CHALLENGES FACED BY TELECOMMUNICATION OPERATORS IN KENYA THAT ARE BROUGHT ABOUT BY GLOBALIZATION: A CASE OF TELKOM KENYA LIMITED

BY

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REG. NO: D61/P/8476/2004

A MANAGEMENT RESEARCH REPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

SEPTEMBER 2008
DECLARATION

This management Research Project is my original work and has not been presented for a degree in any other university.

Chebett Jack Kip limo

D61/P/8476/2004


This Management Research Project has been submitted for examination with my approval as the University Supervisor.

DR. John Yabs

DEDICATION

This work is dedicated to my wife Caroline, daughters Valerie Cheptoo and Linda Chepkemboi and my son Branson Kipchumba.
ACKNOWLEDGEMENTS

I would like to thank The University of Nairobi for offering me the opportunity to pursue further education in their institution. Secondly, I thank the institution for allowing me to do this research.

I wish to extent my gratitude to my supervisor Dr. John Yabs, for his guidance, commitment and support. My thanks also go to Dr. Martin Ogutu, Chairman of the Department of Business Administration for his inspiration and guidance and for the support extended during the time of this research.

I would also like to express my appreciation to my colleagues; Gichira, and others for encouragement.

Let me thank all my colleagues at Telkom Kenya who participated in filling the questionnaires for their cooperation and time. Their contributions made this research a big success.

Lastly, special thanks to my family members who provided the good environment, understanding, encouragement, support, patience and sacrifice during my entire MBA study.
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# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>BITs</td>
<td>Bilateral Investment Treaties</td>
</tr>
<tr>
<td>CCK</td>
<td>Communications Commission of Kenya</td>
</tr>
<tr>
<td>CDMA</td>
<td>Code Division Multiplex Access</td>
</tr>
<tr>
<td>DTTs</td>
<td>Double Taxation Treaties</td>
</tr>
<tr>
<td>EASSY</td>
<td>East Africa Submarine Cable System</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>GSM</td>
<td>Global System for Mobile Communications</td>
</tr>
<tr>
<td>IBGO</td>
<td>International Backbone Operators</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>ITU</td>
<td>International Telecommunications Union</td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>KCA</td>
<td>Kenya Communication Act</td>
</tr>
<tr>
<td>KCR</td>
<td>Kenya Communication Regulation</td>
</tr>
<tr>
<td>KDN</td>
<td>Kenya Data Network</td>
</tr>
<tr>
<td>KPTC</td>
<td>Kenya Posts and Telecommunications Corporation</td>
</tr>
<tr>
<td>LDC</td>
<td>Less Developed Countries</td>
</tr>
<tr>
<td>LLO</td>
<td>Local Loop Operators</td>
</tr>
<tr>
<td>MNEs</td>
<td>Multi-National Enterprises</td>
</tr>
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</table>
NIC  Newly Industrialized Country
PCK  Postal Corporation of Kenya
PDNO  Public Data Network Operator
OFC  Optic Fiber Cable
SAPs  Structural Adjustment Programmes
SME  Small and Medium Enterprises
SOEs  State Owned Enterprises
TKL  Telkom Kenya Limited
TNCs  Trans-National Corporations
VOIP  Voice over Internet Protocol
WTO  World Trade Organization
ABSTRACT

This research study was a case study that was carried out on Telkom Kenya Limited, which is currently an integrated telecommunications services operator in Kenyan market.

This research study sought to identify the challenges faced by telecommunication operators in Kenya that are brought about by globalization. It is a case study of Telkom Kenya limited. The objective of the study was to establish the challenges faced by Telkom Kenya that are brought about by globalization and determine their impact and response.

Since liberalization and regulation of the Telecommunication sector in Kenya the market has witnessed the emergence of competition which has been accelerated by rapid technological change and adoption to provide world class communication solutions.

The Research project was conducted by collection of primary data using unstructured questionnaires which were administered to the mangers in the key departments of Telkom Kenya Limited. The report contains in-depth analysis and interpretation of the data which identifies the challenges faced by the company, their impact and the response to the challenges.

The research study found out that the major challenges facing the company are competition, rapid technological change and quality of service, copper vandalism, declining revenues among others. The company has however responded to the challenges through innovative products, embracing of the latest third generation and next generation technologies and entering into strategic joint venture partnership with French Telecom which is one of the leading global telecommunications operators so as to remain competitive, increase its market share and introduce innovative products in the market.

The study also discusses the research findings, draws conclusions and makes recommendations for further research.
CHAPTER ONE: INTRODUCTION

1.1.0 Background

Globalization has caused dramatic changes to business practices around the world. It is a process where countries are moving away from a world where national economies are relatively self-contained entities isolated from each other by barriers to cross-border trade and investment; by distance, time, zones, and language; and by national differences in government regulations, culture and business systems. We are moving towards a world in which barriers to cross-border trade and investment are tumbling; perceived distance is shrinking due to advances in transportation and telecommunication technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent global economic system.

The interdependent global economy has become a world where the the volume of goods, services, and investment crossing national borders expanded faster than the world output every year during the last two decades of 20th century. It is a world where more than $1.2 billion in foreign exchange transactions are made everyday. Globalization has created the best times for business by increasing the opportunities for firms to expand their revenues by selling around the world and thus reducing costs by producing in nations where key inputs are cheap.

Since the collapse of communism at the end of 1980s, the pendulum of public policy in nation after nation has swung towards the free market end of economic spectrum. Regulatory and administrative barriers to doing business in foreign nations have come down, while nations have transformed their economies, privatizing state-owned enterprises, deregulating markets, increasing competition and welcoming investment by foreign businesses. Globalization has therefore allowed businesses both large and small, from both advanced nations and developed nations, to expand internationally (Charles W. L. Hill, 2005).
Companies have started to outsource specialists from various parts of the world, causing job shifts and changes in companies' structures (Engrail, Bernstein, and Kripalani, 2003). Alliances among automakers (e.g., GM-Ford-DaimlerChrysler, Ford-Mazda, and GM-Honda), petroleum manufacturers (e.g., BP-Mobil, Chevron Caltex), and airlines (e.g., KQ) are other examples of changes driven by this phenomenon of globalization thus creating unique challenges and opportunities to companies.

Economic reforms in Kenya and globalization of the telecommunication industry have brought challenges and created opportunities for telecommunication operators in Kenya and other emerging countries. The business environment in Kenya has fundamentally changed. The changes have brought pressure on telecommunication operators to adapt new strategies to overcome the challenges they are facing.

1.1.1 The concept of globalization

Globalization according to Hill, (2005) refers to shift towards a more integrated and interdependent world economy. Globalization has several different facets including the globalization of markets and globalization of production. It is the world economy which we think of as being globalized. It means that the whole of the world is increasingly behaving as though it were a part of a single market, with interdependent production, consuming similar goods, and responding to the same impulses. Globalization is manifested in the growth of world trade as a proportion of output (the ratio of world imports to gross world product, GWP, has grown from some 7% in 1938 to about 10% in 1970 to over 18% in 1996). It is reflected in the explosion of foreign direct investment (FDI). FDI in developing countries has increased from $2.2 billion in 1970 to $154 billion in 1997. It has resulted also in national capital markets becoming increasingly integrated, to the point where some $1.3 trillion per day crosses the foreign exchange markets of the world, of which less than 2% is directly attributable to trade transactions (Williamson, 1998).
While they cannot be measured with the same ease, some other features of globalization are perhaps even more interesting. An increasing share of consumption consists of goods that are available from the same companies almost anywhere in the world. The technology that is used to produce these goods is increasingly standardized and invariant to the location of production. Above all, ideas have increasingly become the common property of the whole of humanity.

There are areas also where globalization is incomplete, even in the economic sphere. In particular, migration is very far from being free. Highly skilled professionals have a relatively high degree of mobility, but those without skills often face obstacles in migrating to higher-wage countries. Despite the difficulties, substantial proportions of the labour forces of some countries are in fact working abroad: for example, around 10% of the Sri Lankan labour force is now abroad.

The global trend towards telecommunications deregulation and privatization is a major market driver. Recent moves towards this include the US Telecommunication Act 1996:69. Here, member countries of the WTO reached an agreement in February 1997 on basic telecommunications where it was recognized as a tradable service. From January 1998, the European Union (EU) required member countries, to legislate full telecommunication. This was aimed at bringing about lower rates, better services and competition. There is also need to network with a growing number of countries, using modern telecommunications technologies in order to facilitate global trade.

