

**STRATEGIES USED BY SAFARICOM IN RESPONDING TO THE COMPETITIVE
ENVIRONMENT**

BY

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DECLARATION

STUDENT'S DECLARATION

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

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SUPERVISOR'S DECLARATION

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

Signature.....Date.....

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DEDICATION

I dedicate this project to my loving husband Moses Njorah, son Sheldon Njorah, daughter Shanice Njorah and my dear Mom Jane Wanjiru for their keen interest, inspiration, peace and patience and for when most of the time I was in school; I could not help much in the home front but you were all there for me; I wouldn't have made it this far without you.

To my entire family and friends for your motivation, support, encouragement and understanding throughout the research period.

Above all, I thank the Almighty God for giving me good health and spirit to press on even when I felt like giving up.

I truly cherish you all for your unwavering moral and financial support.

God's blessing to you all.

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ABSTRACT

The alignment between strategy and environment lies at the centre of strategic management. Organizations are faced with turbulence and stiff competition in their external environment. Correct alignment helps a firm maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfillment of its strategic goals. The competitive environment is affected by market structure and profitability; the intensity of competitive rivalry and the degree of differentiation. The telecommunication industry today is characterized by an ever changing operating environment characterized by stiff competition among the major players as each seeks to establish itself in the market.

The purpose of this study was to find out the various strategic responses applied by Safaricom in responding to the competitive environment. This research was conducted through a case study since it was a research on one organization. Both primary and secondary data were used for the study. Interview guides were administered among senior managers in Safaricom Ltd to collect primary data. Being a case study, conceptual content analysis was most useful in analyzing the data.

From the study findings, the researcher concludes that the challenges in the external environment that affect the operations of the organisation were such as global financial crisis, competition from firms within the telecommunication industry, political instability, low technological advancements and registration from the regulator (CCK).The study also concludes that the responses to the competitive environment that have led to fruitful results were strong financial strategies, innovation, invention, strategies, research and development ventures and investment in technology strategies. Strategic responses adopted by Safaricom are both proactive and reactive to the changes in the company's external environment

The study recommends that although there Safaricom has been successful in neutralizing the challenges brought about by competition in the Telecommunication industry, Safaricom should engage in more cost reduction as a response to its competitors' strategies whose products and services are much cheaper. Besides providing its services and products at lower cost (cost

advantage), Safaricom should deliver benefits that exceed those of competing products (differentiation advantage) to gain a competitive advantage over other firms.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT.....	v
LIST OF ABBREVIATIONS.....	viii
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Concept of Strategy.....	1
1.1.2 Strategic Responses.....	2
1.1.3 Competitive Environment.....	3
1.1.4 Safaricom Limited.....	4
1.2 Statement of the Problem.....	5
1.3 Objective of the Study	7
1.4 Value of the Study	7
CHAPTER TWO: LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Theory and Concept of Strategy	9
2.3 Organizations and their External Environment.....	10
2.4 Factors Influencing the Strategic Responses	13
2.5 Strategic Responses to Competitive Environment.....	14
2.6 Empirical Studies	17
CHAPTER THREE: RESEARCH METHODOLOGY.....	19
3.1 Introduction.....	19
3.2 Research Design.....	19
3.3 Data Collection Methods	19

3.4 Data Analysis	20
CHAPTER FOUR: FINDINGS AND DISCUSSIONS.....	21
4.1 Introduction	21
4.2 Demographic Information.....	21
4.3 Strategies in Facing the Competitive Environment	22
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	28
5.1 Introduction.....	28
5.2 Summary of Findings.....	28
5.2 Conclusions	31
5.3 Recommendations.....	32
5.4 Limitations of the Study.....	33
5.5 Recommendations for Further Research	34
REFERENCES	36
APPENDICES	39
Appendix I: Introduction Letter	39
Appendix II: Interview Guide.....	40

LIST OF ABBREVIATIONS

CCK	-	Communications Commission of Kenya
CDMA	-	Code Division Multiple Access
EBDIT	-	Earnings Before Depreciation, Interest and Tax
JTL	-	Jamii Telecoms Limited
PhD	-	Doctor of Philosophy
<u>SAPs</u>	-	<u>Structural Adjustment Programmes</u>
SWOT	-	Strengths Weaknesses Opportunities and Threats
TKL	-	Telkom Kenya Limited
UK	-	United Kingdom

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A business external environment can be considered as those factors and conditions that are beyond the direct control and influence of a business. These factors depend on the complexity and dynamism of the environment. According to Pearce and Robinson (1991), strategic responses are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It's thus a reaction to what is happening in the organization's environment. According to Chepkwony (2001), when businesses see their environment as turbulent, complex and competitive, they respond to align with the environment.

Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2005). Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler, 2000). Aosa (1982) noted that industries are responding to customer's demand by becoming more innovative in their new ways of approaching the changed environment. They adopt strategies such as improved customer services, credit facility, post-paid cards and provision of convenience goods and services. Rapid technological change has created a new business environment where innovation has become a top competitive strategy. According to Ansoff and McDonnell (1990), increased competition has created fundamental shift in economic environment whereas no organization can hope to stay afloat if it fails to come up with proper strategic responses.

1.1.1 Concept of Strategy

Strategy refers to the machinery of the resources and activities of an organization to the environment in which it operates. According to Ansoff and McDonnell (1990), it is through

Strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness, and secondly, use of real time response through issue management and thirdly, Systematic management of resistance during strategic implementation (Grant, 2003).

