STRATEGIC RESPONSES BY MOBILE PHONE COMPANIES IN KENYA TO ENVIRONMENTAL CHANGES

BY

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DECLARATION

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

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This management research project has been submitted with my approval as a University Supervisor.

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Jeremiah Kagwe

DEDICATION

This project is dedicated to my twin brother David Kinuthia Rumba for his consistent encouragement and support. May God bless you.

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ABSTRACT

Strategic responses to environmental changes by mobile phone companies in Kenya have become a phenomenal issue for the survival of mobile phone industry. This study has therefore been designed to establish the environmental changes occurring in the business sector and consequent strategic responses being applied in the mobile phone industry.

Telecommunication industry in Kenya and worldwide is quite lucrative but faces challenges just like any other industry. Some of the challenges that have greatly affected the growth of this sector include competition from new entrants, social reforms, political anxieties, technological advancement and globalization. Organizations have therefore responded to environmental changes with unique and dynamic strategies if only to survive.

This was a census study, which was meant to establish the competitive strategies adopted by mobile phone companies. The population of interest in this study was all the five mobile phone companies in Kenya. The sample in this study consisted of 50 respondents who have been involved in the transaction of mobile phone products. The data collected was analyzed by use of frequencies, percentages and means.

There was a revelation that mobile phone industry is very competitive and for an enterprise to survive, aggressive marketing should be undertaken. The study though successful, had some limitations such as suspicion of any inquisitive personality especially on technological issues due to the cut throat competition normally experienced in this sector. Nevertheless, the study was largely successful and will provide much needed insight in to an industry that is catching the attention of all business leaders world wide.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

1.1.1 Development of Strategy and Strategic Responses

Strategy is about winning (Grant, 1998). While there is no dispute regarding the importance of strategy in business management, there does not appear to be any agreement as to what exactly is strategy or how exactly the 'winning' is achieved. Indeed, there are as many approaches to strategy but none are universally accepted (Stacey, 2003). Likewise Ansoff, (1987) says that strategy is an elusive and somewhat abstract concept.

Since the introduction of long range planning, and later strategic management, most organizations have been developing corporate strategies in one form or the other. Burnes, (2004) follows the trends in strategy development practices since the times of the classical and Human Relations approach up to the development of the Contingency Theory around the 1960s, to the development of new paradigms in the 1980s and 1990s. Burnes (2004) argues that rather than managers being prisoners of mathematical models and rational approaches to strategy development, they have considerable freedom of action and a wide range of options to choose from. Although he recognizes the fact that managers are not totally free agents as their freedom of action is constrained or shaped by the unique set of organizational, environmental and societal factors, he argues that these constraints are not immutable. He further argues that it is possible for managers to manipulate the situational variables they face with regard to structure. He goes further to argue that managers can exert some influence over strategic constraints and, potentially at least, they can select the approach to strategy that best suits their preferences.

One of the environmental threats to a business arises from competition. Increased competition threatens the attractiveness of an industry and reducing its profitability. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment. Firms therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. Firms respond to competition in different ways. Some may opt to do product improvement, divestiture, and diversification, entry into new markets or even merging or buying out competitors. Porter (1985) postulates that, the essence of strategy formulation is coping with competition.

The foregoing not withstanding, the subject of strategy has continued to develop as organizations craft new ways of 'surviving' and 'winning' in a business arena where everything is changing on a real-time basis and the rules of the game are not even known to any of the players. Morgan (1988) equates business management to surfing in a turbulent sea and asserts that like surfers, managers and their organizations have to ride on a sea of change that can twist and turn with all the power of the ocean. Managers of the future will have to ride this turbulence with increasing skill, and many more competences will be required (Morgan, 1988). Burnes (2004) argue that the organizational, environmental, and societal constraints are not immutable and, that managers can select the approach to strategy that best suits their preference is intriguing because it gives an underlying implication that business managers can literally overcome any strategic obstacle placed on their paths.

1.1.2 Environmental Impacts

Organizations are environment dependent and environment serving and they are in a constant two-way interaction with the environment. They receive inputs from the environment, transform or add value to them, and return the outputs in form of goods and services back to the environment. They therefore affect and are affected by what happens in the external environment, which is beyond the organization's control. Environmental change creates pressure for change in the organization and this means that they have to respond to relevant external change to ensure that they survive (Ansoff and McDonnell, 1990).