Reforms in the telecommunications are also being driven by the rapid technological changes. Introduction of modern and advance telecommunications technology is a major driver of change in the industry. Advancement in technology enables operators offer a wide variety of services such as multimedia applications – voice, video and data. It also improves the quality of service, reduces the cost and increases the traffic volumes. The trend in the telecommunication industry is towards integration of networks where varied services are offered at the same platform and convergence of Information and Communications Technology (ICT), circuit based and data packet switching and blurring industries boundaries (telecommunications, computing and media).
As a strategy to fight competitive disadvantage associated with globalisation, many telecommunications business organisations, both in developed and developing countries have identified global strategic partnership as a strategic option. Of course the reasons are different as to why that option is preferred but in most developing countries is basically for technological transfer, financial reasons and the need to privatise their telecommunications industry.

The first effect of globalisation is that it allows countries, which could not survive economically in a world of protectionism to overcome the disadvantages associated with small size and low levels of development (Jenny F., 2001). Indeed what globalisation does is to change the geographical dimension of economic markets. Thanks to globalisation, firms in emerging economies are not constrained anymore by the small size of their domestic market or their territory and if productivity is related to size of the market, as it seems to be in many sectors. This means that firms in small developing economies can hope to become very productive even in the presence of a limited or a weak domestic domain.

Economies, which were not viable in a world of protectionism, become viable. This is of particular interest, of course, to small developing economies.

The only hope for those countries to survive is to be in a world of international trade, where, in spite of their small size, they can access fine markets and therefore benefit from the economies of scale and scope, which are conducive to productivity. Hence trade liberalisation is a necessary condition for the exercise of the political sovereignty of small developing nations, which explains, by the way, why developing countries have been so interested and forceful in trying to obtain market-opening measures from developed countries which is a positive aspect. The negative aspect is that, if trade liberalisation is a necessary condition for economic development, then it is not a sufficient condition. Indeed trade liberalisation has a perverse effect of widening the gap between the relevant economic markets, which expand rapidly, and the territorially limited area of jurisdiction.
of national competition authorities. As a result a firm from one country can engage in anti-competitive activity or transactions in another country without the authority of that country having the means to detect or punish such practices.

1.1.2 Telecommunication Industry in Kenya

Kenya’s telecommunication industry is dominated by two mobile operators; Safaricom Kenya Limited and Celtel Kenya Limited and one fixed operator, Telkom Kenya Limited. The services provided are mainly basic voice and text messages-SMS, and lesser extent data, facsimile, voicemail and there is move to provide high data broadband access services. The market structure is divided along fixed line and mobile phone services; and end user retail and interconnection wholesale services, (http://www.cck.go.ke).

The government policy has been the major barrier to market entry for decades, and the industry has remained in the control of KPTC, a government monopoly playing both roles of a service provider and industry regulator (Olunga V., 2007). Liberalization process started in 1997 with a government policy (GOK, 1997) and enacting of the communication legislations, KCA, in 1998 (GOK, 1998), establishing the industry regulator, CCK, and in July 1999, KPTC was split into TKL and PCK both 100% state owned. The advisory body, NCS, and the Communications Appeal Tribunal were created and regulations, KCR2001, issued (GOK, 2001a).

The industry has technology and service defined structure, with various service categories licensed separately as facility or infrastructure public telecommunications service providers and none facility providers. There are also other licensed service operators in the Kenyan market. These are wireless local loop operators such as Flashcom limited, Popote Wireless Limited and Access Wireless Limited, Public Data Network Operators (PDNO) such as Kenya Data Network (KDN), and International Backbone Operators (IBGO) such as Jamii Telecom Limited using VOIP technology, (http://www.cck.go.ke).

The Telecommunication industry liberalization in Kenya has produced mixed results where fixed line services connectivity growth has not matched the rapid growth of mobile telephony, with mobile growing from 20,000 in July 1999 to over 9 million now
and the trends as per table 1.1 below (GOK, 2003; 2004; 2005, 2006b; 2007).

Table 1.1 Growth of Fixed and Mobile telephony connection from year 2001 to 2006

<table>
<thead>
<tr>
<th>Year end</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Line ‘000’</td>
<td>326</td>
<td>332</td>
<td>328</td>
<td>280</td>
<td>286</td>
<td>287</td>
</tr>
<tr>
<td>Growth %</td>
<td>1.7%</td>
<td>(1.8%)</td>
<td>(16.8%)</td>
<td>2.5%</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>Mobile Line ‘000’</td>
<td>630</td>
<td>1,068</td>
<td>1,097</td>
<td>4,300</td>
<td>5,328</td>
<td>7,273</td>
</tr>
<tr>
<td>Growth %</td>
<td>69.6%</td>
<td>2.7%</td>
<td>66.3%</td>
<td>56%</td>
<td>36.5%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Government of Kenya, Economic Surveys

Telecommunication is widely accepted as a significant contributor to development of a country, (Senaji, 2005). Kenya’s potential to achieve and sustain positive economic development will very much depend on the vibrancy of its telecommunication sector. The attribution of development to Telecommunication may partly explain why countries in the west and Asia, which have high level of ICT diffusion, are more developed in both human and economic dimensions than countries with limited diffusion of and access to ICTs. The more e-ready a country is the more it is in a position to realize human and economic development.

Kenya being an emerging economy with low level of economic development, with its economy in transition has a huge potential for growth (Senaji, 2005). It has in adequate infrastructure, such as telecommunication, roads and electricity. According to Central Bank monthly Economic Review (September, 2007), the country’s economic growth has been growing steadily from 5.8% (2005), 6.1% (2006) and 7.2% (2007). The trend has however dropped in 2008 due to factors related to political instability resulting from disputed 2007 general elections. Its GDP Purchasing Power Parity (PPP) in 2006 was $41.36 billion and as at 2007 per capita income (PPP) was $1,200.
When Kenya is viewed from the ‘emerging markets’ perspective the potential to harness Telecommunication for development is enormous. Similarly, Kenya’s EM characteristics present enormous incentives for participation by various players such as Multinational Corporations (MNCs) and local investors in the telecommunication industry to enable a vibrant growth in Telecommunication.

The high demand for bandwidth and increased cost and scarce satellite bandwidth has led to a recent search for cable solution to meet the demand for huge bandwidth requirements. To address this, the Kenya and other regional countries launch EASSY initiative in 2005 and thereafter TEAMS in 2007 to provide undersea cable connection which will link the countries of East Africa to the rest of the world. Locally, the government through Telkom Kenya has provided a fiber link between Mombasa and Malaba and beyond. An expansion of the project to the district is ongoing. KDN has also laid an OFC cable between Mombasa and Malaba.

1.1.3 Telkom Kenya Limited

Telkom Kenya was established as a telecommunications operator under the Companies Act in April 1999. It provides integrated communications solutions in Kenya with the widest range of voice and data services as well as network facilities for residential and business customers. Telkom Kenya plays a prominent role in the information and communications technology sector, serving millions of Kenyans across the country. The company currently has a customer base of about 500,000 customers on both fixed and CDMA wireless with a country-wide presence, (http://www.telkom.co.ke).

Telkom Kenya was established as a public telecommunication operator and incorporated under company’s Act as a wholly owned Government enterprise. This was after the enactment of Kenya Communication Act in 1998, which replaced Kenya Post and Telecommunication s Corporation Act (Cap 411 of laws of Kenya). The enactment of the communication Act split Kenya Posts and Telecommunication into three independent entities. These are; Telkom Kenya Limited (TKL) to provide telecommunication services,
Communication Commission of Kenya (CCK) to regulate the Communication market and Postal Corporation of Kenya (PCK) to provide Postal services.

In June 1999, Telkom Kenya was issued with a license by CCK to provide telecommunication services effective July 1999. Through the fixed line and its major brands, viz., Jambonet, Kenstream, and Kensat, the Company provides a complete portfolio of solutions that spans local, long-distance and international telephony, wireless, Internet, multimedia, data, and interconnect services to corporate businesses, small and medium enterprises (SMEs), residential consumers, general public and other service providers.

To make the company remain competitive in Kenya’s liberalized and regulated telecommunications market, the government restructured TKL and invited offers to buy 51% shareholding in 2007. The sale attracted some of the global operator which included French Telecom and Reliance of India. French Telecom won the bid by offering the highest bid of Ksh. 26 billion, thus they are now the majority shareholders of the company (Sunday Nation, August 3, 2008). The company is now a Joint Venture between French Telecom (51%) and the Government of Kenya (49%).