Viewing strategy simply as a grand plan an overarching, never-to-be-altered plan of action might be inappropriate. A strategy can be grand once implemented, but the original visions might or might not remain standing by the time the strategy decision and implementation processes are completed (Grant, 2003). Despite thoughtful attempts over the decades to define strategy, a rash of manifestos continues to emerge that purport to redefine the term.

Strategy development is a multidimensional process that involves rational analysis and intuition, experience and emotion. A strategy serves as a vehicle for achieving consistency in decision making across different departments and individuals (Kazmi 2002). For strategy to provide coordination there is need for the strategy process to act as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of companies (Pearce and Robinson, 2005).

1.1.2 Strategic Responses

Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Three areas of a company strategy are important in identifying the responses of a firm to its environmental challenges (Pearce and Robinson, 2005). These include objective setting, the vision and mission of the company, strategic, competitive strategy where after considerations of the firm's competitive strengths and weaknesses vis-à-vis competition and

customer needs, the company establishes a position of competitive advantage (Lowes et. al., 1994).

Pearce and Robinson (2005), says that there is need to adopt new strategies that match the challenges from the environment. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

1.1.3 Competitive Environment

The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2005). A firm's competitive environment comprises of the following set of factors; threat of new entrants, suppliers, buyers, product substitutes and the intensity of rivalry among competitors that directly influences a firm and its competitive actions and responses. In total, the interactions among these five factors determine an industry's profit potential (Ansoff, 1990).

Environment has been characterized as complex, dynamic, multi-facet and having far reaching impact (Kazmi 2002). As a result, of these characteristics, the environment is composed of various factors, events, conditions and influence which interact with each other to create an entirely new set of influences leading to constant environmental change in its shape and character (Mose, 2007).

To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategies to survive (Porter, 1997). One such strategy is the

corporate turnaround strategy. The starting point is identification of the root cause or causes of the crisis. Turnaround strategies are used when a business worth resuming goes into corporate crisis (Pearce and Robinson, 2005).

1.1.4 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, Vodafone group plc, the world's largest Telecommunication company acquired a 40% stake and management responsibility for the company. Safaricom's aim is to remain the leading Mobile Network Operator in Kenya. The firm has a wide dealer network of over 152 dealers countrywide. The company has developed a broad of services to meet the needs of the over 13.3 million subscribers. The increasing number of subscribers has had a positive influence on the company's profitability. The company's turnover rose from US\$280 million in 2004-2005 to US\$875million in 2008-2009 (www.safaricom.co.ke).

In the modern world of globalization, Safaricom has been able to keep pace with the global mobile telecommunications market by having strategic business associations, which help in meeting the dynamic challenges of the modern mobile telecommunications world. Its strategic association with the world leaders in mobile telephony has created a niche in the Kenyan market. Safaricom announced net profits of \$220million in the last financial year.

The majority of the Company's customers receive services from it on prepaid basis and therefore the Company is exposed to a higher risk of customer churn. Prepaid customers, those customers that pay for service in advance through the purchase of wireless airtime, represented approximately 98% of Safaricom's subscribers as of 30 September, 2009. The Company has the benefit of experienced shareholders, attractive tariffs, a nationwide network of experienced and

effective dealers and customer service, a modern network and high caliber management, enabling it to maintain its position as Kenya's mobile market leader (www.cck.co.ke).

Safaricom has benefited and continues to benefit, both in terms of customers and market capitalization, from the extensive experience of Vodafone, the world's largest mobile telecommunications company. Vodafone has extensive international and operational experience in 25 countries, including a number of emerging markets. Part of the Company's strategy in getting people to notice its various products and services is through effective branding. The Company's principal color, green, is one of the main colors of the Kenyan flag, which resonates closely with Kenyan people and reflects the Company's environmentally-conscious mentality. . Safaricom thus retains its Kenyan identity and its Kenyan heritage (www.safaricom.co.ke).

1.2 Statement of the Problem

The alignment between strategy and environment lies at the centre of strategic management. Organizations are faced with turbulence and stiff competition in their external environment (Kotler, 2000). Correct alignment helps a firm maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfillment of its strategic goals (Hill and Jones, 2001). These inter-dependencies are crucial and consequently strategic decisions should always involve some assessment of their impact on other companies, and their likely reaction. The competitive environment is affected by market structure and profitability; the intensity of competitive rivalry and the degree of differentiation; market growth; the stage in the life of the products or services in question and the frequency of new product launches; capital intensity; and economies of scale (Johnson and Scholes, 2002).

With the increasing competition that companies are facing today, rewards will accrue to those who can read precisely what consumers want by continuously scanning the environment and delivering the greatest value to customers with the view that as the operating environment changes, a more pronounced transformation of the business landscape lies ahead (Ansoff, 1990). Therefore, strategy is vital to the adaptation of the changing business environment. According to the Mose (2007) implementation of structural adjustment programme and subsequent market liberalization opened the Kenyan market, leaving businesses at the mercy of market forces. As a result, businesses faced increased competition and registered low profits and even losses. This could probably be attributed to lack of strategic responses practices.

The telecommunication industry today is characterized by an ever changing operating environment characterized by stiff competition among the major players as each seeks to establish itself in the market which is best exemplified by the two current mobile telephony operators, Safaricom and Zain and the recent move towards unification of licenses to ensure that various products are offered under a single platform; coupled with other factors such as advance in technology; change in the communications need of the consumer, which has heralded the introduction of a number of new products into the market. As a result of the triggers for strategic change, the major player, Safaricom has had to develop strategic responses to enable it to remain competitive in the market, in the face of evolving conditions.

