APPLICATION OF INNOVATION IN DEVELOPING STRATEGY AT SAFARICOM LIMITED

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

OCTOBER 2009

DECLARATION

This management research project is my original work and has not been presented for a degree in any other University.

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

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To my wife Christine Miano Gathara and my son Clyde Mwarangu Gathara for giving the zeal, strength to complete this project and my parents Mr. And Mrs Gathara for standing besides me during this entire study period.

ACKNOWLEDGEMENT

I acknowledge all those who gave me their support during the time I was carrying out this study.

I also acknowledge the entire staff at Safaricom Limited for taking time out of their busy schedule to give me the information that I needed. Without their support, I would not have reached this far.

I also acknowledge the Almighty God for giving me the opportunity to breathe every day and the strength to continue with my endeavors.

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ABSTRACT

Most research continually advocates that evaluation is a necessary process to establish whether innovation has been effective in meeting individual and organizational priorities. This enables judgments to be made, about cost effectiveness and to aid organizational learning and improvement. Despite innovation absorbing real and substantial costs, and considering Beddowes (1994) conclusion that the clarity of organizational objectives in terms of innovation has led to an increased emphasis on the evaluation of return on investment, Doyle (1994) observes that systematic evaluation rarely occurs within organisations. The objective of this study was to determine the application of innovition strategy by Safaricom Ltd.

This research was conducted through a case study. Primary data was collected from the heads of departments of the company, selected from various departments this being corporate strategy, human resources, regulatory, and business development, sales and marketing department. The data collected which is qualitative in nature, was analyzed using conceptual content analysis which was best suited method of analysis.

From the findings, the study found that Safaricom limited has adopted some innovation strategies. These innovation strategies were on financial, organizational structure, technology, customer care, products and human resource. The company has also used generic competitive strategies to gain the innovative advantage. These strategies were divided into cost strategies, differentiation strategies and market focus. The findings of the study show that there are several challenges that are facing the firm and the company has put up various innovation strategies to counter the waves especially those posed by competition in the industry. The study recommends that managers be on the look out for any possible factor that has an implication on the operations of the business and respond appropriately.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In an era of globalisation, deregulation, increasing competition, new technologies and e-commerce, organisations are finding it harder to compete. In this dynamic and changing environment, one way to create growth and sustain performance is to innovate (Higgins, 1996; Kay, 1993; Patel, 1999). Furthermore, it has been suggested that innovation is essential in order to generate long-term stability, growth, shareholder returns, sustainable performance and remain at the leading edge of the organisation's industry (Cook, 1998; Davis and Moe, 1997; Doyle, 1999). One way to achieve growth and sustain performance is to foster and encourage creativity and innovative practices internally within the organisation. Naturally, there must be a commitment from senior management to facilitate this kind of innovative working environment (Ahmed and Abdalla, 1999).

Mckeown, (2008) refers innovation to as both radical and incremental changes in thinking, things, and processes or in services. In many fields, something new must be substantially different to be innovative, not an insignificant change, e.g., in the arts, economics, business and government policy. In economics, the change must increase value, customer value, or producer value. The goal of innovation is positive change, to make someone or something better. Innovation leading to increased productivity is the fundamental source of increasing wealth in an economy.

Luecke and Katz (2003) gave a convenient definition of innovation from an organizational perspective. Innovation is generally understood as the successful introduction of a new thing or method. Innovation is the embodiment, combination, or synthesis of knowledge in original, relevant, valued new products, processes, or services''.

Innovation typically involves creativity, but is not identical to it: innovation involves acting on the creative ideas to make some specific and tangible difference in the domain in which the innovation occurs. For example, Chesbrough and Henry William (2003) proposes:"All

innovation begins with creative ideas. We define innovation as the successful implementation of creative ideas within an organization. In this view, creativity by individuals and teams is a starting point for innovation; the first is necessary but not sufficient condition for the second".

For innovation to occur, something more than the generation of a creative idea or insight is required. The insight must be put into action to make a genuine difference, resulting for example in new or altered business processes within the organization, or changes in the products and services provided. A further characterization of innovation is as an organizational or management process. For example, Davila et al (2006) wrote:"Innovation, like many business functions, is a management process that requires specific tools, rules, and discipline."

From this point of view the emphasis is moved from the introduction of specific novel and useful ideas to the general organizational processes and procedures for generating, considering, and acting on such insights leading to significant organizational improvements in terms of improved or new business products, services, or internal processes.

Through these varieties of viewpoints, creativity is typically seen as the basis for innovation, and innovation as the successful implementation of creative ideas within an organization. Thus, individuals may display creativity, but innovation occurs in the organizational context only. It should be noted, however, that many use the term 'innovation' rather interchangeably with the term 'creativity' when discussing individual and organizational creative activity. As Davila et al (2006) commented, "Often, in common parlance, the words creativity, and innovation are used interchangeably. They shouldn't be, because while creativity implies coming up with ideas, it's the "bringing ideas to life" . . . that makes innovation the distinct undertaking it is."

Innovation has been studied in a variety of contexts, including in relation to technology, commerce, social systems, economic development, and policy construction. There are, therefore, naturally wide ranges of approaches to conceptualizing innovation in the scholarly literature. Fortunately, however, a consistent theme may be identified: innovation is typically understood as the successful introduction of something new and useful, for example introducing new methods, *techniques, or practices or new or altered products and services.*

1.1.1 Innovation Strategy

Higgins (1996) noted that in the current world, innovation performance is a crucial determinant of competitiveness and organization at progress. In many countries, the pace of change in banking industry is dramatic. Frequently reported trends are blurring of industry boundaries, deregulation, and globalization, pressures from new and existing competitors, rapidly advancing information technology, and increased customer sophistication. The telecommunication providers worldwide is becoming increasingly interrelated. New types of corporate and business strategies are being explored: industry consolidation, better market segmentation, expanded product offerings and changed delivery channels (Brooks, 1987). Joint ventures and strategic alliances between banks and insurance companies have proliferated. Information technology (IT) has been recognized as a key enabler of change (Bradley *et al.*, 1993). It is also becoming a driver of change with new products such as electronic data interchange (EDI), debit cards and smart cards. Turbulent industry conditions are accompanied by many attempts at radical organizational change. This runs from hiring a new CEO and top management team to product innovation, business process re-engineering, and TQM/continuous improvement. Many efforts are strategic in character and driven from the top of the firm (Canals, 1993).

Innovations can be characterized as incremental/radical, first mover/late mover and imitative/inventive. The three categories are not mutually exclusive. However, each point to a different feature of innovation and reveals insights not found as readily in the other two (Berry, 1980). Business is not about looking at historical figures, nor about taking comfort from an attractive financial statement. It is about identifying the sustainability of the revenue streams, the long-term competitiveness of the company's products and understanding where every penny goes and making sure that it is adding value.

Burnes, (2000) states that, innovation is a process which finds expression in much of the literature relating to organizational behavior in environments responding to strong triggers for change. He indicates further that even when there are no resources that are obvious candidates for "promotion" to strategic resources, a business may still have a viable future. This will depend, however, on the organization's capacity for developing new capabilities or other resources before competitors have the chance to do the same.

In her post entrepreneurial model, Kanter(1989) states that traditional organizations face a difficult balancing act between gaining the full benefits from existing mainstream business and at the same time creating new activities that will become the mainstream business of the future. The job of creating new products or ventures used to be the sole domain of the strategic planners or the research and development departments.

For purposes of this study, innovation is a tool of management for strategic change, as it provides a way of how to create the conditions that make proactive change a natural way of life. It aims at developing a change adept organization that anticipates, creates and responds effectively to change in the external and internal environments to increase profit potential of an organization. Profit increase is the payment one gets when he/she takes advantage of change in the external environment.