Telkom Kenya Limited is currently the leading fixed line provider in Kenya with a customer base of over 500,000. It is currently enhancing it data solutions capacity using CDMA technology which is currently voice service and has both fixed and mobile capabilities. Telkom CDMA version is a 3 Generation technology that has the capabilities for voice, data video and fax which gives it a comparative advantage over other operators in the market. The company finalizing its GSM Mobile network rollout which is going to be operational before the end of 2008 hence it will be the fist telecommunication operator to provide a range of telecommunication solutions in the market.

Telkom Kenya therefore, is positioning itself to provide and integrate a full spectrum of services and solutions in the fixed telephony, mobile, internet and broadband sectors hence a preferred end-to-end solutions provider in the market.
1.2 Statement of the Problem

The move towards a wider global economy has been driven and strengthened by the widespread adoption of liberal economic policies by countries. The countries in keeping with the normative prescription of liberal economic ideology are privatizing state owned businesses, adopting widespread deregulation, opening markets to competition and increased commitment to removing barriers to cross border trade and investment, thus building powerful market oriented economies. The trends therefore indicate the world is moving rapidly toward an economic system that is more favorable for the practice of international trade hence globalization. The last quarter century has seen rapid changes in the global economy. Barriers to free flow of goods, services, and capital have been coming down. The volume of cross-border trade and investment has been growing rapidly than global output, indicating that national economies are becoming more closely integrated into a single, interdependent, global economic system.

Kenya’s development policies and strategies hinges on rapid economic growth and development, which is be reflected in the general improvement of the population’s standard of living. It therefore attaches great importance to telecommunication infrastructure development and services as they play a critical role for the attainment of the country's development goals. Telecommunication being an essential prerequisite for a wide range of economic activities and development in any national economy, developing or developed, from agriculture, travel and tourism to mining and manufacturing is therefore a very important sector.

Kenya as a country is committed to becoming a Newly Industrialized Country (NIC) by the year 2020. The achievement of this requires; political and macroeconomic stability, rapid economic growth and development, as well as increasing market size, outward orientation and elimination of, or reduction in, protective tendencies, high quality infrastructure, competitive production costs, private sector participation.
The Kenya government therefore recognizes the vital role the telecommunication sector plays in the development of its economy. It currently focuses on ensuring availability and sustainability of an efficient, reliable, affordable and modern telecommunication service throughout the country. (National telecommunication dev. Policy, Malda 1998)

The growing integration of economies and societies around the world has become an important aspect in the new world order representing one of the most influential forces that are determining the future course of the world. Globalization has had significant impact on all economies of the world with major effects on efficiency, productivity and competitiveness, (Gichira C. N., 2007).

The liberalization and privatization of telecommunication industry has brought opportunities and challenges of globalization to telecommunication industry in Kenya.

Various studies have been carried out in this area of globalization; Tilitei A. (2006) looked at Economy and economic Policy making in LDCs, Gichira C. N., (2007), on Airline Industry, Awino M. A. (2007) on Insurance Industry and Mwasho G. C. (2007) on Foreign Commercial banks in Kenya. There is no study that has looked at the effects of globalization in telecommunication industry in Kenya which has been addressed by this study.

This study therefore was to establish the challenges faced by Telecommunication operators in Kenya market that are brought about by globalization and determine their impact and response. It was a case study of Telkom Kenya.
1.3 Objectives of the Study

The objective of the study was to establish the challenges faced by Telkom Kenya that are brought about by globalization and determine their impact and response.

1.4 Importance of the Study

The results of the study will be of benefit to the following:

i) Telecommunication operators. Identification of the challenges and their impact is of benefit to telecommunication firms.

ii) Government and its agencies. This is useful in formulating the policies for the sector

iii) Investors. It helps them understand the challenges facing telecommunication operators in Kenya

iv) Scholars and researchers. This acts as a basis for future research
CHAPTER TWO: LITERATURE REVIEW

2.1.0 Globalization as a Concept

Globalization refers to the process of the intensification of economic, political, social and cultural relations across international boundaries. Hill W. L. (2005) referred it to the shift toward a more integrated and interdependent world economy. It is principally aimed at the transcendental homogenization of political and socio-economic theory across the globe. It is equally aimed at "making global being present worldwide at the world stage or global arena". It deals with the "increasing breakdown of trade barriers and the increasing integration of World market (Fafowora, 1998). In other words, as Ohuabunwa, (1999) once opined: Globalization can be seen as an evolution which is systematically restructuring interactive phases among nations by breaking down barriers in the areas of culture, commerce, communication and several other fields of endeavour.

This is evident from its push of free-market economics, liberal democracy, good governance, gender equality and environmental sustainability among other holistic values for the people of the member states.

The process of globalization is impelled by the series of cumulative and conjunctural crises in the international division of labour and the global distribution of economic and political power; in global finance, in the functioning of national states and in the decline of the Keynesian welfare state and the established social contact between labour and government. In fact, its hallmark of free-market capitalism has been aided among other factors by the sudden though expected changes within the physiology of global political community in recent times.

Globalization can also be defined from the institutional perspective as the spread of capitalism (MacEwan, 1990). However, it is germane to adumbrate that the collapse of the Eastern block in the late 80s and early 90s led to the emergence and ascendancy of a global economy that is primarily structured and governed by the interests of Western behemoth countries, thus, facilitating the integration of most economies into the global
capitalist economy. With the demise of the Eastern Europe in the early 90s, capitalism as an economic system now dominates the globe more than it had been at any time in its history. Even, China, by far the largest non-capitalist economy, has undergone dramatic changes in its international economic policy orientation, and, is today the recipient of almost one-half of all foreign direct investments that go into developing nations - this is a country that essentially blocked all foreign investments until the 1980s (United Nations, 1995). Beyond this simplistic analysis of globalization in terms of capital inflows and trade investment, it is important to state that it has been of disastrous consequences to the governments and people of the African continent.

Globalization is the broadening and deepening linkages of national economies into a worldwide market for goods and services, especially capital. As Tandon (1998) once opined, globalization seeks to remove all national barriers to the free movement of international capital and this process is accelerated and facilitated by the supersonic transformation in information technology. It is principally aimed at the universal homogenization of ideas, cultures, values and even life styles (Ohiorhenuan 1998) as well as, at the deterritorialisation and villagization of the world. Expanding this argument, Gordmier (1998), argued, that it is principally concerned with the expansion of trade over the oceans and airspace, beyond traditional alliances which were restricted by old political spheres of influence. Thus, it presupposes the “making or remaking” of the world (Diagne and Ossebi, 1996) by creating “a basic change in the way in which major actors think and operate across the globe” (Biersterker, 1998). In other words, it connotes “the rapid expansion through giant multinational companies of capitalism and their “blood sapping principles” of “liberalization”, “commercialization”, privatization” and “undemocratic and property-based democratization” to several areas of the world including where it had hitherto been resisted or put in check” (Madunagu, 1999).

Very critical to understanding of globalization is the dire need to use it as a synonym for liberalization and greater openness. The implication of this is that both domestic and foreign liberalization are said to imply globalization, since the former brings domestic markets more in conformity with forces operating in markets abroad, and, the removal of administrative barriers to international movement of goods, services, labour and capital
increases economic interaction among nations. It is within this purview that it can be argued that globalization is mainly a phenomenon of capital mobility. Its two prongs are; Foreign Direct Investment (FDI) and international portfolio flows. Thus, a global economy is one which is dominated by transnational firms and financial institutions, operating independently of national boundaries and domestic economic considerations. The implication of deterritorialisation for African countries is that world goods, factors of production and financial assets would be almost perfect substitutes everywhere in the world. Hence, it could be difficult to identify a national economy and consider nation states as distinct economic identities with autonomous decision making power in the pursuit of national objectives. This, indeed, explains why the IMF issued a query to Nigeria in respect of over 400 billion naira meant for capital expenditure in the 2001 budget, and, why the IMF and World Bank (two bodies that are driving forces of globalization) contributed enormously in the drafting of the Nigeria’s 2001 budget.

Another important feature of globalization is that, it enhances the volume of international trade and investment, which is a reflection of the global pattern of specialization in production (i.e. the international division of labour). Though, there is an increase in the volume of goods among nations, international trade continues to be largely concentrated in developed countries. Central to our discourse is that, globalization is also about international division of labour which might be broadly characterized by the skill intensity of production, with developed countries increasingly specializing in high - skill intensive manufacturing and services and, developing countries in low - skill intensive manufacturing. This asymmetry has severe and devastating impacts on emerging economies since they primarily produce raw materials for industries in the developed countries that, eventually, produce goods and dump them in developing countries as a result of liberalization - a critical component of globalization.