Many researchers have indicated the importance of this strategic alignment and suggested that the strategy-environment fit has strong performance implications (Porter, 1997; Smith, 2003; Venkatraman and Prescott, 1990). When the environment is dynamic/uncertain and complex, the importance of this fit is magnified (Wernerfelt and Karnani, 1987). Locally, studies on strategic

responses and changing environment have been conducted. Mutua (2004) conducted a survey of responses to changing environmental conditions which was a case of UON. Mpungu, (2005) carried out a research on strategic responses to competitive environmental conditions whose focus was on AAR Health Services Ltd. Kashero, (2008) studied the strategic responses to competitive environment at Lloyd Masika while Maina, (2008) did a research on the strategic responses to changing environmental conditions which centered its focus on Central Bank of Kenya. To date no known study has focused on the strategic responses adopted by Safaricom to counter the competition in its operating environment. This is despite the fact that the communications sector in Kenya has experienced phenomenal growth in the last one decade, including expansion in the number of operators in the market and the changing nature of consumer demands. The current changes brought about by globalization and economic crisis have had a great effect on the company hence affecting its strategic alignment to the environment. It is in this light that the researcher aims to fill the existing gap by carrying out a research on the Safaricom strategies in facing the competitive environment in which it operates.

1.3 Objective of the Study

The objective of this study was to find out the various strategic responses applied by Safaricom in responding to the competitive environment

1.4 Value of the Study

The findings of this research contribute to provide vital information to facilitate the management of Safaricom in designing appropriate methods and strategies geared towards business sustainability. Thus the findings may help them identify gaps in their strategic responses and enable them to better respond to environmental changes. The findings of the study may be

beneficial to other players in the telecommunication industry since they will also be enlightened on how the business responds to changes in the environment.

The study also contributes to the body of knowledge to researchers and scholars who will undertake further studies in a related field. The researcher will gain useful skill and experience that will aid in carrying out future research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various Researchers, Scholars, Analysts and Authors. The specific areas covered here are strategy, organizations and their external environment, factors influencing the strategic responses and strategic responses to dynamic environment.

2.2 Theory and Concept of Strategy

According to Porter (1997) strategy is about competition and the means by which an organization tries to gain a competitive advantage. He has described a category scheme consisting of three general types of strategies that are commonly used by businesses. The three generic strategies are as follows: strategic scope and strategic strength. Strategic scope is a demand-side dimension and looks at the size and composition of the market to be targeted (Porter, 1997). Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In addition, he identified two competencies that he felt were most important: product differentiation and product cost (efficiency).

Johnson and Scoles (2002), view strategy as the direction and scope of an organization over the long-term which achieves advantage for the organization through its configuration of resources within a changing environment and fulfill stakeholders expectations. Boseman and Phatak (1989) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength.

Strategy development is a multidimensional process that must involve rational analysis and intuition, experience, and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process (Ghemawat, 1991). Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives. Moreover, critical decisions become susceptible to the whims and preferences of individual managers, to contemporary fads, and to wishful thinking Henry, (1978).

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

2.3 Organizations and their External Environment

As Ansoff and McDonnell (1990) argued, business firms are in a constant two way interaction with the environment. They receive an assortment of resources from the environment and after a transformation, deliver them back to the environment in the form of goods and services. What is

released back can only be consumed by the organization if it fits the environment requirements and needs (Porter, 1997).

Pearce and Robinson (2005) define an organization's external environment as all those factors beyond the control of the firm that influence its choice of direction, action, organizational structure and internal processes. Organizations exist in a complex commercial, economic, legal, demographic, technological, political, cultural and social environment. This environment is not static but is under constant change which affects the organizations that operates within it. These environmental changes are more complex to some organizations than others and for survival an organization must maintain a strategic fit with its environment. A sustainable competitive advantage is achieved when there is a strategic fit between the external and internal environment. Pearce and Robinson (2005) state that economic factors concern the nature and direction of the economy in which a firm operates. Some of the economic factors on both national and international level that managers must consider include general availability of credit, the level of disposable income, the propensity of people to spend, interest rates, inflation rates, and trends in the growth of the gross national product. A firm must therefore include these factors in its strategy formulation (Ghemawat, 1991).

Kombo (1997) found that as a result of the ongoing economic reforms, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment. The firms in this industry introduced new technologies of product development, differentiated their products, segmented and targeted their customers more and improved customer services (Chwelos 2001). They also made significant changes to marketing mix variables of promotion, price and distribution in response to competition. The social factors that affect a firm involves

the beliefs, values attitudes, opinions and lifestyles of persons in the firms external environment, as developed from cultural, ecological, demographic, religious, educational, and ethnic conditioning, Pearce and Robinson (2007). As social attitudes changes so too does the demand of various types of products (Smith, 2003). Like other forces in the external environment, social factors are dynamic with constant change resulting from efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors. For managers, informed judgment of the impact of changes in social; cultural factors are paramount.

Pearce and Robinson (2005) reckon that the direction and stability of political factors are major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which firms must operate. Political constraints are placed on firm's fair trade decisions antitrust laws, tax programmes, minimum wage legislation, pollution and pricing policies and administrative regulations. Some are meant to protect the firm and they include patents laws, government subsidies etc. Steel and Webster (1992) found out that small enterprises in Ghana adapted to the competitive environment as a result of Structural Adjustment Programmes (SAPs), by altering their product mixes. This enabled these firms to complete with imports.