Rosenberg (1976; 1982), Nelson and Winter (1977; 1982) and Dosi (1982) view innovation as a process of improvement which may reside in the form of a problem solving activity (a new method) whereas Pavitt (1984), Tidd *et al.* (1997) regard it as a process involving commercial use (a new business). A concept of innovation combining these in an integrated process of incremental improvement and turning into commercial use is developed by scholars like Schott (1981), Daft (1982), and Rothwell and Gardiner (1985). The last concept of innovation, used by Rogers and Shoemaker (1971), Porter (1990) and Voss (1994) is somewhat broader. This is because the concept is concerned with implementation of new technologies and new processes although not necessary both together in all cases. The term "innovation" used in this study will follow the third concept, that is a process of transforming the technology frontier into the commercialised product/process innovation in a competitive market.

Firms, according to the resource-based approach, compete according to their different capabilities. Strategies to cope with a changing competitive environment are associated with the firm's capabilities. Under the model of Schumpeterian competition, being the first mover or follower in the industry not only influences the extent of innovation adoption but also the benefits secured. According to Nelson and Winter (1982) and Schumpeter (1950,) perfect competition was incompatible with innovation. As a matter of fact, perfect competition is and always has been temporarily suspended whenever anything new is being introduced..." implies

the importance of timing and critical mass of use. Being first to the market can help firms to take advantage of benefits from initial demand in the market and enjoy an extra profit until competitors can respond. The pre-emptive move to capture the profit-making opportunities and to respond more accurately to the needs and responses of customers before a further move to launch other products may be more important and thus the innovation, from the outset, does not have to take off with the first best solutions to the market.

The adoption of strategy to achieve successful innovation is a question that needs some reviews of strategy concepts. According to Porter (1980), a firm should adopt competitive strategy to defend itself against outside forces. Although his competitive forces model is widely accepted in the 1980s, it has increasingly been subject to criticisms in a competitive context in the 1990s. The competitive strategy in Porter's model ignores the active and dynamic roles of complex socio-economic factors of which firms may not have sufficient resources or capabilities to implement strategies unilaterally. Practically, it seems difficult for any innovators to have full resources and therefore they need integration of capabilities to create and build know-how into their product innovations. The chosen strategies along the stages of innovation have a strong connection with innovators' organisational conditions in reacting to the competitive environment.

Porter's view of using technology platform as a resource (Porter, 1980) to achieve a competitive advantage can be seen as incomplete. This is because technology platform, while potentially generating a variety of new innovations and applications with advantage, is vulnerable to imitability and obsolescence by a better technology even though it is highly protected by patent. For example, the competitive advantage of Xerox's technology platform of xerography and IBM's technology platform of PC was overtaken by the liquid toner technology of Canon, Ricoh and Konica; and the cloneable IBM-compatible PCs of Compaq and Phoenix Technologies respectively (Hill, 1997).

1.1.2 Safaricom Limited

Safaricom is the leading mobile phone operator in Kenya. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, the Vodafone Group Plc, the world's largest telecommunication company acquired a 40% stake and management responsibility of Safaricom.

This left Telkom with a 60% shareholding in the firm. To remain as a service market leader, Safaricom has a strong focus on the quality of service to its customers.

With the growing subscriber base, the company has employed over 700 employees and opened 7 retail shops countrywide (Nairobi, Mombasa and Kisumu). The firm has a wide dealer network of over 152 dealers countrywide. The company has developed a broad range of services to meet the needs of the over 2.5 million subscribers. The subscriber base grew from 1,528,672 in 2004 to 2,512,826 in March 2005 (www.safaricom.co.ke).

The increasing number of subscribers has had a positive influence on the company's profitability. The company's turnover rose from Kshs. 18.9 billion in 2004 to Kshs. 26.9 billion in 2005. The after-tax profits rose from Kshs.3.4 billion to Kshs.5.9 billion in the same period (www.cck.co.ke).

Not withstanding growing competition from Celtel Kenya and the expected entry of Econet Wireless, Safaricom staff unanimously endorsed a proposal to work towards attaining a 3.5 million subscriber base goal by March 2006. The firm also managed to successfully integrate a new Intelligent Network (IN) platform on the network as part of its strategy to ensure its continued growth. The integration of the new IN platform installed by a leading Chinese network systems provider Huawei Technologies made Safaricom the most advanced network within the region featuring 2.5G capabilities. The rural Kenya expansion project came hot on the heels of a similar urban project nearing completion.

The rapid growth of Safaricom (Kenya) as a mobile phone service provider has acted as a major catalyst in looking at its response strategy. The services sector is increasingly becoming a dominant force in the world economy and therefore deserves as much attention. There is a pressing need to elaborate on the specific applications of the response strategies employed by Safaricom on the changes occurring in its external environment especially as regards to competition.

1.2 Statement of the Problem

Most research continually advocates that evaluation is a necessary process to establish whether innovation has been effective in meeting individual and organizational priorities. This enables judgments to be made, about cost effectiveness and to aid organizational learning and improvement. Despite innovation absorbing real and substantial costs, and considering Beddowes (1994) conclusion that the clarity of organizational objectives in terms of innovation has led to an increased emphasis on the evaluation of return on investment, Doyle (1994) observes that systematic evaluation rarely occurs within organisations. Making causal connections between investment in innovation, and future management performance and organisation success is externally difficult. Easterby-Smith (1994) and Constable and McCormick (1987) highlight the difficulty in establishing a statistical link between the incidence of innovation and company performance. Similarly, Rae (1986) found that the literature tends to focus heavily on training and education, and is primarily concerned with measuring the inputs, process and immediate outcomes rather than the longer term impact of innovation.

From the background of the this study, it is only those companies that are able to adapt to the changing environment and adopt new ideas and innovations in doing business that can be guaranteed hope of survival. Some of the forces of change that have greatly influenced the telecommunication industry include intense competition, regulation, and technological advancement. Strategic management in the telecommunication industry demand that companies should have effective systems in place to counter unpredictable events that can sustain their operations and minimize the risks involved through innovations like differentiation of products and services they provide so as to be at par with competition.

Thomson *et al.* (1997) argue that attempts have been made to articulate links between innovation and organisation strategy, but with limited success. They argue that there is an absence of a coherent model or theoretical framework to identify the existence of causal relationships. This leaves a gap on the effective apllication of innovation strategies which the study sought to fill.

1.3 Objective of the Study

The objective of this study was to determine the application of innovation strategy by Safaricom Ltd.

1.4 Importance of the Study

This study is important to the companies in the mobile communication industry as they will be able to know for certain what environmental factors play a bigger role in shaping their operations and how they affect performance and what strategies to use in order to remain competitive.

The results of this study will also be invaluable to researchers and scholars, as it will form a basis for further research. The students and academics will use this study as a basis for discussions on the competitive strategies adopted by cellular phone companies in Kenya.

The industry regulator, the Communications Commission of Kenya, will also find the results of this study very invaluable, as it will be able to ascertain the extent of competition in the industry and the innovation strategies that mitigate the effect of such competition to an individual firm and as so determine whether such strategies adopted in the industry conform to the guidelines provided for the industry by the government.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Innovation

Innovations in services is concerned with both the introduction of new services (proposed to firms or to individuals) and the reconfiguration or improvement of existing services (Sundbo, 1993; Miles, 1994; Ruyssen, 1988; (Djellal, 1998; Callon, 1999) ;

The conception and development processes generating service innovations are less formalized than for technological innovations: they are not always developed within companies' R&D facilities and are based on organizational and commercial skills rather than scientific knowledge (Callon et al., 1997; François, 1998).

Innovations in service industries are as prone to affect the customer/supplier relationship as they are to transform the service (Eiglier and Langeard, 1987; Bressand and Nicolaïdis, 1988; Gadrey and Gallouj, 1992; Tannery, 1999).

