008 certification scheduled for December 2009. The department has not developed a marketing and communications plan for the services it offers.

### **4.2.2 Human resource department**

The Human resource function has developed an organization structure with a lean management and hence more cost effective. The department has adopted merit based promotions and key managers have been recruited from the open job market to bring in the much needed expertise in the courier, marketing and information technology areas. The function has also heightened training activities geared towards upgrading staff skills and adopted performance contracting management systems enhance performance.

### **4.2.3 Logistics and facilities**

Logistics and facilities function has developed a fleet policy, acquired new fleet, fleet and fuel management systems aimed at cost effective and efficiently running the function. The department however lacks adequate skills to effectively manage these systems. It has outsourced repair and maintenance services to pre-qualified garages and to enhance convenience and reach to customers the function has initiated mobile post offices and franchised loss making post offices. The Post office franchising efforts have not been very successful due to the plummeting of demand for traditional postal services.

#### **4.2.4 Finance and strategy**

This department has spearheaded preparation of the corporate strategic plan 2003/07 and 2008/012 with inputs from market analysis, UPU recommendations and government of Kenya vision 2030 medium term goals. It has adopted strategy based budgeting and monitoring system where strategy determines budget in addition to adoption of a new UPU based cost accounting system for more effective costing. It has also adopted asset financing for fleet and capital expenditure and streamlined discount and credit policies.

#### **4.2.5 Corporate communications**

This function has enhanced internal communication through weekly updates and external communication through engaging the various publics through the media. It has also adopted corporate social responsibility as a way of giving back or contributing to the community's welfare. The function however reported having challenges reversing the poor image created after the alleged theft of millions of money through the financial service known as Postapay.

#### **4.2.6 Research and business development**

This function has been outsourcing research services to research consultants as it develops its own internal capacity. Some of the researches outsourced include PCK brand health check, market share, and consumer satisfaction baseline survey research outsourced to SBO research, Research International and consumer insight respectively. The results have been incorporated in the organizations Corporate Strategic plan 2008-2013.

#### **4.2.7 Information and Communication Technology**

This function has partially automated the previously manual front and back office operations to enhance efficiency and reduce cost through reduction of staff. This has been done through installations of point of sale systems, wide area Networks, human resource systems, mail track and trace systems and postal branch information system. The function has piloted installation of security systems to enhance mail security within the main post offices. These security systems include closed circuit TV system and radio frequency microchips also used to track movement of mail through the mail system. The installations are at Jomo Kenyatta Airport, City square and General post

office in Nairobi

#### **4.2.8 Procurement**

This function has adopted electronic procurement (e- procurement) with a view to shortening the procurement cycle and reducing costs through reduced stationery and staff costs. The new system has led to streamlining of the procurement system and improvement of relationships with organization suppliers as a result prompt processing of Local Purchase Order's and payments. The function has also started annual procurement planning to enable prudent management of budgets and to benefiting from economies of scale from bulk purchasing through consolidation of orders from various departments. The function has also implemented the Procurement and Disposal Act 2005 and public procurement and disposal regulations 2006. It has developed its internal capacity through recruiting skilled staff from the open job market. The function is keeping abreast of best practices for procurement of goods and services through benchmarking with similar entities to facilitate continuous improvement of procedures. The section has come up with a procurement manual which spells out functional relationship and internal controls that promote transparency and accountability in procurement process.

#### **4.2. 9 Legal services**

This department has been outsourcing legal services to registered law firms as a strategy to manage cost and seasonality nature of the services. It has developed a program of educating staff on the various legal requirements when dealing with customers, and other legal agencies especially when negotiating for contract agreements thus preferring preventive than curative handling of legal issues.