Kazmi (2002) observed that a technological breakthrough can have a sudden and dramatic effect on firm's environment. It may spawn new markets and products or significantly shorten the anticipated life of a manufacturing facility. Hence for a firm to stay successful, it must strive to understand both the existing technological advances that can affect its products and services also the ability to forecast future technological advances helps alert strategic mangers to both impending challenges and promising opportunities.

Pearce and Robinson (2005), define the ecology as the relationship among human beings and other living things and the air soil, and water that support them. Specific concerns in this area include global warming, loss of habitant, and biodiversity as well as air, water, and pollution. Firms are increasingly being called upon to pay attention to this by protecting the environment. Pearce and Robinson also observed that despite clean up efforts the job of protecting the stakeholders is entrusted on the organizations. Hence any effort to attain success through competitive advantage must be full aware of all the external environment factors and their impact on the day to day operations of the business (Chwelos 2001).

2.4 Factors Influencing the Strategic Responses

Numerous factors, both internal and external to an organization affect how it responds to environmental factors affecting it including information and communication technology, culture change and organizational structure. The computer and development in telecommunications are the most important aspects of information and communication technology that have transformed the business environment and process. According to Porter (1997) technological change especially information technology, is amongst the most important forces that can alter the rules of competition. The computer has enabled the automation of many processes in business organizations which has led to dramatic improvements in productivity and reduction in costs while telecommunications have dramatically improved the speed with which information is transmitted thus facilitating speedy decision making (Chwelos 2001).

Information technology has become an indispensable ingredient in several strategic thrusts that businesses have initiated to meet the challenges of change. Using information technology for business processes re-engineering frequently results in the development of information systems

that help give a company a competitive advantage in the market place. These strategic information systems use information technology to develop products services and process and capabilities that give a business a strategic advantage over the competitive forces it faces in its industry (O'Brien, 1999).

Brown (1998) defines organizational culture as the pattern of beliefs, values and learned ways of coping with experience that have developed during the court of an organizational history and which tend to be manifested in its members. Thus an appropriate and cohesive culture can be a source of competitive advantage. This is because it promotes consistency, coordination and control and reduces certainty while enhancing motivation and organizational effectiveness of which facilitate the chances of being successful in the market place (Yip, 1989). Corporate cultural identity for the market is a strategic tool that is used to manipulate consumer perceptions of an organization and its product and services.

Stewart and Champion (2007) define organizational culture as the established pattern of relationships outlining communication control and authority patterns with regard to the number of levels in the structure of the organization often. Today and tomorrow, organization structure reflects an external focus, flexible interaction, interdependency and a bottom up approach (Pearce and Robinson 2005). One of the strategic responses to environmental turbulence is restructuring at the heart of restructuring is the notion, that some activities, within the business value chain are more critical to the success of the business strategy than others. O'Brien (1999) argued that successful strategies could only be implemented through an organizational structure that links peoples' abilities and skills to the mission of the enterprise.

2.5 Strategic Responses to Competitive Environment

In order to achieve a competitive advantage, strategy needs to focus on unique activities. Strategy researchers have emphasized stability in a firm's pattern of resource commitments (Ghemawat, 1991). Through resource commitments, firms erect entry barriers, mobility barriers, and isolating mechanisms that protect their competitive advantages. In order to develop strong strategic responses capabilities a firm needs to have the three types of flexibilities market flexibility production flexibility and competitive flexibility (Yip, 1989). Sustainable competitive advantage is born out of core competencies that yield long-term benefit to the company. Numerous organizations have adopted strategic responses since market complexity and competition have increased drastically in their industry.

According to Hill and Jones (2001), argue that focus strategy concentrates on serving particular market niche, which can be defined geographically, type of customer or by segment of the product line. According to Johnson and Scholes (2002) “Business unit strategy is about how to compete successfully in particular markets”. According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources.

According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Even though strategies may be focused on a given function, as often as not they embrace two or more functions and require close co-operation among functions

to attain companywide efficiency, quality innovation, and customer responsiveness goals. The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise.

Porter (1998) states that the goals of a competitive strategy for a business went in an industry is to find a position in the industry where the company can best defend itself against the five competitive forces – entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors. There five forces constitute the industry structure and it is from industry analysis that the firm determines its competitive strategy. He identified three potentially successful generic strategy approaches to outperforming other firms in an industry. Pearce and Robinson (2005) states knowledge of these underlying sources of competitive pressure provides the grounds work for strategic agenda of action.

Porter (1997) argues that developing competitive strategies involves development of a broad formula for how a firm is going to compete, what are the goals and policies or tactics necessary for achieving the goals. Competitive strategy includes actions or attempts by a firm to attract customers, retain them withstand competitive pressures and strengthen its market positions and is aimed at gaining competitive advantage. Porter expressed the key aspects of firm's competitive strategies in what he referred to as the "wheel of competitive strategies".

Diversification makes sense when good opportunities can be found outside the present business.

Kotler (2000) states that a good opportunity is one in which the industry is highly attractive and

the company has the mix of business strengths to be successful, Fred (1997) observed. Three types of diversification are possible. Second the company might search for new product that could appeal to its current customers even though the new products are technologically correlated to its current product line. Finally, the company might seek new businesses that have no relationships to the company's current technology, products or markets Strategic responses to a changing competitive environment therefore entail substantial changes to organization long term behaviour.