2.2 Necessity of Innovation

Innovation varies. Most writers distinguish between radical and incremental innovation, where radical innovations are new technologies or new products that fill needs perhaps yet unrecognized; and incremental innovations improve what already exists. Radical innovations need a new market to "bear fruit" (Mensch, 1975) and would require a new column and new row in a complete input-output table of a regional economy (Freeman and Perez, 1988). Radical innovations involve science, technology, and research and development (R&D) (Dosi, 1988) due to the technical knowledge required (Utterback, 1993). In the case of these radical new technologies, there are periods of technological and competitive "ferment" until a dominant design emerges (Tushman and Anderson, 1986; Anderson and Tushman, 1990; Utterback, 1993). In video, the Betamax system rivaled VHS before VHS prevailed – a system that was, in some ways, technically inferior. In personal computing, PCs standardised on the Microsoft operating

system DOS. A few firms, in particular industrial sectors, tend to make radical innovations; many firms in the majority of industrial sectors do not (Freeman, 1994).

In contrast, numerous incremental innovations and modifications to existing products and processes go unrecorded. While radical innovations are relatively easy to discern, there is a clear issue in the definition of incremental innovation because of the difficulty to delineate "innovation" from a marginal enhancement. Incremental innovations are more likely to come from production workers, engineers and maintenance employees than from a defined R&D function (Hollander, 1965). The development and use of new capital equipment drive, what we term "process innovations". These can be indirectly assessed from the volume of investment in new machinery and technology and by evidence of business-process redesign. Given recent emphasis on Total Quality Management and the development of "quality circles", one would expect (hope) that "marginal enhancement" has become prolific in the last ten years. While the Department of Trade and Industry (1993) accept that the vast majority of firms will not make radical innovations, their view is that the majority of firms should see continuous improvement and incremental innovation as a strategic necessity.

Incremental innovation can range from changes to processes for making existing products to adopting wholesale products and practices from elsewhere. The latter example shows the importance of diffusion – how innovations spread across a region. What innovation is not is stability. Innovation involves change – change in practice, product, technology or market.

Does firm-level innovation impact on the region? From a regional development perspective, radical innovation often requires the existence of an "innovative milieu" (Camagni, 1995). Consequently, given that inter-industry transactions have still to be established and that supply-chain development is still immature, integrating innovation into regional models can be quite complex. Smith et al. (1993, p. 79) in a UK study of 191 innovative small firms concluded that the direct effects on regional and national economic development seem to be somewhat limited.

Concern with innovation and international competitiveness at the regional and national level resulted in the national systems of innovation idea where national institutions and specialisation in production structure strongly influence innovation (Lundvall, 1992). Moreover, industrial

networks of trade and knowledge create sub-systems of innovation (Gelsing, 1992). Porter (1990) argues that smaller companies need clusters and networks to grow to their potential. Researchers explain networking in terms of strategic firm behaviour rather than cost minimization (Hagedoorn and Schakenraad, 1990). Networks depend on the industrial structure of the nation, entrepreneurial and co-operative tradition and the barriers to entry in different industries (Gelsing, 1992). Hence, the regional environment can enhance or deter firm-level of innovation.

2.3 Innovation and Competitiveness

Innovation is a key element in corporate strategy and firm-level competitiveness (Kay, 1993). An innovation can introduce scarce, high value-added products and the individual firm can reap super-normal profits from its introduction. It allows the firm to develop new products and exploit new markets; in addition, it can allow the firm to improve its cost base and increase profit margins without increasing its price. Innovation and new product development are crucial sources of competitive advantage (Commission on Public Policy and British Business, 1997; Tushman et al., 1997). Much of this literature concentrates on large, internationally competitive firms. Quinn et al. (1997, p. 506) say:

Innovation is a complex, interactive process, however, dependent on demand-side factors (customers, buyers) and supply-side factors (technological inventiveness, research outcomes) (Mowery and Rosenberg, 1979). Moreover, "winners" from one innovation often become "losers" over time in all industries and in all countries (Henderson and Clark, 1990). Spatial economies show this reversal of fortune from success to failure also, e.g. the "Icarus paradox" (Bovaird, 1994). Firms need to create innovation streams – patterns of innovation to sustain competitive advantage (Tushman et al., 1997) – and regions need innovation streams via either as new firms or existing firms. Good internal communications, particularly across functions, foster innovation (Freeman, 1994; Burns and Stalker, 1961). Tushman et al. (1997, p. 7) argue that companies need simultaneously to create both incremental and discontinuous innovations:

... developing streams of innovation, building ambidextrous organizations, the role of the senior management team in building and integrating this diversity, and senior management's role in

managing large system change associated with strategic innovation, these are all crucial competencies for sustained competitive advantage; for building from today's to tomorrow's competitive strength.

Many industrial and sectional analyses reveal large differences in productivity, innovative capacity and business performance between firms in the same industry (Prais et al., 1989; Steedman and Wagner, 1989; Mason et al., 1994). There are linkages between innovation and organizational research (Hamel and Prahalad, 1994; Tushman and Anderson, 1986).

Innovating firms learn continuously from social interactions with many participants (Rosenberg, 1976) including customers, competitors and consultants as well as formal training and learning by doing (Kelley and Brooks, 1991; Lundvall, 1992; Marsden, 1993), while R&D co-operation is more widespread than generally thought (Kleinknecht and Reijnen, 1992). Besides, many innovative organisations have the capacity to "reverse engineer" products and derive technological intelligence from a variety of informal networks, particularly of users and suppliers (Foray, 1991). Indeed, successful incremental innovation depends on the intensity of the interaction with future users (Freeman, 1994). It is essential to develop matching processes that link technical knowledge and emerging technologies with market and exploitable opportunities because companies that introduce new technologies need to create and exploit a new market (Bell and Pavitt, 1992). Rogers (1982) ascribes Silicon Valley's success in high-technology industry to the non-market mechanisms used to exchange information. These non-market mechanisms range from informal personal networks, mobile experts, second sourcing, imitation, and strategic alliances and joint ventures between firms (Mandeville, 1998). Another issue is the "tacitness" of knowledge, concerning how codified information and technology are. Mandeville (1998,) argues that highly uncodified information is pure, intangible information. It includes both undeveloped ideas, as well as the know-how required to make a technology work. It is best communicated via personal communication between people. In the process of doing things, including the generation of new technology, codified and uncodified information are complementary.

Thus, spatial factors affect innovation and some regions are more innovative in certain industries. Differential rates of technological progress explain regional differentials in the rate of

economic and social development (Abramovitch, 1956; Solow, 1957) and "new growth theories" have attempted to endogenise technological progress within growth models (see Romer, 1986). Yet the country or locality of first innovation is not always the country or locality that benefits most from innovation (Ray, 1984). Within the context of UK regional competitiveness, Gudgin (1996) argued that regional economies' success depends on non-cost-competitiveness factors, such as the ability to innovate, change and produce high-quality products (Government Office of the West Midlands, 1998/1999). Gelsing (1992) argues that the agglomeration economies and high growth rates are characteristic of an early stage of the industry life-cycle. Freeman (1994) argues that neo-Schumpeterian research neglected service industries. Thus, we investigated the possible sectoral dimension.

2.4 Determinants of Innovation Strategy

Technology innovation is of vital importance for firms to survive and develop in a market under intense competition. A firm's decision-making of technology innovation strategy involves two phases. Firstly, a firm decides whether to innovate. With the influence of market structure, scale, intensity of competition, and other factors, different firms show clear distinctions in their motivation to innovate; many researches have centered on this (Ye and Qiu, 2004). Secondly, if a firm chooses to innovate, it has to decide how to organize its innovation. The specific definition of technology innovation strategy equals the second phase of this decision-making, that is, the choice over innovation path.

Technology innovation provides a firm with the knowledge related to new products or new production process. A firm may either produce raw materials for its own usage, or purchase them from market. Likewise, the means by which a firm acquires knowledge include external and internal channels. In the process of innovation, a rational firm will choose appropriately among these choices, and the different choices fall into three patterns: internal R&D, outsourcing, and cooperative R&D. Internal R&D refers to the development of technology organized by a firm with its own R&D resources, that is, a firm produces knowledge for its own purpose. Outsourcing refers to that a firm acquires external technology via purchasing contract. This strategy can further be divided into two categories direct purchase of new technology via patent licensing or technology transfer contract.