There is no doubt whatsoever that globalization is one of the most challenging developments in the world history.
2.2.0 Globalization and Liberalization of Telecommunication

A set of environmental and firm-level drivers are forcing globalization of telecommunications sector (Madunagu, 1999) that had been state owned either ‘natural’ or ‘regulated’ monopolies. The recent changes towards market economies through policy actions such as lowering tariffs, devaluation of currency, unification of exchange rates and removal of import and export restrictions have brought fundamental institutional changes into the service provision mechanisms. This move towards free-markets through privatization and liberalization has therefore, created an environment for globalization resulting increased global capital movements, trade and information flows and more importantly customers benefiting from a cheaper, higher quality with more choices for information services. It was believed that the market based economy was the most appropriate strategy for achieving rapid, robust and equitable growth (Athukorala & Rajapathirana, 2002).

On the other hand, firms look for ‘efficiency’ and ‘market’ opportunities (Farrell, 2004) in order to face the competition that is emerging due to globalization. They look for three types of advantageous; ownership; internalization; and location. Especially, when they face changing regulatory and market environment domestically, this move has been fast tracked. Sakar et al, (1999) argue that firms reportedly earn up to 30 percent higher rate-of-returns through international markets than to regulated local markets for reasons such as low costs through volume accumulation across country locations and international negotiation of market segments. The interconnect nature of the telecommunications industry makes the owning of adjacent markets profitable as it usually results on a substantial scale of economies in traffic handling, thus enjoying above-normal rates-of-return by increasing capacity utilization of their lines and administrative facilities (Sakar et al., 1999). Similarly, diverse trends such as formation of telecommunications consortium among telecommunications firms, integration of small network players are emerging from firms’ perspective. Therefore, firm-related drivers make MNEs and TNCs to look for foreign country specific advantages and to invest abroad.
The other forces such as global alliances, regionalism and bilateral trade agreements between countries have stimulated the telecommunications industry liberalization. Many of these are state mandated and bound by global international organizations such as World Trade Organization (WTO) and International Telecommunications Union (ITU). There were 2,181 Bilateral Investment Treaties (BITs) and 2,256 Double Taxation Treaties (DTTs) in effect by the end of 2002 almost doubling the number since mid 1990s (WIR, 2003). These movements have supported integration of activities and to act as drivers for increased FDI among nations (Brooks, 2003).

However, currently there is a growing criticism against globalization and liberalization. Many observers question whether it has increased standards of living or broadly reduced poverty. It is also argued that there is little room for host countries to influence MNE’s decisions (Athukorala, 1995).

According to the basic economic theory, growth requires investment and investment requires savings. If a country can increase its savings and investments it can deal with the balance of payment problems through increased exports and hence, there is no need for depending on FDI. If the reverse happens, that country will have to depend on external support, FDI or foreign borrowings alternatively. Many LDCs are in favour of the former. FDI indeed is good for the economic health of developing nations as it improves productivity and output in the sector, raising national income while lowering prices and improving quality and selection for consumers (Farrell, 2004). It also increases opportunities for trade among nations and hence trade and FDI coexist (Brooks et al, 2003). FDI has therefore, become an important catalyst for growth and development in LDCs.

Entry of a MNE into a host country initiates an improvement in efficiency and productivity of the sector by bringing new capital, technology, and management skills and forcing less efficient domestic companies to either improve their operations or exit (Farrell, 2004). It therefore, supports for a healthy economic growth process of LDCs through its spill-over effects largely due to human capital development, technology transfer and increased international trade (Bandi-Nabendi, 1999). Privatization and
liberalization of state monopolies such as telecommunications has created opportunities for MNEs to enter markets in LDCs and it has increased the volume of FDI into these countries during the recent past.

Telecommunications industry privatization in the meantime has been witnessed as the most prevalent corridor for LDCs in bringing record level of much needed FDI into these countries, bringing financial, technical and managerial competence they need facing the challenges associated with globalization. It has also been resulted in low prices better quality and easy access to consumers.

2.2.1 Telecommunications Regulation and Privatization

Traditionally, the state intervention has been necessary to 'guide, correct and supplement' the four types of market failures: the nature of public goods; externalities; natural monopoly behaviour; and imperfect competitive conditions. With regard to privatized utility industries, these issues are handled by industry specific regulators. The notion behind the establishment of such regulators was the belief that a mechanism for 'ensuring efficiency', 'setting standards of service' and for 'exercising financial audits', separated from the operational activities was necessary. Regulators were intended to be independent from political and bureaucratic interventions while creating an effective level playing field for private operators and ensuring social obligations for citizens on behalf of the state. The regulatory regime therefore, is a tool for securing the efficiency while ensuring private sector confidence on markets against monopoly abuses.

The advantages of such a regulatory body are multidimensional: it could ensure fair enforcement of Government policy; hold operators accountable for performance; address consumer issues; monitor changing industry needs; and provide feedback to the policy making units (Jain, 1993). Yet, the effectiveness of these regulatory bodies has been questioned in many LDCs. The known reasons for such deficiencies are: information asymmetry; different industry structures; underdeveloped capital markets; insufficient institutional and regulatory enforcements; and limited capacity of regulators. Further, effective privatization requires political commitment, appropriate institutional frameworks, overall quality of governance, technical assistance from donors,
administrative reorganization, civil service reforms and measures to prevent regulatory capture that are not readily available in these countries, (Johnson, 2003; World Bank, 2005). Hence, it is argued that privatization and regulatory arrangements appropriate to the prevailing economic, social, political, cultural and even legal conditions of LDCs should be developed for each country, considering case by case.

2.3.0 Global Telecommunication Overview

Global telecommunication industry has registered tremendous growth and development over the last decade. Between 1993 and 2003, the global telecommunications services sector has increased by an average of 8.8% per year, with a slightly slower annual rate of 6.1% since the bursting of “dot.com bubble” in 2000 (ITU World Telecommunication Indicators Database and ITU estimates).

The telecommunication services revenues consist of mobile services, the Internet, broadband and data services, and fixed telephone services. Actually, all of the growth in the sector over the last decade has come from mobile services, the Internet, broadband services, and data services.

The mobile sector announced for USD 414 billion revenue in 2003, i.e. a ten fold growth since 1993. By contrast, the fixed-line telephone sector has been sluggish since the mid-1990s and has even declined since 2001. At present, the value of mobile services and non-voice services are greater than traditional fixed-line telephone services. Moreover, the global revenues from mobile services have exceeded those from fixed phone services for the first time in 2004.

By the middle of 2004, there are 1.185 billion fixed-line subscribers and 1.1484 billion mobile pre- and post-paid users in worldwide. And it is counted a total of 699 million Internet customers all over the world. The growth of mobile subscribers is the fastest than the other two technologies. It is more than one in five persons having a mobile phone, while Internet users have kept the steady growth. As growth of mobile subscribers, the number of fixed-line has been impacted seriously by mobile market penetration.
It is well-known that telecommunication industry is a technology and capital intensive industry. It stands an important implication for economic growth, both in developed countries and developing countries.

Access to telecommunication services, for example for telephone subscribers, has kept stable high speed growth all long, and has exceeded global annual growth of GDP from 1980 to 2004. It also indicates that even during the “dot.com bubble” period, the growth rate of telephone subscribers still have kept growing at 12 percent. Although in the turn of this century, global telecommunication industry has taken the recession, and gotten though the most difficult years, operators have already started to make money.

Global telecommunication sectors have been reaping benefit of growth, but compared with the profits of the years before the crash, the current growing rate seems to lack of power. A report from American Boston Consulting Group said: Some unsteady factors maybe causing crash still has existed inside telecom industry. These factors maybe make a huge impact and transform on business model. Such as Broadband and VoIP service are still in the development phase, and have not visualized enough power. The revenue of fixed-line will keep the continuous decline trend. The growth rate of mobile telecom service also has been slowed down. And the landscape of 3G service still can not be ascertained.

Though these factors, the debt has already not been the most vital task of telecom companies any more, whereas development will be the urgent affairs. The development problems faced in future are not cost, but demand. Cost innovation can not solve the demand problem, not cope with those uncertain factors, and not realize future growth.