Differentiation strategy is one of porter's key business strategies. When using this strategy, a company focuses its efforts on providing a unique product or service. Since the product is unique, this strategy provides high customer loyalty (porter, 1998). Pearce and Robinson (2007) contend that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. Product differentiation fulfils a customer need and involves tailoring the product or service to the customer. This allows the organization to capture the market share.

2.6 Empirical Studies

Aosa (1992) noted that the action of competitors have a direct impact on a firm's strategy. He further stated that strategy will only make sense if the markets to which it relates are known; and pointed out that the nature of the industry in which the company operates needs to be understood. According to Chwelos (2001), external pressures, perceived benefits and readiness are significant predictors of intent to gain response strategies by organizations, with external pressures and readiness being considerably more important than perceived benefits. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining

component of the firm's responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions. Burnes (1998) the concern in real time responses is to minimize the sum to total losses and restore profitability to ensure organization's success in a turbulent and surprising environment. Porter (1980) outlines there are three approaches to competitive strategy: Striving to be the overall low cost producer, i.e. low cost leadership strategy; seeking to differentiate one's product offering from that of its rivals, i.e. differentiation strategy; and Focus on a narrow portion of the market, i.e. focus or niche strategy.

The most influential strategist of the decade was Porter (1980). He introduced many new concepts including; 5 forces analysis, generic strategies, the value chain, strategic groups, and clusters. In 5 forces analysis, he identifies the forces that shape a firm's strategic environment. It is like a SWOT analysis with structure and purpose. It shows how a firm can use these forces to obtain a sustainable competitive advantage. Porter modifies Chandler's 1962 dictum about structure following strategy by introducing a second level of structure: Organizational structure follows strategy, which in turn follows industry structure. Porter's generic strategies detail the interaction between cost minimization strategies, product differentiation strategies, and market focus strategies. A firm will be successful only to the extent that it contributes to the industry's value chain. This forced management to look at its operations from the customer's point of view. Every operation should be examined in terms of what value it adds in the eyes of the final customer (Porter, 1980).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a blueprint of the methodology that was used by the researcher to find answers to the research question. In this chapter the research methodology was presented in the following order, research design, data collection methods and finally the data analysis.

3.2 Research Design

This research was conducted through a case study since it was a research on one organization. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). Since this study sought to identify the Safaricom strategies in facing the dynamic environment, a case study design was deemed the best design to fulfill the objectives of the study. Kothari, (2004) and Yin (1994) noted that a case study involves a careful and complete observation of social units.

3.3 Data Collection Methods

Both primary and secondary data were used for the study. Interview guides were administered among senior managers in Safaricom Ltd to collect primary data. The interview guides had open-ended questions. The use of an open-interview strategy enabled better exposure of the interviewees' personal perspectives, their deeper thoughts, emotions and ambitions (Paton, 1990). This less structured approach allowed the interviews to be much more like conversations than formal events with predetermined response categories, permitting the respondents' views to unfold, rather than the predisposition of the researcher (Marshall and Rossman, 1997, p. 80). The interview guides were administered on a face to face basis. Secondary data sources were also employed through the use of previous documents.

3.4 Data Analysis

After the interview guides were filled up, the interview guides were edited for completeness and consistency. Being a case study, conceptual content analysis was most useful in analyzing the data. Conceptual content is defined by Creswell (2003) as a technique for making inferences by systematically and objectively identifying specific characteristic of messages and using the same approach to relate trends. Bryman and Bell, (2003) describe it as a technique used to make inferences by systematically and objectively identifying specific characteristics and messages. This was the best method of analyzing the qualitative data that was collected from the interviews and discussions.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents data findings from the field, its analysis and interpretations there-of. The data was gathered through interview guides and analysed using content analysis. The data findings were on the strategies used by Safaricom in responding to the competitive environment.

According to the data found, all the 8 heads of department projected in the previous chapter to be interviewed were interviewed which makes a response rate of 100%. The commendable response rate was achieved at after the researcher made frantic effort at booking appointment with the head of department despite their tight schedules and making phone calls to remind them of the interview.

4.2 Demographic Information

The study, in an effort to ascertain the interviewees' competence and conversance with matters regarding Safaricom Ltd asked questions on the position that the interviewee held in the organization. According to the data findings, all the interviewees were senior managers in charge of various department such as corporate strategy, human resources, regulatory, business development, and sales and marketing departments. On the highest level of education, the study found that that most of the interviewees had at least a University Degree while others had a Masters Degree and a PhD Degree. The researcher also asked a question on the years that the interviewees had worked for the organisation (Safaricom Ltd). According to the interviewees' response, all of them had worked for the organisation for at least five years as most promotions are internal, within the organization. The interviewees' responses hence had the advantage of

good command and responsibility being that they were senior managers and had experience and aptitude owing to their years of experience in the organisation.

4.3 Strategies in Facing the Competitive Environment

The interviewees were asked to describe the operation environment in the telecommunication industry in Kenya. From the responses, the interviewees were unanimous that the environment was very dynamic with distinct technological change, increasing need to maintain high quality services due to increased customer demand as the customers are exposed to the global telecommunications industry, changing legal environment such as the regulatory guidelines promulgated by Communications Commission of Kenya (CCK), increasing inflation rate has affected the cost of rollout and equipment, licensing of other voice over Internet protocol (VoIP) providers (new entrants into the telecommunications industry) who offer low cost voice calls that have posed a major competition challenge to the operations of Safaricom Limited. In line with this is the fact that there are upcoming Internet Service Providers (ISP) that offer high-speed data to the internet such as the introduction of Code Division Multiple Access (CDMA) by Telkom Kenya Limited (TKL).