Purchase of new-technology-embedded assets, covering new equipment, personnel with certain technological knack, and factories with new technologies. Cooperative R&D is also an innovation strategy that uses external resources. Despite the fact that the fruits of cooperative R&D shall be shared by all the participating parties, cooperative R&D resembles outsourcing in many other aspects. For convenience, we hereby regard cooperative R&D as a form of general outsourcing.

Many researches, typically the transaction cost theorem school, argue that internal R&D and outsourcing are two substitute strategies. Compared with internal R&D, outsourcing can put current available specialized knowledge into better use, while at the same time, attain the economics of scale in innovation and cut back on the R&D cost. Yet, in the process of technology outsourcing, ex-ante searching, negotiation, or ex-post contract implementation would all incur extra cost for the firm. The size of transaction cost depends on the opportunism behavior of the involved parties in the technology transaction. Generally, the higher the specificity of a technology is, the more uncertainty complexity is involved in the R&D and the higher the chance of opportunism behavior. Thus, Mowery and Rosenberg (1989) asserted that technology outsourcing would be restricted to the scope of basic, general technologies, i.e. material testing, production process improvement, and firms would rather opt for internal R&D for product innovation. Apart from transaction cost, the degree of patent protection and the life cycle of a technology would also influence the choice between internal R&D and outsourcing. Pisano (1990) and Reinhilde (2005) found that the probability of technology transfer as goods transaction should be in proportion to the degree of patent protection; hence, in the industries where patent are strictly protected, i.e. pharmacy industry and chemical industry firms tend to prefer technology outsourcing strategy. Radnor (1991) pointed out that technology should only be applicable to technologically mature firms, and firms would opt for internal R&D for new technology development at the germinate stages.

Contrary to the above "substitution-ism" other researches argue that internal R&D and outsourcing are not substitutive to each other, but are supplementary. The reasons can be summed in three points, Technology outsourcing helps a firm obtain the required technologies directly; yet, those technologies would rest merely on the surface level. The effects of imported new technologies on a firm's market performance are subject to the absorptive capacity of the

firm, which can only be incubated and developed through independent internal R&D. That is to say, if a firm cannot perform well in certain technological aspects, it probably would not be a good "consumer" of these technologies, either.

The early stages in the development of a firm would rely much on internal R&D. Meanwhile, in the process of internal R&D, the experiences accumulated will enhance a firm's competence in assessing the values and market prospect of various technologies, and promote its ability to negotiate in technology transactions. Thus, in fact, technology outsourcing to some extent is the extension of a firm's internal R&D capacity. This is attested in empirical research by Gans and Stern (1997); he found that the number of technology outsourcing transactions in firms with internal R&D is significantly larger than that of the firms with no internal R&D.

Internal R&D capacity is the key for a firm retain competitive advantages in the long run; as a result, a firm will not abandon internal R&D for strategic considerations, and, but will maintain both strategies at the same time. Using data for Spanish firms in the period 1990-1996, Pilar (2003) found the more competitive the environment firms evolve in, in-house organization of R&D activities are more likely.

2.5 Strategic Innovation

Early on Drucker (1958) – and probably even someone before him – distinguished between doing the right things and doing things right. When it comes to strategic management, we can reformulate this distinction to, on the one hand, market the right products/services on the right markets and, on the other hand, develop, produce, and distribute the products/services in the right way. It is intuitively clear that a company needs to focus on both issues in the long run while at the same time maintaining a dual focus on business development and operational effectiveness. The foundation for our work on strategic innovation is that we think of strategy as: Change of the position of the company in the market place at the same time as exploiting the current position.

The environment consists of both present and potential customers as well as a large number of different players, i.e. it is the entire environment of the company that needs to be taken into account in strategic management.

The company itself should be seen as a holistic entity consisting of business and resources. This means that the strengths and weaknesses of the company should be described in the language of "bundles of resources" or competencies rather than departments or functional units.

In consequence, the potential of the existing resources to create value end different market places than the current one (while still creating value in the current situation!) becomes an important consideration in strategic management. One may speak of a competence readiness that the company possesses and is able to apply by reorienting its business foundation towards new market places, i.e. strategic innovation.

As argued before, e.g. by Levitt (1960) in his seminal paper "Marketing myopia", companies should define their business in a much broader sense than by simply looking at current products. Any business fulfils a number of needs and wants of its customers and can act strategically with much more than its current products. Hence, we may define a business as the combination of a business idea, a business concept, and a business system.

An operational business idea is expressed in one or more products/services that are able to fulfill the needs and wants of a group of customers. The business concept is expressed in the value creation process – or competencies – that are the foundation for how the products/services are designed, developed, produced, distributed and marketed. The business system is expressed as the basic principles and procedures by which the persons and/or functions involved in value creation actually work. This is a much broader perception of a business than the traditional SBU definition that is used in traditional portfolio management, mainly in the sense that a business here is able to respond strategically on its own.

Strategic innovation is the ability to create and revitalize the business idea and concept of the company by changing both the market of the company and the competencies and business system of the company. In this way, strategic innovation is concerned with developing the entire company

Evidently, organizations need to be more innovative and think proactively in their strategic management. At least, this has rapidly become the mantra of the new decade both among managers and in academia. The well-known work on innovation management and technology

management has gained newfound – or perhaps re-found – respectability and has begun to influence the way we think about strategic management as a discipline (Drejer, 2002).

On top of that a new set of publications has begun to emerge. These publications take their starting-point in the strategic realm rather than the innovation realm and, hence, focus on strategy and innovation or strategic innovation. For a recent example of such a fashionable publication see Johnston and Bate (2003).This and other similar books – and the thinking behind strategic innovation as a concept – is based on three pillars (Drejer and Printz, 2004). First is the recognition by many that strategic managers need to consider both strategy for tomorrow and strategy for today in order to stay successful over time. This is now state-of-the-art knowledge within the field of strategic management – following the work of people such as Hamel and Prahalad (1994) and the 1996 acknowledgement of Porter (1996) that strategy needs to consider both operational effectiveness and differentiation.

2.6 Process Innovation

Process innovation embraces quality function deployment and business process reengineering (Cumming, 1998). It is a type of innovation which is not easy, but its purpose is now well understood. An efficient supplier who keeps working on productivity gains can expect, over time, to develop products that offer the same performance at a lower cost. Such cost reductions may, or may not, be passed on to customers in the form of lower prices. For example, both in banking and in insurance most long-established companies have now set up telephone based subsidiaries as a reaction to product innovations introduced by Direct Line (motor insurance) and by First Direct (personal banking). All are working furiously to reduce operating costs and also to increase service quality through process innovation.

Process innovation is important in both the supply of the core product as well as in the support part of any offer. Both components of an offer require quality standards to be met and maintained. In the case of services, which by their very nature rely on personal interactions to achieve results, the management of process innovation is a particularly challenging activity (Johne and Storey, 1998).

2.6.1 Managing Issues in Processes of Innovation

As customers have become more discerning, and speed-to-market continues to play a crucial role in a wide variety of markets, developing new and innovative products is becoming more and more difficult. The process has been likened to speeding-up a Formula One car, whereby something new is always on the horizon but reaching it gets harder and harder (Junk, 1999). Despite the risks associated with innovation though, we want what it can provide – new products, the potential to create new jobs and new ways of doing business (Kao, 1991). Difficult as it might be, the ability to innovate consistently is more important than ever.