How to accommodate under new situation? How will telecom companies find the direction of future growth? In the new economy environment, telecom industry not only needs to transform the traditional development mode, but also need to find growth resource in information telecommunication services. In order to solve these problems, global telecom operators has started new exploration from 2004.
Internet has brought huge challenges and opportunities to global telecommunication industry. Forward looking telecommunications companies have already started to explore solutions, which focus on the information communications technologies and services, and have gained remarkable achievements. The telecommunications operators, like British Telecom, Verizon, Deutsch Telecom, NTT and etc, have all determined to progress strategic transformation for revenue growth. In this sub-section, British Telecom Group and France Telecom are as examples to analysis the progresses of transformation worldwide.

2.3.1 Competitive Challenges for Telecommunication Companies

Competition in the telecommunication sector has allowed users to choose between services and service providers. Competition is either for control of new markets or means facing new competitors in old markets.

The most significant competitive challenges which telecommunication companies face in Kenya and world over include:

i) The speed of technical change

One of the most powerful drivers of change is convergence between telecommunications, computer, broadcasting and information technologies in order to create greater scope for value-added and integrated telecommunication services. This has generated a need for open, global networks that are able simultaneously to transmit voice, images and data to multi-purpose terminal equipment. By way of example, a pair of optic fibres can transmit data at a speed of 1.6 billion bytes per second, as compared with the 23 000 lines needed to send the same quantity of data via the conventional telephone.

Similarly, a small electronic slice the size of a fingernail can store the entire texts of several tens of books.

ii) Falling revenue

This is the natural result of a steady decline in accounting and settlement rates brought about by the presence of competitors that make use of modern technology and cost
accounting methods to be able to offer the same service at a lower price, thereby drawing in customers (revenue generators) and eating into the profits of the dominant company. The latter is unable to match the competitor in terms of service quality, costs and price, and is thus forced out of the telecommunication market.

iii) Supplying modern services at the right time and place

The telecommunication environment sees new opportunities opening up each day, both in terms of new services and the evolving needs of users. Therefore telecommunication companies have to keep up with the rapid pace of change in new services and with the huge costs that this entails.

2.3.2 Strategies for dealing with Competitive Challenges

Since the threat of competition has now become an ineluctable fact of life in an era of globalization and international trade liberalization, and since the telecommunication market is considered one of the most active and dynamic markets, given the speed of technological development, telecommunication companies are being forced to formulate targeted strategies aimed at dealing with competitive challenges and addressing contemporary needs in a sustainable manner. Competition dictates specific courses of action. One can either take the liberalization route, opening up the domestic market to competition from Foreign Service providers, including operators. Liberalization attracts inflows of foreign capital and of requisite know-how.

The other option is to transfer ownership of government-owned institutions either wholly or in part to the private sector.

i) Regulation

One of a government's most important tasks when privatizing any type of business activity is to ensure effective monitoring of a market open to competition through legislation and regulation. Monitoring can have adverse consequences, however, where unmonitored competition is also present. At the same time, accurate statistical data
concerning all of the market's requirements must be available to guarantee fair competition between all market players.

Regulatory policies must be formulated in a consistent manner and solutions found to the many complex issues that arise in connection with international telecommunications, operator licenses, the numbering system, price monitoring procedures, and new services legislation.

ii) Restructuring of the telecommunication sector

Restructuring of the telecommunication sector means introducing sector regulation and defining the roles of government and operators as well as the share to be set aside for foreign investment, before opening up the market to competition. One has to determine the status of the companies concerned, i.e. whether they will be private or semi-private enterprises (semi-private companies leave scope for government intervention, which can curtail many of a company's activities and undermine its competitive position).

Telecommunication markets can be opened up to competition in stages. First, one defines a transitional period during which the necessary legislation is enacted for the regulation of the sector. The telecommunication equipment market can then be opened up, followed by the mobile and Internet markets, and so on.

iii) Price cutting strategies

Price cuts attract new customers who would not have bought the service had the price not been reduced. Lower prices can also lure customers away from the dominant company, although, unless production costs are proportionately lower, this strategy can mean smaller profit margins for the new provider compared with those earned by the other market operators.

iv) Strategy for improving service and customer satisfaction

Companies can compete by innovating in the market. An innovation can either be something completely new or an improvement on something that already exists. An
example of the latter is offering a more advanced version of an existing service. The improved service can directly compete with the existing service or may carve out its own niche in the existing market, appealing to new customers who are not the main target of the existing service.

Attention must be paid to such concepts as total quality and to upgrading operational and technical performance, an area which is one of the best indicators of weakness in a telecommunication administration.

It is also important to form a close relationship with the customer and to make systematic use of mutual feedback to define and resolve customer problems. Special services should also be offered to particular categories of customer, such as persons with special needs (disabled persons), since these types of service also affect customer loyalty among other categories.

v) Marketing strategy

Experience throughout the world has shown that a company with a leadership position in a particular market has precedence in and is more likely to retain a market segment than new entrants. However, new entrants can succeed, if they adopt specific marketing strategies. Dominant companies often suffer from arrogance and complacency or may get into a situation where they cannot supply the growing and changing needs of the market by mere dint of having achieved a stable market position. This situation offers fertile terrain for companies that are new to market and are able to exploit the gaps in the services which dominant companies offer.

Thus, before engaging in competition, one has to devise good marketing strategies as per the following:

a) Identify the competitors, analyse their products and product quality as well as their pricing strategies and target markets, and identify their strengths and weaknesses. This will help the company to formulate an optimum marketing strategy.
b) Orientate existing services towards new geographical markets, looking for more profitable markets.

c) Develop the new distribution channels which companies need to gain access to new markets or better penetrate existing markets, using advertising and public information or opening up a direct marketing channel to collect customer orders via television, fax or the Internet.

d) In addition to choosing an appropriate marketing strategy, it is also essential to determine the timing of the introduction of a service, a principle that applies in particular to high technology services which generally have a short shelf life and where it is difficult for a service provider coming late to market to catch up with its competitors and make a reasonable profit.

vi) Human resources training

In dealing with developments in telecommunications, attention must be paid to training and re-training of personnel. A philosophy of self-directed learning must be introduced together with a policy of staff incentives. Bonds must be formed between staff and the company and corporate concepts, philosophy, culture and policy inculcated. Social relationships between members of staff must be created and strengthened.

Merge companies with limited resources to enable them to fend off competition from large companies.

2.5.0 Forces of Globalization

According to Harvey and Novicevic (2002), various factors that drive increasing globalization can be grouped under four broad categories; Macro-economic factors, Political factors, Technological factors, and Organizational factors.

Macro-economic factors include, for example, an acceleration of technology transfer among countries and a rapid increase in populations in emerging economies. Political factors refer to privatization, deregulation and trade liberalization of many nations in
favor of free flows of trade and investments. Technological forces such as advance development in communication and transportation technologies, which promote growth in international business transactions, are also key drivers of rapid globalization.

Organizations such as multinational enterprises are another major agent of this process. Shifting organizational strategic attention towards a more global mindset is an example of organizational forces of globalization. Consequently, these forces have inevitably caused changes in the global marketplace. Such changes can be viewed as effects of globalization, which ultimately have impact on firms.

2.6.0 Effects of Globalization

Technological development related to the information society and the conversions of technology most notably, in computer and telecommunication, have also reduced the time and space dimension of international transactions. Investment liberalisation, which has been taking place in many countries, has also contributed to the inter penetration of national markets. Thus globalisation has emerged. There are two main effects of globalisation which are important in the context of economic development.

The first effect, globalisation allows countries, which could not survive economically in a world of protectionism to overcome the disadvantages associated with small size and low levels of development. Indeed what globalisation does is to change the geographical dimension of economic markets. Thanks to globalisation, firms in small developing economies are not constrained anymore by the small size of their domestic market or their territory and if productivity is related to size of the market, as it seems to be in many sectors. This means that firms in small developing economies can hope to become very productive even in the presence of a limited or a weak domestic domain.

Economies, which were not viable in a world of protectionism, become viable. This is of particular interest, of course, to small developing economies. The only hope for those
countries to survive is to be in a world of international trade, where, in spite of their small size, they can hope to access fine markets and therefore benefit from the economies of scale and scope, which are conducive to productivity. Hence trade liberalisation is a necessary condition for the exercise of the political sovereignty of small developing nations, which explains, by the way, why developing countries have been so interested and forceful in trying to obtain market-opening measures from developed countries.