The interviewees also reiterated that the changes that they have experienced in their department in regard to the strategies employed to increase the competitiveness of the company were such as differentiating the main products from those offered by competitors, for instance voice calls and data calls. The interviewees also agreed that competition had made the company to run massive promotional campaigns so as to win the market share. This has led to increased costs.

The study proceeded to determine the challenges in the external environment that affect the operations of the organisation. All the interviewees agreed unanimously that the organization was faced by challenges such global financial crisis, competition from firms within the telecommunication industry, political instability and low technological advancements. The interviewees further confided that registration from the regulator (CCK) also mainly affect the operation of Safaricom.

To the question on the changes that have taken place due to political climate, the interviewees cited low cash flows, entry of many competitors due to liberalization of the economy; regulation and receptive attitude of potential customers since the company is foreign owned. They further indicated that the social factors that have affected the business operations at Safaricom were such as increasing demand from customers for quality, shift in customer loyalty and cultural influences on customer needs, regulation and policies. To counter these factors, the interviewees indicated that Safaricom has reacted by introducing low-cost handsets so as to make it easy for customers to subscribe. The interviewees also reiterated that Safaricom Company limited has been focusing more on the Kenyan market as a strategy to be the network of choice for everyone.

The study also proceeded to determine the areas in which technology has taken toll in the company. The interviewees concurred that systems technology had taken toll in areas like adoption Information Communication Technology such as Management Information System (MIS); 3G speed, Wimax and fibre for data services and mobile banking system. The interviewees also indicated that to cope with the above technological challenges, the strategies that have been put in place to achieve the required performance were such as the introduction of the 3G network that transfers data at a very high speed which was geared towards the

competition from land-line and CDMA offered by Telkom wireless. The company also formed alliances with other financial institutions like banks to introduce mobile banking through M-Pesa services, introduced multimedia messaging, video calling services, internal messaging system and fax gateway, automatic call distribution system and automated query handling.

On the method used to communicate any strategic response and how they are implemented at Safaricom, the interviewees indicated that communication at Safaricom was through internal messaging system, fax gateway and internal memos. These are implemented by the senior management setting out the strategy and involving all employees in the implementation process.

The interviewees further intimated that the responses to the competitive environment that have led to fruitful results were strong financial strategies (operation cost reduction), innovation (product, technology) and invention (new product and technological) strategies and research and development ventures aimed at developing the relevant customer knowledge. The interviewees also cited investment in technology strategies that had been adopted in response to the challenges yielded fruitful results. They also indicated that Safaricom strives to adopted cutting edge innovation and change, crafted specifically to address all the existing and potential customer communication need like in data services, customers can access the internet through mobile internet, broadband modem and 3G router. The company also continues to introduce products and services like payment of bills though M-Pesa and engage in heavy advertisement and promotions for the same like selling subsidized phones, giving offers and other promotions. These responses so far had seen profitability of the company increase unbelievably for example 2008 financial report showed an EBDIT increase of 1.7% excluding Forex loss despite competitors like Zain Kenya Ltd making a USD 7 billion loss in the same period.

The interviewees were asked to elaborate on whether the response strategies Safaricom Company limited had chosen to react to competition have been successful. All the interviewees unanimously agreed that to a very great extent, the strategies have been very successful. For instance, the interviewees related the success of the products Safaricom has been offering in the market to the aggressive advertising and the choice of brand names for their products. The marketing strategies that the company has adopted to respond to challenges of competition have therefore been realized in increased sales and sound profitability of the company.

The interviewees also cited the success of the response strategies chosen by the company to the introduction of off peak tariffs that encourage people to make more calls when they are relaxed and having a good time at home on whenever they are. Other strategies that have contributed to the success of the company have included the introduction of different calling rates targeted for different customers with different calling needs. Safaricom has also introduced SMS crazy and Bonga points that have seen the company performing better than other competitors. The company has also formed partnerships with other institutions for the delivery of their services, for example Mkesho thus managing to keep the customers at bay with their superior automated product delivery (such as their payments system) which differentiates them.

The data findings showed that Safaricom has opened more retail shops countrywide and currently have countrywide dealer network to handle distribution and selling of its services and products, making strategic alliance in its quest for service delivery like through strategic alliances (Jamii Telecoms Limited; JTL) and deliberate strategy of targeted acquisitions (One Com Ltd) Safaricom has put the necessary structures (laying down of data cables) in place to achieve unmatched data proposition.

The interviewees were in accord that the importance of long term planning on strategic responses to increase the competitive advantage for the company's future was to enhance assessment of the relevant groups such as customers, competitors, consumers, suppliers, creditors and the government or political climate so as to align the strategy with current environment. To the question on the type of strategic responses to the changes in the company's external environment, the interviewees intimated that strategic responses were both proactive and reactive to the changes in the company's external environment.

The interviewees were in accord that the adoption of the response strategies to external changes were of value to the firm citing that Safaricom has always taken the lead by reducing the costs of making calls to a minimum in the market which has resulted in the company having a large clientele base. The reactions have also been seen in the launch of more innovative 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. This has led to the subscribers using one sim-card across the East African region. 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 rated just like home. Other products launched have included M-Pesa (mobile banking) and Sambaza (topping up another person's phone). The marketing strategies and especially promotional strategies have been so vicious which has resulted in success in the company customer acquisition endeavor. They also said that the company has also increased their coverage and invested in modern equipment to make their services better which give the company a competitive advantage over its rivals.