After some four decades of research, it is generally well known that a variety of factors are implicated in innovation success. First, there is a good deal of evidence to support the view that new products success is related to the formalizations of new products processes (Cooper, 1975, 1979, 1983; Cooper and Kleinschmidt, 1986, 1987; Cooper, 1991, 1993). Though success rates vary, current estimates suggest that around 60 per cent of new products succeed once they are introduced to the marketplace (Griffin, 1997). It is recognised, however, that paying attention to detail can increase the odds by as much as 30 per cent (Burgelman et al., 1996). Achieving a high success rate is suggested to be dependent on not only the number of activities that comprise firms' new products processes, but also how well the activities are carried out. The most important contributions formal NPD processes are suggested to yield include improved success rates, higher customer satisfaction, and meeting time, quality and cost objectives (Cooper, 1993, p. 256).

Second, there is also the issue of providing the right environment for innovation. Central to the debate is whether the capacity to innovate is predominantly a personal attribute, or whether it is an emergent property of organisations amenable to systematic management (Leavy, 1997). Taking the view that innovation is endemic within individuals, managers are immediately faced with the dilemma regarding recruitment and channeling talent in a way that is consistent with the organisations goals. Truly creative individuals are not always easy to manage. Alternatively, there are those that are sceptical that such a thing as a distinct entrepreneurial personality exists (Drucker, 1986; Adair, 1990). More important is that organisation forms are flexible so that an appropriate balance between order and freedom is maintained. Ensuring procedures are in place

to encourage innovation, whilst also providing a systematic means to manage the new products process through to commercialization is key.

Third, it is hardly surprising that making sure customers' needs act as the prime driver for innovation is deemed to be a critical issue (Foxall, 1989; Fifield, 1998). As originally conceived of, the marketing concept holds that all company activities must be organised around the primary goal of satisfying customers' needs. Organisational structures and procedures reflect a market-orientation, and all personnel are expected to be truly customer-focused. Market-oriented firms are also recognised to pay a great deal of attention to customer research prior to new products being developed and produced (Walker et al., 1996). The idea of pushing products at customers is alien to the market-oriented firm. Rather, the prime goal of the organisation is to tap into customers' needs so well that new products generate their own source of marketing momentum.

2.7 Product Innovation

Product innovation provides the most obvious means for generating revenues. Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs. Improved and radically changed products are regarded as particularly important for long term business growth (Hart, 1996). The power of product innovation in helping companies retain and grow competitive position is indisputable. Products have to be updated and completely renewed for retaining strong market presence.

It is not enough to avidly engage in product innovation for its own sake - what some managers refer to as "innoflation" (Mitchell, 1996). It is important to delineate just what product features are to be improved or radically changed. For this purpose, analysts have differentiated between "core" product features and help provided in evaluating, buying and using the core product. The amount of help or support provided will depend on the needs of particular customers. An appropriate premium price can normally be charged for support. Support provides a potentially profitable lever for gaining competitive advantage. It enables a supplier to sell the same core product to different customer groups as different offerings (Storey and Easing wood, 1998).

Buyers can be served with quite novel forms of support. One such novel form explains the success of the business strategy of First Direct, a subsidiary of Midland Bank, Britain's fastest

growing retail bank. First Direct serves customers solely through telephone contact. This new approach is a great attraction to the customers it aims to target - confident, busy, younger professional individuals. The attraction is not the basic banking products but the way in which help about these is provided. Help now comes through 24 hour a day voice only contact. This is far more convenient than the face-to-face help provided by bank tellers, usually only after a lengthy wait in line, during the working day. The new way of serving customers was quite revolutionary in its market and has made sizable inroads into previously established financial services supply patterns.

2.8 Innovation and Performance

Innovation has been conceptualized in a variety of ways in the literature (Damanpour and Gopalakrishnan, 1998; Damanpour et al., 1989; Wolfe, 1994). It has been considered as a process, a result, or both, and different types of innovation have been distinguished. Damanpour and Gopalakrishnan's (1998) definition broaches these different issues. According to these authors, innovation is the adoption of an idea or behavior, which could be a system, policy, program, device, process, product or service that is new to the adopting organization.

Frequently, the types of innovation are classified using the criterion of their purpose as technical or administrative innovation (Damanpour, 1991). Whereas technical innovations include new technologies, products and/or services, administrative innovations refer to new procedures, policies and organizational forms (e.g. Evan, 1966; Hage, 1980; Normann, 1971; Tushman and Nadler, 1986). Technical innovations include both, product innovations, which refer to the development and introduction of new or improved products and/or services, and process innovations, which involve the adoption of new or improved methods of manufacture, distribution or delivery of service.

In general, the literature considers innovation is critical for the economic efficiency of both companies and nations (Harris and Mowery, 1990), and is one of the key drivers of firms' long-term success, particularly in dynamic markets (Baker and Sinkula, 2002; Balkin et al., 2000; Darroch and McNaugton, 2002; Lyon and Ferrier, 2002; Scherer, 1992; Utterback, 1994; Wolfe, 1994).

The rationale behind this idea is that innovation often serves to deal with the turbulence of the external environment. To survive in Schumpeterian environments, organizations must be able to cope with increasing complexity and high-velocity change (Brown and Eisenhard, 1995). In these contexts, companies with the capacity to innovate will be able to respond to these challenges faster and to exploit new products and market opportunities better than non-innovative companies (Brown and Eisenhard, 1995; Miles and Snow, 1978). Thus, it is commonly perceived that organizations should innovate to be effective and, in the long run, to

2.9 Market Innovation

Market innovation is concerned with improving the mix of target markets and how chosen markets are best served (Mitchell, A. (1996). Its purpose is to identify better (new) potential markets; and better (new) ways to serve target markets. We deal first with the identification of potential markets. Identification is achieved through skilful market segmentation (Walker et al, 1996). Market segmentation, which involves dividing a total potential market into smaller more manageable parts, is critically important if the aim is to develop the profitability of a business to the full. Incomplete market segmentation will result in a less than optimal mix of target markets, meaning that revenues which might have been earned are misread.

In recent years "benefit segmentation" has become more widely used (Hooley et al., 1998). It is based on the study of buyers' attitudes, on the assumption that in great measure it is needs and benefits which make up markets and which alter markets. In this form of segmentation emphasis is on "usage occasions", namely how buyers seek to gain benefits in particular buying situations. This form of segmentation is particularly powerful for dividing a total potential market into meaningful market opportunities. Its power derives from being predicated on the assumption that the same individual buyer can have different usage needs for the same core product. This happens quite frequently in practice, as for example when a person travels first class on business but second class for private travel. Each usage need presents a potential market opportunity.

The second purpose of market innovation is concerned with serving chosen markets better. This activity again relies on accurately interpreting buying preferences, but in greater detail. As with "benefit segmentation", an understanding of buying preferences is important because buyers are

likely to purchase offers which they like most. Often the analysis of buying preferences is done intuitively. This can result in surprisingly successful results. However, a solid rationale for amplifying buyers' purchasing preferences has been provided by Mathur and Kenyon (1997) who argue that the same core product features are purchased in different modes by customers with different usage needs. For example, some customers prefer to purchase in a "commodity-buy" mode. This happens when buyers know the core product features well. In this buying mode, neither differentiated product features nor differentiated help is sought. Choice is made on the basis of price alone. Other customers prefer to buy in a "product-buy" mode. In this mode, knowledgeable customers seek superior core product features and are prepared to pay a premium price for these. Less knowledgeable customers prefer to purchase in a "system-buy" mode, in which they are prepared to pay a premium price for core product features and also for help in the form of advice. Last, some customers prefer to purchase in a "consulting-buy" mode. They seek only advice on how to purchase and use the core product and are prepared to pay for this. .

2.10 Market Innovation Championing

Identifying potential markets and interpreting buying preferences to understand how chosen markets can be served better is a specialist activity. It is the responsibility of "market champions". Market champions are to markets what product champions are to products. Product champions fight for the development of products (Maidique, 1980). In a similar way, but with a different mission, market champions fight for consideration of new potential markets, and new ways for serving existing and new markets (Johne, 1996). Operationally, market champions are the makers and shapers of markets.