Now this is the good news of globalisation I would say. The bad news, however, is that if trade liberalisation is a necessary condition for economic development, it is not a sufficient condition. Indeed trade liberalisation has a perverse effect of widening the gap between the relevant economic markets, which expand rapidly, and the territorially limited area of jurisdiction of national competition authorities. As a result a firm from Country A can engage in anti-competitive activity or transactions in Country B without the authority of Country B having the means to detect or punish such practices.

Since the 1980s, dramatic changes have occurred in the international and global market place. Liberalization of world trade and capital markets led by globalization has created a new and challenging competitive arena for all firms. With the trend towards more interdependence among nations, several changes in the business environment have emerged. There has been an emergence of global markets for goods, services, labor and financial capital. Consumers' demands around the world have converged, (Levitt, 1983). Increasing trade and investment liberalization evoked by advances in transportation and communication technologies has resulted in larger volumes of international business transactions.

These aforementioned trends have brought about two key effects of globalization; global market opportunities and global market threats. It is obvious that globalization not only presents more opportunities to firms, but also higher levels of threats. While opportunities can arise from globalization, competition and uncertainty are inevitable.
As the price of information falls access to knowledge is increasing. The globalization of communication is permitting the globalization of higher education. Many countries in the less developed world perceive danger in this globalization.

Globalization is an interesting phenomenon since it is obvious that the world has been going through this process of change towards increasing economic, financial, social, cultural, political, market, and environmental interdependence among nations. Virtually, everyone is affected by this process. Given these changes, globalization brings about a borderless world. Globalization drives people to change their ways of living, prompts firms to change their ways of conducting business and spurs nations to establish new national policies. Events transpiring in different parts of the world now have dramatic consequences to other parts of the world at a faster pace than anyone could imagine in the past.

On the positive side, globalization enables firms to outsource and find customers around the world, e.g., the auto and electronics industries. The globalization of production and operations benefits firms through the realization of economies of scales and scope thus changing the way we conduct business.

Although globalization is a worldwide phenomenon, the extent to which each country is globalized is not identical. To measure the degree of globalization of each nation, a globalization index was recently developed by cooperation between Foreign Policy Magazine, AT Kearney and EDS Company (Foreign Policy, 2001, 2003). The index indicates that some small developing countries in emerging economies such as Singapore and Malaysia were among the top twenty most globalized nations from 2001 to 2004 with Singapore being ranked as the most globalized nation in 2001 (AT Kearney, 2002). Thus, it is clear that globalization is an important phenomenon, one that cannot be simply ignored, because every nation—regardless of size or level of development—is globalized and affected by globalization. With the prevalence of this worldwide phenomenon, it is not surprising that businesses are inevitably affected. The effects of globalization are classified into two broad categories. They are global market opportunities and global market threats.
The two major effects are the most apparent and immediate effects of globalization. Global market opportunities refer to the increases in market potential, trade and investment potential and resource accessibility (Levitt, 1983), while global market threats refer to the increases in the number and level of competition, and the level of uncertainty.

**Impact of Globalization on Telecommunication**

As in other sectors impact of globalisation on the telecom sector will;

Lead to competition amongst investors, suppliers, which hopefully will result in reduction of prices,

Make the latest technology, expertise and know-how available,

Perhaps make the fragile developing economies vulnerable to the onslaught of external competition.

Globalization is a process which dispenses with national borders. With the growing pace of telecommunication service and network universalization and competition between new international groupings within the context of telecommunications and the World Trade Organization's General Agreement on Tariffs and Trade (GATT), the relationship between regional borders and telecommunications is steadily being eroded, so that it will be very difficult in the future to distinguish between the international and domestic telecommunication policies of any given State. This means that service provision will no longer be a function of the service provider's circumstances, but rather of the existence of a market for the particular service in question.

Globalization will inevitably lead to competition between companies and organizations operating in the telecommunication services sector.

2.7.0 Responses by Firms to Globalization

Due to the emergence of global market opportunities and global market threats, firms have been forced to respond quickly to these effects. Unlike other environmental changes, the effects of globalization are far more pervasive— affecting every individual, business, industry, and country. The environment surrounding business today is characterized as a “hypercompetitive” environment—a faster and more aggressive competitive environment. Major forms of business restructuring in response to the
dramatic changes brought by globalization include, for example, investments in new technologies, downsizing and reengineering, the formation of strategic alliances and networks, and a shift from international and multinational to global and transnational strategies (Jones, 2002). Among these various forms of business restructuring designed to manage globalization effects, alliance formation is considered the most remarkable business trend of the past decades.

Since globalization makes alliances an integral part of a firm’s strategy to better satisfy customers and to achieve sustainable competitive advantage, the proliferation of alliances in recent years is not surprising. It has become difficult for firms to stay competitive in this era without allying with other firms. Moreover, to achieve superior marketing performance in the present business environment, firms need to manage relationships with partners, customers, and different parties in the value chain. As a result, there has been an increasing trend towards more cooperation among firms, both vertically and horizontally. Such inter-firm cooperation is especially important for firms to compete in the global marketplace. In order for firms to succeed in international markets, they need cooperate with other firms and/or governmental agencies.

According to Gichira (2007), Local and international firms operating in Kenya have adopted the following generic strategies in the face of globalization;

a) Business Process Outsourcing (BPO)

Kenyan companies have however not made any serious entry into the BPO market. This particular market presents the industry of the future for third world countries. Siemens, for example, announced that it is moving 2,000 jobs to Hungary. The Internet had made it very easy to export jobs. Cases of American hospitals that send X-rays to India for analysis by Indian doctors are now common. A study of American companies concluded that they had created 2.8 million jobs abroad against 5.5 million jobs in the US in the last 10 years. Going by these figures, there is urgent need to consider what this segment offers and then take advantage. It is an opportunity that globalization presents for Kenyan companies.
b) Business Process Re-engineering

Business Process Re-engineering is done to eliminate wastage and improve on efficiency in production by paying attention to the internal structures and systems. A number of firms have undertaken this process in order to be in a better position to face the global competition. Leading firms are investing the latest affordable information technology in manufacturing; KBL has implemented computerized bottling system while BAT has introduced its intelligent packaging system. Kenya Airways has also undertaken automation of business processes to enhance efficiency.

c) Strategic Alliances; Mergers and Acquisitions

Doz & Hamel, (1998) note that strategic partnerships have become central to competitive success in fast changing global markets. They are logical and timely response to intense and rapid economic activity, technology and globalization.

To ensure profitability, survival and growth, some local firms opted to enter into alliances with foreign firms in order to face the challenges of competition and changing market demands. Examples include the former milling giant and perennial loss maker; Unga Group Limited and Seaboard Corporation of Kansas U.S.A. Kenya Airways entered into a strategic alliance with KLM, Royal Dutch Airlines so as to pool competencies and function as a larger and more forceful entity thereby enjoying a larger network and management expertise. These are necessary for survival in the global airline industry. Kenya Airways in their website www.kenya-airways.com have clearly affirmed that international airline traffic has expanded in recent years, and a new development has swept the industry – extensive cooperation among international carriers in the provision of service. Alliances ease passenger connections between the carriers. Airlines seem to be taking a collaborative approach rather than competitive strategy in dealing with effects of globalization in their industry.

d) Relocation of businesses

Liberalization has brought about stiff competition and price wars. Firms that have been unable to cope have opted to relocate some operations to countries where factors of production can give them a competitive advantage. Proctor and Gamble, Johnson &
Johnson shifted their manufacturing operations from Kenya to Egypt where costs are said to be over 50% lower. With globalization, a firm's manufacturing plant can be in one continent, while the marketing division is in another continent and Research and Development is in yet another country or continent thereby tapping optimum global resource necessary to lower operational costs.

e) Diversification of product portfolio

As a result of globalization, local firms have been forced to diversify their product portfolio to cope with competition, maintain market share, enter into new markets and seal off any unexplored market segments that foreign competitors may come to exploit. e.g., Brookside Dairy started with milk production in tetra packs eventually adding Yoghurt and flavored milk to their range. In the oil industry, services stations have moved beyond having the filling station fore courts and now have restaurants, ATM services and convenience stores.

f) Research and development

Globalization has caused firms to invest heavily in R&D so as to come up with world-class competitive products and services. A good example is the pharmaceutical industry where there's pressure to come up with better drugs before competitors come in to fulfill the need. A local; Cosmos Pharmaceuticals has started the manufacture of generic ARVs for AIDS patients. This is in anticipation of the entry of Indian bases generic drug manufacturers.

g) Closures and liquidations

As a result of liberalization many firms in Kenya collapsed due to the stiff competition posed by the entry of foreign firm e.g. Kisumu Cotton Mills (KICOMI), Rift Valley Textiles, (RIVATEX) and Mount Kenya Textiles (MOUNTEX) all went under as a result of their inability to anticipate, plan for and respond to liberalization and globalization. The entry of the global trade in used clothing (mitumba) sent these companies to their graves. The firms had no time to readjust their operation and structure to face competition in a liberalized and global environment.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This was a case study. A case study is suitable because it allows for an in-depth exploration, exhaustive gathering of information and analysis of the topic that is being studied.