On what else Safaricom Limited should do to stay competitive, the interviewees indicated that so as to develop a competent staff to match those of their competitors the company should provide diverse world-class challenging career opportunities by developing, recognizing and rewarding performance. Due to global financial crisis, the interviewees recommended that the company should cut down its human resources in its branch network as a strategic response to reduce salary expenses. The interviewees further said that since superior service delivery is critical for Safaricom competitiveness, hence internally, the company's business segments should work closely together in ensuring that there is an efficient customer service. The interviewees also recommended that the company should be involved in more corporate social responsibility to give back to the society through their corporate social responsibility policy which is one way of increasing its influence on the lives of Kenyans and thus enhancing customer loyalty.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations were drawn are in quest of addressing the research question or achieving at the research objective which is the strategies used by Safaricom in responding to the competitive environment.

5.2 Summary of Findings

The study found that the operation environment in the telecommunication industry in Kenya is very dynamic with distinct technological change, increasing need to maintain high quality services due to increased customer demand, changing legal environment such as the regulatory guidelines, increasing inflation rate and new entrants into the telecommunications industry offering low cost voice calls. All these have posed major competition challenges to the operations of Safaricom Limited.

The researcher also found that the changes that they have experienced in their department in regard to the strategies employed to increase the competitiveness of the company were such as differentiating the main products from those offered by competitors, for instance voice calls and data calls and massive promotional campaigns which has led to increased costs. The challenges in the external environment that affect the operations of the organisation were such as global financial crisis, competition from firms within the telecommunication industry, political instability, low technological advancements and registration from the regulator (CCK).

The changes that have taken place due to political climate were low cash flows, entry of many competitors due to liberalization of the economy; regulation and receptive attitude of potential customers. The study further found that the social factors that have affected the business operations at Safaricom were increasing demand from customers for quality, shift in customer loyalty and cultural influences on customer needs, regulation and policies. To counter these factors, Safaricom has reacted by introducing low-cost handsets so as to make it easy for customers to subscribe.

The study also established that technology had taken toll at Safaricom in areas like Management Information System (MIS); Wimax and fibre for data services and mobile banking system. To cope with the technological challenges, the strategies that have been put in place to achieve the required performance were such as the introduction of the 3G network that transfers data at a very high speed which was geared towards the competition from land-line and CDMA offered by Telkom wireless. The company also formed alliances with other financial institutions like banks to introduce mobile banking through M-Pesa services, introduced multimedia messaging, video calling services, internal messaging system and fax gateway, automatic call distribution system and automated query handling.

On the method used to communicate any strategic response and how they are implemented at Safaricom, the study found that communication at Safaricom was through internal messaging system, fax gateway and internal memos. These are implemented by the senior management setting out the strategy and involving all employees in the implementation process.

The study further established that the responses to the competitive environment that have led to fruitful results were strong financial strategies (operation cost reduction), innovation (product,

technology) and invention (new product and technological) strategies and research and development ventures aimed at developing the relevant customer knowledge. The study also revealed that investment in technology strategies yielded fruitful results. They also indicated that Safaricom has adopted cutting edge innovation and change, crafted specifically to address all the existing and potential customer communication need like in data services, broadband modem and 3G router. The company also continues to introduce products and services like payment of bills through M-Pesa and engage in heavy advertisement and promotions. These responses so far had seen profitability of the company increase unbelievably.

The study also revealed that the response strategies Safaricom Company limited had chosen to react to competition have been very successful such as the success of the products Safaricom has been offering in the market to the aggressive advertising and the choice of brand names for their products. The marketing strategies that the company has adopted to respond to challenges of competition have therefore been realized in increased sales and sound profitability of the company. Other strategies that have contributed to the success of the company included the introduction of different calling rates targeted for different customers with different calling needs. Safaricom has also introduced SMS crazy and Bonga points that have seen the company performing better than other competitors. The company has also formed partnerships with other institutions for the delivery of their services, for example Mkesho thus managing to keep the competitors at bay with their superior automated product delivery (such as their payments system) which differentiates them.

The study also established that the importance of long term planning on strategic responses to increase the competitive advantage for the company's future was to enhance assessment of the

relevant groups such as customers, competitors, consumers, suppliers, creditors and the government or political climate so as to align the strategy with current environment. To the question on the type of strategic responses to the changes in the company's external environment, the study found that strategic responses were both proactive and reactive to the changes in the company's external environment.

The study further established that the adoption of the response strategies to external changes were of value to the firm in that Safaricom has always taken the lead by reducing the costs of making calls to a minimum in the market which has resulted in the company having a large clientele base. The reactions have also been seen in the launch of more innovative 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. This has led to the subscribers using one sim-card across the East African region. 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 rate just like home. Other products launched have included M-Pesa (mobile banking) and Sambaza (topping up another person's phone). The marketing strategies and especially promotional strategies have been so vicious which has resulted in success in the company customer acquisition endeavor. The company has also increased their coverage and invested in modern equipment to make their services better which give the company a competitive advantage over its rivals.

5.2 Conclusions

In the modern world of stiff competition, Safaricom has been able to keep pace with the rivalry in the telecommunication scenario by adopting various response strategies. From the study findings, the researcher concludes that the challenges in the external environment that affect the operations of the organisation were such as global financial crisis, competition from firms within the telecommunication industry, political instability, low technological advancements and registration from the regulator (CCK).