Some analysts have referred to market champions as "innovative entrepreneurs" (Ghoshal and Bartlett, 1988). However, it is one thing to spot potential market opportunities, but quite another to make money from these. Potentially, there are large numbers of market opportunities. A business cannot win in all the markets open to it. Skilful market champions fight for the development of markets which their business can supply and dominate in some way. Effective market championing involves spotting positions in which the business can build and retain competitive strength. There is no point in choosing an innovation strategy which the business lacks the means to pursue over time. Skilful market innovation helps to focus the competitive

strategy of a business. Customer analysis, competitor analysis and supply competence analysis are its essential ingredients (Walker et al 1996),

Skilful market champions appreciate the specific ways in which different customers buy. They know that some customers will have a preference for certain types of offers, while other customers will have quite different preferences. This means that the same core product can - and indeed, should - be offered quite differently to different market segments, if the aim is to meet buyers' preferences as closely as possible. There is nothing startlingly new in this. In many markets profitability turns on the ability to sell the same core product - such as airline or train seats - at different prices to different buyers. What skilful market champions appreciate is that the same core product can be differentiated by varying the support.

In many businesses there is a healthy tension between its key competences (Grant, 1991), on the one hand, and market opportunities on the other hand. Market champions address the market side of the business equation to assess alternative courses of action against the opportunities open to a business. This approach is quite different from one which assesses alternatives from the point of view of core competences or capabilities. Consideration of the strength of internal capabilities is too limiting a perspective when, as is increasingly the case, external competitive parameters are changing fast (Hamel and Prahalad, 1994; Hamel, 1996; Day and Reibstein, 1997).

It is the task of the market champion to question current market practices. The analytical task of the market champion is to identify better potential markets and better ways of serving existing and new markets.

As far as needed offers are concerned, Treacy and Wiersema (1995) have concluded, on the basis of a three year consulting study of over 80 corporations in a range of markets that market champions succeed by delivering a distinctive value proposition. Their message is that a business must decide on the "unique value discipline" which is of benefit to its chosen customers. They speak of achieving "customer intimate relationships" achieved by supplying core product features with an appropriate level of support.

Identifying the value propositions which will best serve the interests of selected markets is the most important task of market champions. It is based on interpreting customer usage needs

against relevant segmentation criteria. As far as attitudinal purchasing preferences are concerned, these can be amplified by taking into account the different ways in which the same core product can be bought. However, a potential danger occurs, when market champions argue in favour of serving many different market segments, each with its own special mix of core product and support. Doing this will require a wide range of offers, which militates against achieving economies of scale. This is why in many businesses; a tension exists between wanting to meet the buying preferences of different market segments as closely as possible, on the one hand; and on the other, the wish to supply as economically as possible through a standardised offer. The operational challenge is, of course, to decide how wide a range of customers to serve.

2.11 Functions in Innovation Systems

Systems of Innovation (IS) approaches were developed in the 1980s and 1990s, by academics and policymakers in cooperation. They were a response to the inadequacy of simplistic linear models not taking learning, relations, and systemic aspects into account (Edquist, 1997; Freeman, 1995; Mytelka and Smith, 2002). Still, it is not possible to describe the current state of research as a coherent theory. The literature can instead be divided into four broad categories: National innovation systems; Triple Helix; Technological/sectoral systems of innovation; and Regional/local systems of innovation or clusters. In this study a sectoral approach was used, including also a national dimension. This is natural, given our focus on the telecommunications sector in Sweden.

The strengths of the IS approaches relate to their taking learning, relations, dynamic and systemic aspects of innovation into account. However, IS approaches are not free from criticism and problems, for instance there are some problems in operational zing the dynamics in systems, leading at times to a reliance on old measures and a tendency to recreate linearity. In order to come to grips with such drawbacks, we applied a "functions approach".

All systems fulfil a function. As a starting point we define the overall function of the innovation system as being to develop/generate, diffuse and use innovations (Edquist, 1997). This functionality is however deemed to be too broad and vague. Therefore a more elaborate analytical framework is proposed. It is adapted from and draws heavily on the works of Bergek

(2002), Carlsson and Jacobsson (2004), and Johnson and Jacobsson (2003). In sum, six basic interdependent functions need to be served to some degree in a technological system for a new technology to be developed and diffused and for a supporting industry to evolve. The fulfilment of functions is in turn affected by inducement and blocking mechanisms. Policymakers should search for system weaknesses, i.e. "failures" in the functions, their underlying structural features (i.e. in the characteristics of actors, networks, markets and institutions), and try to correct them.survive (Damanpour and Schneider, 2006).

2.12 Need for Continual Innovation

Furthermore, there are also increased technological pressures to firms. It has become accepted that technological life cycles in some industries seem to be decreasing compared to earlier (Foster, 1986) thereby putting pressure on firms to constantly innovate (Kiernan, 1995). Much of this thinking stems from the electronics industry – for instance, the new generation of SEGA video games that your six-year-old plays with contains as much computing power as the Cray supercomputers of the mid-1970s (Kiernan, 1995). Even though this situation does not have to be equally dynamic in other industries – and, indeed, some questions have been raised concerning that issue (Bayus, 1994) – it seems as if the belief in the technology dynamics creed is so strong that firms simply will follow that creed and, thereby, inflect the dynamics on themselves unnecessarily (Nonaka, 1991).

Either way, many authors agree on the need for firms to move technology up on the corporate agenda (Clarke, 1985) and make it a strategic issue (Bhalla, 1987, 1989; Jones, 1997; Drejer, 1996). Further on the technological side, new technologies seem to arise that make entirely new ways of working and organising possible. For instance, Savage speaks of the possibility of "Fifth generation organization" (Savage, 1995) based on ideas of networking, virtuality, and so on. Using the same ideas, Martin discusses the notion of "cybercorp" (Martin, 1996), as an entirely new way of managing and organising firms.

The trends discussed above, of course, cannot be kept separate. New technologies have a strong competitive impact in general (Tushman and Anderson, 1986) and hence the technological dynamics will also influence the competitive dynamics of firms. Bettis and Hitt writes on this

issue that: "... technology is rapidly altering the nature of competition in the late twentieth century ..." (Bettis and Hitt, 1995) and, in fact, guest-edit an issue of the Strategic Management Journal entirely devoted to discussing how technology will change the nature of competition and strategy in the years to come. Bettis and Hitt refers to the situation as "the new competitive landscape" (Bettis and Hitt, 1995) and it is this new competitive landscape that is creating a trend in management theory that creates the need for theory-building on the selection and evaluation of sub-suppliers, and the establishment of proper integrative measures to work with suppliers along a firm's value chain.

2.13 Businesses Management Through innovation

Companies need to be able to manage their current set of businesses effectively while at the same time finding and developing new business ideas and models – this is defined as strategic innovation. Based on this foundation, Johnston and Bate (2003) assert that what is needed is a process to supplement the conventional strategic planning process – a supplement that they choose to call a discovery process.

There is a new concept that both encompasses a desirable result to deal with the new competitive landscape – proactive repositioning of the organization and development of new businesses – as well as the process by which the result is reached – a managerial process that is an alternative to the traditional, analytical process of strategic planning.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This research was conducted through a case study. A case study was chosen because it enables the researcher to have an in-depth understanding of the behavior pattern of the Safaricom. The importance of a case study is emphasized by Young (1960) and also by Kothari (1990) who both acknowledge that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study.

3.2 Data Collection

Primary data was collected from the heads of departments of the company, selected from various departments this being corporate strategy, human resources, regulatory, and business development, sales and marketing department.

An interview guide with open-ended questions was used. This enabled oral administration of questions in a face-to-face encounter therefore allowing collection of in-depth data. This was involved in in-depth discussion through individual meetings with the senior managers of the firm in question, and the data was analyzed using conceptual text analysis method. Copper and Schindler (1998) emphasize the value of personal interview when they stated that it enables in depth and detailed information to be obtained.