#### **4.2.10 Operations**

The department has to a limited extent automated the mail processing process as a strategy to foster faster processing of mail at the various mailing hubs. It has also merged some operational documents to reduce stationery costs and reduce unnecessary documentation and duplication of information. Expedited mail services (EMS) the postal Courier arm has adopted mail track and trace at the local level and also developed an interactive website to enhance customer interaction and transaction with the post office. Introduction of the international mail enquiry (rugby) handling

system has helped manage customer enquiries with increased customer confidence with postal courier service.

PCK courier has also increased the number of mail routes destinations internationally in an effort to reduce double processing of mails at the various international mail hubs. This has led to a reduction in delays and transit costs. Some of the new destinations include Nairobi to Budapest and Nairobi to Warsaw. Previously mail destined to these areas transited through London. Introduction of bulk delivery and preprocessing discounts as a strategy to enhance faster handling of mail has been implemented successfully and has borne fruit as bulk posters presort their mail according to destinations and hence helping reduce processing time at the post office.

The department has spearheaded the entering into an alliance with Kenya revenue Authority (KRA) to clear parcels on behalf of customers and collect customs duty on behalf of KRA thereby affording customer convenience and creating an additional revenue stream. The department has also entered in service level agreements to enhance service delivery to bulk customers such as Barclay's bank, Nairobi Water Company, Kenya Power and Lighting among others. The department in liaison with other departments has spearheaded new product development of hybrid mail, direct mail marketing, Posta dispatch, mail room management, same day courier service and three hour service within town. The market has not been made aware of these new postal services and as such has not contributed meaningfully to the PCK revenue base. The department also reported that as a result of frequent change in chief executives strategic direction is interfered with and this affects implementation of strategy. The last strategic plan 2003-2007 implementation was overseen by three chief executives.

#### **4 . 3Cooperative and product Market strategies**

The eleven departments reported that of the various cooperative strategies for competitive advantage available, PCK has only adopted strategic alliance on a limited scale. PCK has entered in to strategic alliances with a number of organizations to enhance its competitiveness. These organizations include Kenya Revenue Authority, Kenya Airways and Roy parcels. The reasons cited for not adopting other cooperative strategies such as mergers, acquisitions, partnerships, joint ventures, vertical



integration is the un-enabling postal corporation act of 1998. The organization has outsourced some of its non core activities including cleaning, security, vehicle maintenance and repair services, internet connectivity and data services. The outsourcing of services has however resulted in increase rather than reduction of costs. The departments further reported that of the four Ansoff product market strategies the organization has only adopted product development. The new products cited include Direct Mail Marketing, Posta dispatch, and mail room management are for the existing market. These products are however not known in the market

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary of findings**

There has been increased competition in the mail sub sector in Kenya which has impacted negatively on Postal Corporation of Kenya's profitability, market share and customer base. PCK has responded to this threat by constituting a strategic change management team under the leadership of Postmaster General with the mandate to review, the strategic plans prioritizing quick wins for PCK business in the face of heightened competition, review existing products with a view to introducing cost effective products and services and review procurement process with a view of automation and adherence to public procurement and disposal act 2005. The team is also mandated to review existing systems, projects, and programs to ensure value for money and come up with innovation that will leverage UPU and other postal operators experience for the benefit of PCK.

PCK also created departments of research and development, Marketing and customer service to spearhead research and new product development in addition to enhancing sales marketing activities. A customer call center was also created to respond to customer enquiries and key mail processes automated to improve on efficiency. Casual labor has also been engaged in an endeavor to reduce costs of mail processing. PCK has also adopted strategic planning process and it is currently implementing the second strategic plan 2008/012. It has outsourced non core activities in order to improve the bottom line. It has also enhanced skills development and recruited key functional managers from the competitive market.