Environment has been characterized as complex, dynamic, multi-faceted and having far reaching impact (Chepkwony, 2000). 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. A fundamental change is occurring in the world economy whereby the world economies are witnessing the forces of globalization and liberalization of trade.

Ansoff (1987) noted that the environment is constantly changing, and so it makes it imperative for organizations to continuously adapt their activities to succeed. In order to survive in this very dynamic environment, organizations need strategies to focus on their customers and to deal with the emerging environmental challenges.

The Kenyan business environment has been undergoing drastic changes for sometime now. Some of the changes include the accelerated implementation of economic reforms, the globalization and liberalization of the economy, discontinuation of price controls, privatization and commercialization of the public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities. Failure to do this may put the future success of the organization's in jeopardy (Aosa, 1998).

1.1.3 Strategic Responses

Aosa (1992) 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. Terminologies such as retrenchment, mergers, rightsizing and cost reduction have become a routine for survival means. Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment.

Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1996), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy.

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. Therefore strategic management is vital to a firm's success and, indeed, for its continued survival, thus this study focuses on the strategic responses by mobile phone companies in Kenya to changes in environment.

1.2 Mobile Phone Industry in Kenya

Currently, there are three mobile telephone companies in Kenya, Safaricom Limited (Safaricom), Zain Kenya Limited (Zain) and Telkom Kenya limited (Telcom Kenya) offering cell-phone services. The number of their telephone subscribers has risen rapidly over the past eight years.

According to industry experts, in June 1999, Kenya had 15,000 mobile phone subscribers. By the end of 2007, there were more than 13 million subscribers. So around one in eight people has a mobile phone in a nation of approximately 35 million people (Communications Commission of Kenya, 2006).

Safaricom is Kenya's current leading Mobile Telephone Operator. It was registered in 1997 as a fully owned subsidiary of Telkom Kenya Limited. In May 2000, Vodafone Group Plc, the world's largest telecommunication company, acquired a 40% stake and management responsibility for the company, and in early 2008 the government shed some of its shareholding to the public through an initial public offer to raise 50 billion shillings.

Safaricom's aim is to be the best company in Africa which is consistent with its new vision which was unveiled in July 2008.Over the last 7 years Safaricom has experienced a massive rise in its subscribers, from a mere 17,000 subscribers in 2000 to an amazing growth of over 10.2 million subscribers in June 2008 (www.safaricom.com).

Safaricom came into the market with an adaptive antenna technology that allowed it to provide an efficient network based on the i-BURST Personal Broadband System. This offers high-speed reliable network access. Since Safaricom originated from Telkom Kenya, it seemed to have borrowed some of its technology. However Safaricom remains independent and has invested heavily on advanced technology so as to remain on top. Safaricom has had to come up with innovative products such as the 'M-PESA' (mobile phone money transfer), "Sambaza" (airtime transfer) and flash back service popularly known as 'Please Call Me'. These products have been seen to largely act as a counter strategy to rising competition and have also played a major role in accelerating its growth (www.safaricom.co.ke).

Safaricom has a speedy coverage plan. The competition that exists in the market makes the company stay on its toes as far as adoption of new technology is concerned. With the increasing numbers of users, the communication industry, especially in cell phones at large, is a force to reckon with economically (www.safaricom.com).

Founded as KenCell Communications Limited after the liberalization of the Telecommunications Industry in Kenya and currently re-branded from Celtel to Zain, Zain is a fully private GSM operator and was awarded the second GSM license to operate a GSM Network in Kenya by the Communications Commission of Kenya, CCK. Initial focus during the transition from KenCell to Celtel was on cost-efficiency. This quickly led to improved results. Then new products came in quick succession in a drive to boost Zain's market share. Over a short period, the company launched: "Top up Chap Chap", in February 2005, "Me2U", allowing airtime transfer from one subscriber to another, "Top up at the Till", "M-banking", a per second billing system, "Switch Ufurahie", and a range of new off-peak tariffs. The company then reported subscriber base growth of 52% to approximately two million. To service these new customers Zain both reinvested internally generated cash and took up additional borrowing through a US$64 million bond. So far it has spent US$357 million on its network (www.zain.co.ke).