3.3 Data Analysis

The data collected which is qualitative in nature, was analyzed using conceptual content analysis which was the best suited method of analysis, Content is defined by Nachmias and Nachmias (1996) as a technique for making inferences by systematically and objectively identifying specific characteristic of messages and using the same approach to relate trends. According to Mugenda and Mugenda (2003) the main purpose of content analysis is to study the existing information in order to determine factors that explain a specific phenomenon.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the data analysis and interpretations from the field. The interviewees were the heads of departments of safaricom limited, selected from various departments this being corporate strategy, human resources, regulatory, and business development, sales and marketing department.

4.2 Innovative Strategies

The study sought to establish the innovative strategies that Safaricom has adopted in financial, organizational structure, technology, customer care, products and human resource. On financial innovative strategies, the company had appointed financial advisors for financial plan, the fixed income capital markets are also seen as an alternative source of financing base following the successful IPO issue in 2008, cost optimization, the company also uses retained profits, it also gets finances from a variety of services and products that it offers e.g. in M-Pesa (money transfer through the phone) and internet services.

On organizational structure, the company has introduced participative decision making or self-managed work teams, the shareholders of Safaricom limited have no direct effect on the human resources management. Theirs is to elect the board of directors. It is the mandate of the board to hire the management team of the organisation. Proper organizational structure will enhance proper decision making while maintaining a balance between centralized and decentralized decision making.

On technology Safaricom Limited offers the fastest mobile internet services enabling their subscribers to take full advantage of the various new, exciting and affordable products launched during the year. These include Hotspot/Broadband PrePay and PostPay bundles, data modems, Safaricom mobile connect, 3G enabled Smartphones including BlackBerry Bold and Mobile DSTV promotion. The data services have been tailored to meet customer needs as well as lead innovation. Safaricom has adopted technological practices that allow for products and services to

be made more cheaply and to a better standard of quality. Safaricom recently successfully switched over to a new pre-paid management system called the Intelligent Network (IN) platform. Safaricom has also been able to partner with other players in other industries due to its superior technological advances thus being able to offer consumers and businesses more innovative products and services such as mobile banking, new generation mobile telephones and money transfer.

On Customer care, the company creates and nurtures strong customer tailor made products and services e.g. internet in the mobile phones, customer satisfaction and retention, the company has also concentrated on repetitive marketing strategy aimed at creating a good reputation and customer satisfaction, by reaching and exceeding their customers' expectations and also by continuous review of the firms strategies aimed at increasing competitiveness.

On Product, the company has excelled in creating and nurturing strong brands, giving high quality products and services, providing unique products, the company also seeks to deliver services/products that are relevant on a local level. Safaricom limited has also launched some products like one network across East Africa. An example is the launch of '*kama kawaida*' service a Safaricom subscriber can use the same sim-card in Kenya, Uganda, Tanzania, and Rwanda. Safaricom has also formed partnership with some of the mobile telecommunication providers in those countries to enable Safaricom subscribers to roam around the region using top-up cards from those mobile service providers and calling at the same rates just like home. Other products include M-Pesa (mobile banking) and Sambaza (topping up another persons phone). On Human resources, the company hires high qualified staff, Intensive staff training, reducing operating staff and also it outsources support staff.

Safaricom limited has also used generic competitive strategies to gain innovative advantage. These generic strategies are cost leadership, differentiation strategies and market focus strategies.

The cost leadership strategy emphasizes efficiency. The interviewees reported that by producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. The company produces products and services at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution

strategy is to obtain the most extensive distribution possible. The company also ensures that there is close supervision of labour, tight cost control, incentives based on quantitative targets and also it always ensures that the costs are kept at the minimum possible level. The interviewees also reported that Safaricom limited spreads through the whole business process from manufacturing of its products and services to the final stage of selling the product and any processes that do not contribute towards minimization of cost base is outsourced to other organisations with the view of maintaining a low cost base. Low costs permit the firm to sell relatively standardised products that offer features acceptable to many customers at the lowest competitive price and such low prices will gain competitive advantage and increase its market share.

On differentiation strategies, the interviewees suggested that differentiation strategy is more likely to generate higher profits than is a low cost strategy because differentiation creates a better entry barrier.Therefore, the company employed differentiation strategies which included introduction of unique products and services e.g internet providing, money transfer etc, increased advertising, the firm utilizes a large base of resources that allows it to outlast competitors by practicing a differentiation strategy. An organization with greater resources can manage risk and sustain losses more easily. The company also ensures branding of its produts and services, continuous upgrading of services in order to attract and retain its customers and good customers service. The interviewes therefore suggested that differentiation is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price.

On market focus, the safaricom targets all mobile phone users. The firm focuses its marketing efforts on all the mobile phone users and tailors its marketing mix to these specialized markets, this helps the company to meet the needs of the target market.

To the question on how innovative strategies have been implemented by Safaricom Limited and how successful have they been, the interviewees said that the innovative strategies have been implemented by launching M-PESA services which have impacted positively on the millions of Kenyans who traditionally have no access to banking services.they said that M-PESA have continuously innovated to stretch the product's menu beyond cash transfer to include calling card

purchase and bank deposit among others. They indicated that the service allows Kenyans to transfer money fast, safely and affordably using the mobile phone. Through M-PESA, a customer can send money to another mobile phone user, withdraw cash, buy airtime for himself or herself or another prepaid subscriber, pay bills and make loan repayments.

The interviewees also indicated that Safaricom has launched a tariff system that allows its subscribers to benefit from discounts based on time of calling and location. The tariff, branded Supa Ongea, is backed by a technology known as Dynamic Discounting Service (DDS) and presents another ground-breaking innovation from Safaricom Limited. This great invention gives our prepaid customers real value for money through exciting discounts in these tough economic times when everyone is looking for authentic bargains. The tariff, the first of its kind in Kenya, gives subscribers various discounts on the go, depending on their location and the time of calling.

They also indicated that Safaricom Limited has launched its 3G mobile network as an innovative strategy. Safaricom subscribers now have access to high-speed mobile data up to 7.2M bps (bits per second). The 3G technology is available in and around throughout the country. This commercial launch confirmed the company's dedication to ensuring that the subscribers continue to enjoy world-class innovation. They further said that the 3G technology enable the company to offer subscribers a wider range of advanced data and voice services with greater network capacity through improved spectrum efficiency.

The interviewees also said that Safaricom Limited has diversified beyond its traditional mobile voice service to offer integrated voice and data, enabling computer-to-computer communication for businesses and consumers. The service has assisted the growing ICT industry, given the shortage of fixed lines and constricted bandwidth. The interviewees unanimously agreed that all the innovation strategies implementation have been successful.

Safaricom Limited have also become market leaders by being the ones who initiate innovative strategies by launching new services like Okoa Jahazi which entails advancing airtime use to call other local networks, this shows that Safaricom Limited are always responsive to subscriber needs which is the fulcrum on which its tradition of innovation rests ; Safaricom Limited initiate change and don't follow emergent strategies.

4.3 Factors Influencing Innovation Strategies

The study established that changes in technological factors affected the adoption and implementation of the strategies at safaricom. This is because of the cost of implementing technology in the company, its relative advantage, complexity, compatibility and its relative advantage in the company.

Changes in political factors also affected also affected the adoption and implementation of the strategies in the company. This was due to the fact that regulatory burden and red tape, taxes, levels of political corruption, public works services, labour market regulation, policy predictability, property rights, contract enforcement, regulations controlling startup and bankruptcy, competition law, and entry to finance and infrastructure markets can affect the adoption of innovative strategies in the company. Political lobbying, the practices of the ruling parties and the stability of the ruling parties' plays a very role as in developing and implementing labour laws as the political system keeps on changing. This also has a great effect on the implementation of the strategies.