The study established that PCK enjoys low cost advantage as well as differentiation advantage. The sources of the low cost advantage are the low pricing strategy which makes postal services cheaper as compared to those of competitors, membership of the Universal Postal union enabling it enjoy new postal technologies for free through technology transfer and also funding through the universal service and quality service funds for developing member countries. The organization also enjoys low labour costs as compared to its competitors. The organizations large network enabling greater reach, customer convenience and economies of scope as compared to competitors is a

source of differentiation advantage. The organization has a well known and identifiable brand 'POSTA', offers multiple services to a wide range of customers and has a well trained workforce in postal operations able to offer superior and customized services to its multiple clients. The study also found out that the organization has adopted various strategies in order to gain competitive advantage. These strategies include business, functional, operational, cooperative and product market growth strategies. The organization has however only adopted strategic alliances and franchising and product in the cooperative and product market strategies.

## **5.2 Conclusions**

The study established that PCK enjoys low cost advantage as well as differentiation advantage. The sources of the low cost advantage are the low pricing strategy which makes postal services cheaper as compared to those of competitors, membership of the Universal Postal union enabling it enjoy new postal technologies for free through technology transfer in addition to systems and vehicle purchase funding through the universal service fund. The organization also enjoys low labour costs as compared to its competitors. The organizations large network enabling greater reach, customer convenience and economies of scope as compared to competitors is a source of differentiation advantage. The organization has a well known and identifiable brand 'POSTA', offers multiple services to a wide range of customers, has a well trained workforce in postal operations able to offer superior and customized services to its multiple clients.

Despite the organization enjoying the above competitive advantages it has been unable to leverage them to result in benefits for itself and its customers. The organizations profitability, market share and customer base thus continues to decline. Strategies adopted for competitive advantage are yet to bear fruit indicating that there are challenges in strategic planning and implementation. The organization can easily tap into the resources of the universal postal union in terms of technology transfer and funding through universal and quality service funds and hence gain advantage over other players in the market. The organization has not exploited its monopoly situation in letters below three hundred fifty grams and provision of letter boxes. The study also noted that there was a very high turn over of chief executives which can affect strategy implementation. The last corporate strategic plan (2003-2007)

implementation was overseen by three chief executives.

### **5.3 Recommendations**

#### **5.3.1 National recommendations**

The study recommends that PCK through the parent Ministry of Information and Communications to lobby Parliament to repeal Postal Corporation of Kenya Act 1998 to create an enabling environment reflecting the changing market dynamics in the mail Sub sector in Kenya. Specifically, the Act should enable adoption of Co-Operative strategies for competitive advantage such as acquisitions, Mergers, Partnerships, vertical integration which have proved quite successful in other firms in the industry such as FEDEX.

The study further recommends the government in liaison with the Universal Postal Union (UPU) to fully fund the Universal Service Obligation through the universal service fund in areas where Post Offices are not economically viable and have to be there to enable basic communication to the citizens. The funding could be in form of supporting the building, installation of cheap power such as solar and wind power and provision of a national platform interconnecting all post offices. When this is done the government can be able to take its services closer to the people in the villages through internet connectivity and hence reduce unnecessary travel looking for the same. These will further help PCK reduce huge telephone bills by communicating through Voice over Internet Protocol (VOIP). The national platform can also be utilized by PCK to develop internet based products for instance electronics funds transfer and hybrid mail for the benefit of its customers. Through the Universal Postal unions quality service fund (QSF), PCK can be able improve its mail infrastructure to enable offering of more efficient, fast and reliable services to its customers. Quality service fund is fund set aside by the universal postal union to assist member countries from the developing world improve their quality of services to meet international standards.

The study recommends that the Government in liaison with the Communication Commission of Kenya polices the mail Sub sector to ensure compliance with the Communication commission of Kenya Act 1998 requiring all PCK competitors to charge five times the cost PCK charges on mails below three hundred fifty grams and

to retain monopoly in offering private letter boxes services.