The study also concludes that the responses to the competitive environment that have led to fruitful results were strong financial strategies (operation cost reduction), innovation (product, technology), invention (new product and technological) strategies, research and development ventures and investment in technology strategies yielded fruitful results seeing profitability of the company increase unbelievably. Strategic responses adopted by Safaricom are both proactive and reactive to the changes in the company's external environment.

The study further concludes that Safaricom has always taken the lead by reducing the costs of making calls to a minimum in the market which has resulted in the company having a large clientele base. The reactions have also been seen in the launch of more innovative products like one network across East Africa. M-Pesa (mobile banking) and Sambaza (topping up another person's phone). The marketing strategies and especially promotional strategies have been so vicious which has resulted in success in the company customer acquisition endeavor.

5.3 Recommendations

From the discussions and conclusions in this chapter, the study recommends that although there Safaricom has been successful in neutralizing the challenges brought about by competition in the Telecommunication industry, Safaricom should engage in more cost reduction as a response to its competitors' strategies whose products and services are much cheaper. While the introduction of 'Masaa ya Kubamba' was directed towards the same cause, a lot need to be done especially in its data services.

Besides providing its services and products at lower cost (cost advantage), Safaricom should deliver benefits that exceed those of competing products (differentiation advantage) to gain a competitive advantage over other firms. The study further recommends that Safaricom should heavily advertise itself in other countries and diversify in other countries that not in East Africa in order to take advantage of economic liberations in many countries as a result of globalization. They should undertake appropriate, persuasive and sustained advertisement, marketing and campaigns on products and services so as to change the negative perception on industry, increase its market share and customer preference. This would increase its customer base and compete even more with Zain Kenya which is currently in 17 African countries.

The study also recommends that the company should recruit workers who have the necessary knowledge and competencies in the business to minimize on the induction and training costs. The staff should also be remunerated fairly and have better work condition and terms to ward-off staff poaching by competitors.

5.4 Limitations of the Study

Being that this was a case study on one company the data gathered might differ from strategic responses that other companies in the Telecommunication industry have adopted to match the competitive environment. This is because different companies adopt different strategies that differentiate them from their competitors. The study however, constructed an effective research instrument that sought to elicit general and specific information on the strategic responses that companies adopt to match the competitive environment.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on strategic responses to competitive environment. Due to limited finances the study could not be carried out on the other branches of Safaricom. The study, however, minimized these by conducting the interview at the company's headquarter since it is where strategies are made and rolled out to other branches that operate on the blue print.

5.5 Recommendations for Further Research

The study recommends that further research should be done on the other companies in the Telecommunication industry so as to get comprehensive information on how the other players in the industry have responded to the challenges posed by competitive environment.

The study further recommends that further research should be done to evaluate how the indigenous companies have responded to the competitive environment based on what acclaimed scholars have postulated as the best strategic responses framework.

More research needs to be done to determine what effect the increased promotional campaigns have had on the performance of the company. The contribution of marketing strategy to the overall performance of Safaricom should be explored. Another area that needs further research is whether the new and innovative products Safaricom 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 is offering will be sustainable in the future.

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APPENDICES

Appendix I: Introduction Letter

August 2010

The Head of Human Resource Department

Safaricom Ltd

P.O Box

Nairobi.

Dear Sir/Madam,

RE: REQUEST TO COLLECT DATA FOR MBA RESEARCH PROJECT

I am a student at the University of Nairobi pursuing a Masters of Business Administration program.

Pursuant to the pre-requisite course work, I would like to conduct a research project on Safaricom strategies in responding to the competitive environment. The focus of my research will be the Safaricom Limited and will involve use of interview guides administered to members of the management team.

I kindly seek your authority to conduct the research at Safaricom Ltd through interview guides and use of relevant documents. I have enclosed an introductory letter from the University. Your assistance is highly valued. Thank you in advance.

Yours faithfully,

CATHERINE W. IRUNGU

Appendix II: Interview Guide

SECTION A: DEMOGRAPHIC QUESTIONS

1. Position held in the organization
2. Department.....
3. What is your highest level of education?
4. Duration the organization (Year(s))?

SECTION B: STRATEGIES IN FACING THE COMPETITIVE ENVIRONMENT

5. In your opinion, how would you describe the operation environment in the telecommunication industry in Kenya?
6. What are the changes you have experienced in your department in regard to the strategies employed to increase the competitiveness of your company?
7. What are the challenges in the external environment that affect the operations of the organisation?
8. Indicate any changes that have taken place in your industry due to political climate?
9. What social factors have affected your business operations? Indicate briefly.
10. Briefly indicate the areas in which technology has taken toll?
11. To respond to the above technological challenges, what strategies have been put in place to achieve the required performance?
12. What method is used to communicate any strategic response and how they are implemented at Safaricom?
13. Which responses to the competitive environment led to fruitful results? Indicate why.
14. Are the strategies Safaricom uses to react to competition successful? Explain.

15. What is your view on the importance of long term planning on strategic responses to increase the competitive advantage for your company's future?
16. Do you consider the various response strategies adopted by Safaricom to be proactive or reactive to the changes in the external environment?
17. In your own opinion, is adoption of the response strategies to external changes of any value to the firm? Briefly explain.
18. What else do you think Safaricom Limited should do to stay competitive?

THANK YOU!!