The objective of the case study was to establish the challenges brought about by globalization, their impact and response by telkom Kenya Limited.

3.2 Data collection

The data that was used in this study was both primary and secondary. Primary data was obtained by interviewing the senior managers of Telkom Kenya. All 28 Senior Managers from the following key departments were interviewed; Strategy, Commercial, Marketing, Technical and Regions were targeted for the interview. This was carried out using questionnaires that consisted of both structured and unstructured questions. Some of the questionnaires were sent to the interviewees by mail while others were conducted by giving hard copy questionnaires to the interviewees and were later collected. The questionnaires which were dispatched through e-mail were completed and returned back through e-mail. All the questionnaires were therefore edited and checked for accuracy.

Secondary data was obtained from various sources. These included records that were already available at Telkom Kenya, from the Communications Commission of Kenya (CCK) and government departments among other sources. The researcher carried out the interview by administering questionnaires and interviewing the managers.
3.3 Data Analysis

After collection of both primary and secondary data, the same was summarized and analyzed according to the theme of study which was to establish the challenges and determine the impact and response of globalization to telecommunication operators in Kenya.
CHAPTER FOUR - DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter covers data analysis and interpretation of the research findings. The objective of the study was to establish the challenges faced by Telecommunication operators in Kenya that are brought about by globalization and determine their impact and the response by the company. It was a case study of Telkom Kenya limited.

The target population was all the 28 senior managers in the following departments of the company; Strategy, Commercial, Marketing, Finance and Technical. Given that the population was small, a census research design was used. The number of respondents interviewed were 18 representing a response rate of over 64 %. The study did not achieve a very high response rate because some of the respondents felt the information they were required to give was highly proprietary, while others were not available when the questionnaires was administered due to commitments related to their nature of duties.

All respondents stated they were aware of globalization.

Among them, 60% have worked in telecommunications sector for between 10 years and 20 years, 20% each for both over 5 and over 20 years while none had worked for less than 5 years.
The respondents were required to describe globalization in relation to the company’s survival and growth. Majority (89%) stated globalization is good for business, while a few (11%) thought it is a threat. It was worth noting that none of the respondents described globalization as irrelevant to business. All were certain that globalization has had an impact on business practices.

4.2. Factors that have contributed to company’s success

The respondents were required to give their opinion of factors that have contributed to success of Telkom Kenya in the last decade. The respondents identified the customer
loyalty, strong products and skilled dedicated staff as the leading factors. Monopoly, government support and countrywide infrastructure were also stated as strong factors.

The others are; value added services, strong brands, pricing, honest and dedicated staff, and visionary management.

4.3.1 External changes that have affected the company

Respondents identified the following external changes;

- Competition
- Rapid technological development
- Liberalization of telecommunication sector
- Globalization
- Regulation of the sector by Communications Commission of Kenya and change of government policies
- Growth of mobile telephony
- Privatization of the industry
- High cost and scarce frequency resources
- Economic, Political, Social-Cultural
- Tastes and preferences
- Mergers and acquisitions

Liberalization of telecommunication sector, change in technology and competition were identified by many of the respondents.
4.3.2 Globalization challenges facing the company

Majority of the respondents identified change in technology and competition from other solution providers as the most critical challenges. Others were indicated as:

- Quality of service
- Falling revenues
- Loss of market share
- Copper vandalism
- Financial requirements
- Employee turnover
- Increased customer awareness
- Standardization of products
- Declining customers
- Low staff morale and
- Liberalization
The majority of respondents as per the above bar graph representation indicated Telkom Kenya has responded very competitive, and none indicated a fairly competitive level.

Those who indicated a very well response believe the company is addressing the challenges.

4.3.3 Telkom Kenya’s response to identified globalization challenges

Respondents stated that Telkom Kenya has made quite a number of positive adjustments in order to address the identified challenges. Some of these responses include:

- Embracing new technology by introducing 3rd Generation-CDMA technology and enhancing its broadband services
- Retrenchment of its workforce and outsourcing of some of its services
- Entering into joint venture partnership with French Telecom which is aimed at offering world class services on its global brand.

- Introducing new products in the market specifically GSM services and value added services.

- Automation of its services and re-engineering of its processes to enhance efficiency.

- Customer focus

- Tariff restructuring

- Modernizing its infrastructure

- Increasing productive resources

- Motivating staff

- Community policing

4.3.4 Challenges the company has not responded to and solutions

71.8% of the respondents responded in the affirmative stating that staff morale and motivation, modernization of the network and loss of staff to competition and lack of retention strategy are challenges that have not been addressed. 28.5% of the respondents said that TKL had adequately addressed all the challenges.
The company has responded fairly well to the challenges according to the majority respondents.

4.3.5 Effects of competition on the company’s marketing strategy

Respondents believe the company has become customer focused and has increased its marketing budget and thus has improved its marketing strategies. They also believe the company is now dynamic and flexible to cope with competitive market environment and it is now redefining its marketing scope. Its introduction of new products and services in the market are therefore geared towards meeting its customer needs.
According to 20% of the respondents, the company utilizes technology as a competitive tool to a large extent, with a similar percentage thinking it is averagely. Another 28% indicated it has does not while minority (16%) thinks technology is a good competitive tool.
4.4 Joint Venture partnerships and benefits

The respondents were asked to give the benefits that Telkom Kenya aims to achieve from its Joint venture with France Telecom which is a global telecommunications operator.

The respondents gave the following benefits;

i) Financial muscle and access to low cost funding

ii) Technical expertise to re-engineer and turn round the company

iii) Increased investment

iv) More products and services

v) Modern technology

vi) High profitability

vii) Competitiveness

viii) Lean management structure

ix) Bigger market and global presence and brand

x) New marketing strategies

The benefits will create customer confidence in the company’s products and services in terms of quality. This therefore enhances its competitiveness and image.
4.5 Globalization effects to the company

The respondents gave the following positive effects;

Majority of the respondents indicated globalization has enhanced the quality of services and technology. It has also resulted to increased competition and more products and services. It has also resulted in reduction of equipment costs and enrichment of its staff skills. Others are; customer focus, reduction of OPEX, increased revenue, expanded network coverage, strategic partnership, new opportunities, increased vandalism, increased market, less labour intensive

The negative effects were indicated as; increased competition, reduced revenue hence eroded profitability, reduced market share, retrenchment and increased fraud.

Figure 5: Changes that have taken place in the last ten years

In the last ten years, the company has increased its products portfolio, improved the use of modern technology and use of electronic processes.
The respondents gave an average rating of the telecommunication industry over the last ten years with majority indicating a range from slightly improved to improved. A few indicated it has improved much while a similar number indicated it has worsened.

4.6 **Company’s strategy for its current market**

Majority of the respondents think profitability, growth, market share, and competitive position is most important while survival is considered important.

4.7 **Use of integrated management system**

The respondents were divided on use of integrated management system with both halves indicating usage and non usage.
4.8 Effects of Globalization in Telecommunication Industry

The respondents identified access to competitive products, evolution of technology and advancement in ICT as some of the effects of globalization to telecom sector. Others are loss of employment, repatriation of profit, increased regulation of the market and obsolescence of services.

4.9 Other responses employed by the company in regard to changes in telecom industry

The following are the strategies that the company has employed; restructuring, retrenchment, joint venture, technology improvement, outsourcing and divestiture.

Figure 7: Future of Telkom Kenya in a global World

Majority of the respondents stated that Telkom future as a global operator is bright, some think it is a major player and will be strong while a few think it is unknown, wonderful
and among the top performing operators, while is a globally competitive organization and globalization presents massive opportunities for her growth and expansion only if she maintains the current trend of prompt response to the challenges that come with it.
CHAPTER FIVE - RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

From the analysis and data collected the following discussions, conclusions and recommendations were made. The response was based on the objectives of the study which was to establish challenges faced by Telkom Kenya that are brought about by globalization and determine their impact and response.

5.2 Discussions

The response rate was good at 64% of the targeted respondents.