### **5.3.2 Postal Corporation of Kenya**

Postal Corporation of Kenya has adopted various strategies to gain competitive advantage in the mail sub sector in Kenya. However the study noted that the implementation of some strategies has not achieved the expected outcomes. Thus there is need to re-examine the strategy implementation process at PCK. Some of the strategies adopted with little success include: - Development of new products where customers and majority of staff are not aware of due to lack of effective marketing communications. This study recommends constitution of multi departmental new product development team to spearhead development of new products after careful market need analysis and following the new product development process. The organization also needs to start developing marketing and communication plans for the various services on offer to ensure effective communication to the target markets.

The study also recommends adoption of market penetration and expansion strategies for growth through aggressive sales activities by sales executives whose remuneration is directly related to the sales achieved. The organization can explore opportunities for diversification such as postal banking and money transfer services covered by the current Postal Corporation of Kenya act.

On restructuring this study recommends use of competent consultant firms which can carry out a thorough and objective work study ultimately resulting in an appropriate structure that will be effective in implementation of the corporate strategic plan. The organization has also engaged in a lot of training which has not translated into benefits for the organization due to irrelevant training and trained staff leaving for greener pastures. This study recommends thorough training needs analysis to be done before training is done, and staff benefiting from the training to work for the organization for at least two years before leaving. Performance measurement to gauge whether there is improvement after training need also be done. The organization has adopted performance contracting concept but staff are yet to embrace and own it. This study recommends further coaching, mentoring and awards/sanctions policies.

Logistics and facilities management remains a major challenge though the organization has developed a fleet policy renewed its fleet and branded Postal outlets. This study recommends staffing the department with skilled manpower who will be able to implement the fleet policy for efficient management of the fleet and also run the department as a business through an expanded logistics understanding to include warehousing, clearing and forwarding and general provision of logistics solutions.

The organization has endeavored to automate internal processes though benefits to customers and the organization are yet to be realized. This study recommends full automation and mechanization of the mail processing to eliminate delays and pilferage. Installation of more Closed Circuit Televisions (CCTV) to more offices especially Head Post Offices for surveillance and mail security will enhance customer trust in the Postal Mail handling system. The organization has outsourced non core activities though this has resulted in addition rather than reduction of costs. This study recommends more objective and competitive outsourcing of non core activities to specialists who have the competence to handle the outsourced activities and development of an exit plan for those members of staff whose jobs have been outsourced. The study further recommends that the functional strategies being implemented be interlinked and geared towards achievement of the corporate objectives.

### **5.3.3 Recommendations for further study.**

The following further studies are recommended;

- a) Strategic planning process at Postal Corporation of Kenya.
- b) Challenges facing Strategic implementation in Postal Corporation of Kenya.
- c) Impact of implementation of performance contracting at Postal Corporation of Kenya.

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## **Appendix 1**

### **Interview Guide**

#### **I Competition**

In the last 10 years, there has been increased competition in the Mail sub-sector in Kenya

1) How has this impacted on PCK's

- i) Profitability?
- ii) Market share?
- iii) Customer base?

2. How has PCK responded to the above threats?

#### **11Competitive Advantage**

1. An Organization is said to have competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors (Coyle 1990)

- i) What competitive advantages are enjoyed by postal corporation of Kenya?
- ii) What are the sources of these competitive advantages enjoyed by PCK?

#### **11Strategies**

3. What strategies for competitive advantage have been adopted by PCK in the following departments?

- i) Operations
- ii) Marketing and customer service
- iii) Human Resource Development
- iv) Information and Communication Technology

- v) Procurement and supply chain management
- vi) Research and Business Development
- vii) Logistics and facilities management
- viii) Finance and strategy

4. How has PCK implemented the following cooperative and product market/  
Strategies to help it gain competitive advantage?

- i) Mergers with other organizations
- ii) Acquisitions of other organizations
- iii) Strategic Alliances with other organization
- iv) Partnership with other organizations
- v) Joint ventures with other organizations
- vi) Outsourcing of non core activities
- vii) First to introduce innovation to the market
- viii) Integration
- ix) Market penetration
- x) Product development
- xi) Market development
- xii) Diversification