Changes in economic factors also affects the adoption and implementtion of the strategies in the company. These economic factors were such as effects of the post election violence, high inflation driven by food and oil prices, the global economic crisis and the volatile foreign exchange rates resulting in the weakening of the shilling all combined to reduce the spending power of their customers and drive up operating costs. Competition also increased significantly with the entry of two new operators resulting in increasing tariff pressure and a corresponding reduction in tariffs of up to 40%.

The social factors that affected Safaricom limited in its operation and implementation of the innovative strategies include "peculiar calling habits" of Kenyans. These include flashing and calling during off –peak hours. Safaricom limited has in turn come up with products to cater for these peculiar calling habits by introducing the flashback service and also introducing off peak rates.

Changes in legal factors affected the adoption of innovation strategies because some statutory laws should be inline with the company's objective, government strictly enforces tax compliance, it encourages social responsibility and also government strictly enforces tax compliance. Taxation by the Central government affects the income at the disposal of the management. This in turn affects the finance at the disposal of human resource management in hiring procedures.

From the study, the challenges faced by Safaricom limited in the application of innovation strategies were constant changes in customer needs and tastes, huge financial requirements, imitation from other mobile phone service providers, attracting and retaining a large subscriber base, unpredictable government policies, other providers moving towards zero rate commissions, customers inability to differentiate products/services from other providers and global influence on quality of service, delivery and sustainability. Other challenges were that Safaricom limited has seen the ugly face of price wars as one firm tries to outperform the other in terms of who can provide lower charges for calls. There was a time when the war was so intense that the competitors had to seek the intervention of industry regulator, CCK, so as to make Safaricom be realistic in its pricing strategy. The competitors have been complaining that the company restricts its customers from calling other networks by charging highly on calls to other networks but charging very low rates for calls to Safaricom network (within its own network).

On Customer base, the study established that the successes of the innovative strategies adopted by Safaricom limited were large number of customers, loyal customers and also Safaricom limited has the largest number of customers.

On Profitability, the study found that as a result of the innovative strategies adopted, Safaricom's profit has been increasing over time. On Asset base, the financial assets have increased, it has a large shareholder base. Generally, the company has a very strong asset base. On employee retention, the company has been able to retain most of its employees. In order to reverse the exodus of their trained staff being pouched by other telecommunication companies in the industry, Safaricom introduced staff retention programs, for instance, house loans, car loans, and more training programs, while on brand image, Safaricom has the enviable legacy of always being the first to introduce new services models in Kenya.

From the study, Safaricom's future in terms of innovation is that market penetration could increase to 65% over the next four years. This reflects a significant opportunity for future growth where we they to remain market leaders and maintain our leading position. The company will also pursue and investigate further potential acquisitions to enhance the overall data services and is well positioned tocontinue to increase shareholder value now and in the future.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussions, conclusions and recommendations of the study based on the objective of the study. The objective of this study was to determine the application of innovation in developing strategy by Safaricom limited.

5.2 Summary and Conclusions

From the findings, the study found that Safaricom limited has adopted some innovation strategies. These innovation strategies were on financial, organizational structure, technology, customer care, products and human resource. The company has also used generic competitive strategies to gain the innovative advantage. These strategies were divided into cost strategies, differentiation strategies and market focus.

The study also established that changes in technological factors, political factors, economical factors, social factors and legal factors affected the adoption of innovation strategies. The challenges faced by the company in the application of innovative strategies were such as changes in customer needs and tastes, huge financial requirements, imitation from other mobile phone service providers, attracting and retaining a large subscriber base, unpredictable government policies, other providers moving towards zero rate commissions, customers inability to differentiate products/services from other providers and global influence on quality of service, delivery and sustainability.

The study establishes that innovative strategies have been implemented by Safaricom Ltd by launching M-PESA services which have impacted positively on the millions of Kenyans who traditionally have no access to banking services. M-PESA have continuously innovated to stretch the product's menu beyond cash transfer to include calling card purchase and bank deposit among others. The study found that Safaricom has launched a tariff system that allows its subscribers to benefit from discounts based on time of calling and location. The tariff, branded

Supa Ongea, is backed by a technology known as Dynamic Discounting Service (DDS). The study also found that Safaricom has launched its 3G mobile network as an innovative strategy.

According to the study, innovative strategies adopted by Safaricom limited have helped the company achieve large number of customers who are also very loyal, Safaricom's profit has been increasing over time, the financial assets have increased, it has a large shareholder base and also the company has a very strong asset base. The company has also been able to retain most of its staff by introducing staff retention programs, for instance, house loans, car loans, and more training programs, while on brand image, Safaricom limited has the enviable legacy of always being the first to introduce new services models in Kenya. Safaricom's future in-terms of innovation is that market penetration could increase to 65% over the next four years. This reflects a significant opportunity for future growth where we they to remain market leaders and maintain our leading position. The company will also pursue and investigate further potential acquisitions to enhance the overall data services and is well positioned to continue to increase shareholder value now and in the future.

5.3 Recommendations

The study is valuable to the managers of Safaricom limited. The findings of the study show that there are several challenges that are facing the firm and the company has put up various innovation strategies to counter the waves especially those posed by competition in the industry. The study recommends that managers be on the look for any possible factors that have implications on the operations of the business and respond appropriately. So far, the innovation strategies have been successful but more needs to be done so as to maintain the status of the company in the industry. It should be noted that the competitors are not happy to be at the positions they are currently holding in the industry. Thus, the Safaricom managers should be on the look out to maintain their position in the market lest the competitors outperform them.

5.4 Area for Further Research

This study concentrated on the application of innovation in developing strategy by Safaricom limited. Another area that needs further research is whether the new and innovative products

Safaricom limited is introducing into the market are sustainable in the near future. With the increasing competition, more studies should be done to find out if the products Safaricom limited is offering will be sustainable in the future.

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APPENDICES

Appendix I: Respondents Letter

Dear Respondent,

RE: MBA RESEARCH PROJECT

I am a postgraduate student at the University of Nairobi in the Faculty of Commerce undertaking a Master Degree in Business Management (MBA – Strategic Management). As a partial requirement to complete my degree programme, I am undertaking a Management Research on "application of innovation in developing strategies at Safaricom limited".

Your organization is selected and therefore forms part of the population of study. I kindly request for your valuable time in assisting me to complete the attached questionnaire.

The information in this questionnaire will be treated with utmost confidentiality and will not be used for any other purpose apart from its intended academic use. A copy of the research report will be availed to you as respondents.

Thank you.

Yours Faithfully

Philip Gathara

Appendix II: Interview Guide

1. INNOVATIVE STRATEGIES

a) Explain what innovative strategies Safaricom has adopted in the following areas.

I. Financials.....

II. Organizational structure.....

III. Technology .....

IV. Customer care.....

V. Product .....

VI. Human resources.....

VII. Any other (please specify_.....

b) Explain how Safaricom has used the following generic competitive strategies to gain the innovative advantage.

I. Cost leadership.....

II. Differentiation..... .....

III. Market focus……

c) Have these innovative strategies been implemented by other firms in the industry and how successful have they been?……

……

……

2. FACTORS INFLUENCING INNOVATION STRATEGIES

a) Have changes in the following factors affected the adoption and implementation of the strategies at Safaricom?

I. Technological factors……Yes/No

Explain……

……

……

……

II. Political factors……..Yes/No

Explain……

……

……

III. Economic factors……..Yes/No

Explain……

……

.....

.....

IV. Social factors.....Yes/No

Explain.....

.....

.....

.....

V. Legal factors.....Yes/No

Explain.....

.....

.....

.....

VI. Any other (please specify).....

.....

b) What are the challenges faced by Safaricom in the application of innovation strategies?

i).....

ii).....

iii).....

c) Explain the successes of the innovative strategies adopted by the Safaricom Company interms of:

I. Customer base.....

II. Profitability.....

III. Asset base.....

IV. Employee retention.....

V. Brand image.....

d) Explain the Safaricom's future interms of innovation.....

.....

d) What are some of the ares that Safaricom Ltd has not applied the innovation strategy?

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