From the study, the researcher established that globalization in relation to a company’s survival and growth was found to be good for business by the majority of respondents. It was also found that Telkom Kenya’s business/operating environment in relation to globalization was very stable as the company continuously improves its competitiveness by introducing new products and services, embracing the latest technology and its strategic joint venture partnership with French Telecom which is one of the leading global telecommunications operators.

The researcher identified the three major challenges of globalization as:

- Competition from other solution providers
- Change in technology
Telkom has responded to these challenges through, improvement on quality of service in line with customer expectations, entering into joint venture with French Telecom.

The company has also started undertaking rehabilitation of its network infrastructure to enhance its capacity to provide high quality and reliable services to exceed its customers' expectation.

The benefits that the company aims to achieve from the Joint Venture partnership are; global products and brands, financial capacity and access to low cost funds to modernize its network and roll out of new products to the market. With the partners experience in the global market place the company stands to gain experience and access to expertise to turn round the company, provide new solutions and value added services.

The research found out that the factors that have contributed to Telkom Kenya's success in the last decade have been customer loyalty, strong product portfolio, dedicated and experienced staff, countrywide infrastructure and ever increasing demand for telecommunication services and adoption of new technology.

The level of competition faced by Telkom Kenya was found to be very competitive. However, the company has put in place strategies to address these. The launch of its mobile services along with the re-launch of its broadband offering and its third generation CDMA technology expansion all geared to increasing the company's market share and customer satisfaction.
5.3 Conclusion

Telkom Kenya is facing a lot of challenges associated with globalization. The company has however managed to stay ahead of these challenges through prompt response and quick technological adaptations that offer her cutting edge competitiveness in the global marketplace.

5.4 Recommendations

Telkom Kenya should always have strategies to promptly response to challenges facing it so as to remain relevant in business and competitive in the global arena.
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The Borderless World: Power and Strategy in the Interlinked Economy.


TO WHOM IT MAY CONCERN

The bearer of this letter, CHEBETT JACk V

Registration No: D61/918476/2004

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM
QUESTIONARE

Section A:
1. a) Name of the respondent ................................................................. (Optional)

b) Name of your department.................................................................

c) How long have you served in the telecommunication industry?
   Below 5 years ( ) Over 5 years ( )
   Over 20 years ( ) between 10 to 20 years ( )

2. Are you aware of globalization? Yes ( ) No ( )

3. How would you describe globalization in relationship to a company’s growth and survival? Indicate by ticking your choice
   a) Good to business ( )
   b) Threat to business ( )
   c) Irrelevant to business ( )

Section B:
4. In your opinion, what factors have contributed to Telkom Kenya’s success in the last decade? Briefly explain each factor.
   ..................................................................................................................
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5. What external changes have taken place in the last decades that have affected Telkom Kenya as an operator?
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6. Briefly explain how each has affected Telkom Kenya

7. What are the major challenges facing TKL due to globalization? Rank them from the most critical.

8. How would you describe the level of competition faced by TKL from local and international companies?
   a) Very competitive ( )
   b) Competitive ( )
   c) Fairly competitive ( )

9. How has the competition affected TKL marketing strategy?

10. Please explain in detail how TKL has responded to challenges in (7) above
11. Are there some challenges that TKL has not responded to?

12. If so why, and what is TKL intending to do in future about these challenges? What additional views would you like to give that may contribute to the improvement in responding to globalization challenges in Kenya’s telecommunication sector?

13. In your view, how well has TKL responded to the challenges?
   i) Very well ( )
   ii) Fairly well ( )
   iii) Poor ( )

14. Do what extend does TKL utilize technology as a competitive tool?

Section C:
15. Recently, Telkom Kenya was privatized and it is now a joint venture between France Telecom (51%) and Kenya government (49%). How will Telkom benefit from the joint venture?
16. Indicate (✓) the changes (if any), that have taken place in the last ten years in terms of the following?

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<th></th>
<th>Increased</th>
<th>Unchanged</th>
<th>Decreased</th>
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<td>i)</td>
<td>Products</td>
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<td>iii)</td>
<td>Use of modern technology</td>
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<td>iv)</td>
<td>Use of electronic processes</td>
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<td>v)</td>
<td>Others (please specify)</td>
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17. Do you have an integrated management system? Yes [ ] No [ ]

18. What can you say about the following in telecommunication in the last ten years? Rate them on a scale of 1 to 5 as shown below.

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<tr>
<th></th>
<th>No change</th>
<th>Worsened</th>
<th>Slightly improved</th>
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<th>Much Improved</th>
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<td>Reliability</td>
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<td>Frauds</td>
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<td>Security of infrastructure</td>
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<td>Profit margins</td>
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<td>Competition</td>
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<td>Liberalization</td>
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<td>Operation costs</td>
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<td>Government taxes</td>
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<td>Customer needs</td>
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<td>Competition within the industry</td>
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19. State ways in which the company has been affected by global changes in the last ten years?

Positive effects
i) ............................................................................................................................................................................................................................... 
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Negative effects
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20. To what extent can you attribute the following changes/adjustments made by the company (if any) in the last ten years to global changes? Please give a ranking ticking (V) from 1=Not at all to 5=To a very great extent

a) Service

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<th>5 To a very great extent</th>
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<tr>
<td>i) Improved service level</td>
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<td>ii) Introduction of new services</td>
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<td>iii) Introduction new and unique services</td>
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<td>iv) Global benchmark on quality of service</td>
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<td>iii) Reduction of customer complaints</td>
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<td>iv) Rationalization</td>
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<td>v) Others (specify)</td>
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### b) Marketing and Promotion

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<td>i) Increased advertising expenditure</td>
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<td>ii) Event sponsorship</td>
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<td>iii) Sales promotion</td>
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<td>iv) Niche marketing</td>
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<td>v) Developed global brands</td>
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<td>vi) Use of global marketing &amp; themes</td>
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<td>vii) Emphasis on brand name for marketing</td>
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<td>viii) Advertise through internet</td>
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<td>ix) Other (specify)</td>
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### c) Pricing

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<td>i) Price reduction</td>
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<td>ii) Price increase</td>
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<td>iii) Discriminatory pricing</td>
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<td>iv) Matching competitors prices</td>
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<td>v) Others (Please specify)</td>
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### d) Technology

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<td>i) Use electronic processes</td>
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<td>ii) Introduced internet advertising</td>
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<td>iii) Have website</td>
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<td>iv) Use videoconference</td>
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<td>iv) Use CRM system</td>
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<td>iv) Introduced 3G technology</td>
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<td>iv) Other (please specify)</td>
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e) **Cost Structure**

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<td>i) Capital investment in technology</td>
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<td>ii) Input sourcing</td>
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<td>iii) Cost control/cutting</td>
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<td>iv) Diversification of business options</td>
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<td>iv) Divestiture from of business operations</td>
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<td>iv) Seeking cheaper credit globally</td>
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<td>iv) Other (please specify)</td>
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f) **Market research Activities**

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<td>i) Research customer needs/satisfaction</td>
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<td>ii) Research on competitor strategies</td>
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<td>iii) Training &amp; development programs</td>
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<td>iv) Hiring of experts/consultants</td>
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<td>v) Increase on strategic planning costs</td>
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<td>vi) Cross-Cultural training</td>
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<td>vii) Employees speaking several languages</td>
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<td>viii) Other (specify)</td>
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21. Indicate any other responses that you have employed in regard to changes in telecommunication industry?

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Restructuring
Retrenchment
Joint ventures
Legislation
Improved technology
Outsourcing
Divesture

Any other response (please specify)
22. Which of the following is the most likely strategy regarding your area of market? Please use the following scale.

<table>
<thead>
<tr>
<th>Least important</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 Most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Survival</td>
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<tr>
<td>ii) Growth</td>
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<td>iii) Profitability</td>
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<td>iv) Market share</td>
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<td>v) Competitive position</td>
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</table>

23. Please highlight any other issues regarding the effects of global challenges in telecommunication industry in Kenya?

24. What are the challenges in order of importance facing Telkom Kenya after liberalization of telecommunication industry/sector?

25. Can you explain in details how the company has responded to the challenges identified?
26. What factors have hindered the efforts in responding to the challenges in telecommunication sector/industry?

27. How do you assess the responses by the company?

28. What in your view is the future of TKL as an operator in a global environment?

29. Please give any other comments that you deem useful for this research.

You have successfully completed the questionnaire. Your response and time is invaluable.

Thanks for your kind assistance