Telkom Kenya, sensing cut throat competition with the clearance of a rival fixed line operator, has unveiled new products to hold on a sizeable share of the market segment. One example of its response is the rationalization of charges for local fixed-lines. As a result, prices have actually risen at a time when customers continue to migrate to mobile phone networks. Telkom Kenya operated much more slowly than Safaricom. In Telkom Kenya purchase of new machines took a while as compared to Safaricom. This also happened with repairs on faulty equipment (www.telkom.co.ke).

ECONET wireless which has for over four year's unsuccessfully tried to break into the Kenya telecommunication's market was finally licensed to start its operation in Kenya and plans are underway to roll out its service at the end of August 2008.

There is no doubt that a mobile phone, a fairly small gadget, is today the technology that has had one of the greatest impacts on development with developing countries.

Though Kenya is, like many Sub-Saharan Africa countries, plagued with many unmet telecom needs, the country boasts of the fastest spread of mobile telephone service in the eastern African region in the last six years.

The two major mobile phone companies, Safaricom and Zain, are credited with staging a major coup in the local telecommunications sector. Though the two firms have put Kenya on the regional map as a success in the spread of mobile telephony and addressed the needs of consumers, they still have great opportunities to offer improved and cost-effective services given an enabling environment.

1.3 Statement of the Problem

The business environment within which the mobile sector operates has been very volatile (Pearce & Robinson, 2003). The political anxieties, competition from new entrants, social reforms, technological advancement and globalization are some of the challenges that have greatly affected the growth of this sector. Mobile phone operators face a big challenge from the government who have put a number of taxes levied on mobile phone services to accelerate growth of the telecommunications sector. The entry of Telkom Kenya into the mobile telephone service sector in 2007 was bound to accentuate turf war in Kenya's cellular phone sector. The other subscriber ECONET which is to start its operation at the end of August 2008 will also pose a threat to the other players in the industry. These challenges cannot be ignored because the industry plays a significant role in our economy. The changes posed have serious strategic threat to existing firms and a good number of these mobile sectors are not able to survive the new turn of events e.g. those, which are still surviving have had to adopt urgent measures in form of competitive strategies (Daily Nation, 2006).

According to Hax and Majluf (1996), it is important for managers to appreciate where the greatest opportunities and threats lie at any time and focus attention on those areas which are currently affecting the organization and which require strategic attention. To succeed long term, organizations must compete effectively and out-perform their rivals in a dynamic environment. To accomplish this they must find suitable ways for creating and adding value for their customers. Hill & Jones, (2001) argue that strategic management is a highly important element of organizational success. The need to know what the business is about, what it is trying to achieve and which way it is headed, is a very basic requirement determining the effectiveness of every member's contribution. Every successful organization has this business self-awareness and every successful business seems to have this clarity of vision, even though it does not arise from a formal planning process (Pearce & Robinson, 1994).

Studies have been carried out on competitive strategies in a number of industries. Waweru (2002) found out that small firms make adjustments to their strategic variables depending on their uniqueness to ensure survival. It recommended further research on small enterprises that deal directly with customers of all ages and of different backgrounds. Okunyanyi (1999) looked at the reasons why sugar firms are failing to compete effectively within the liberalized trading environment in Kenya: - The case of Government-owned sugar firms. Mpungu (2003) recommends that companies scan their immediate environment for survival purposes in a study on the strategic responses to changing environmental conditions a case of AAR

Health Services Ltd. There is no specific study done on the environmental changes on mobile sector. Ngobia (2004) undertook a rather similar study by looking at the basis of competition in the mobile phone industry in Kenya. Thus our study seeks to look at the environment from all angles, from suppliers to customers. This study therefore is meant to fill the void to study how mobile phone companies are responding to the environmental changes in the industry in Kenya and to determine the environmental changes occurring in the mobile phone industry.

1.4 Objectives of the Study

I. To determine the environmental changes occurring in mobile phone industry

II. To determine the strategic responses of mobile phone companies in Kenya to environmental changes

1.5 Importance of the Study

To academics

It will contribute to the general body of knowledge and form a basis for further research on ways of utilizing the service industry to grow economically.

To Mobile Companies

The research will provide valuable information regarding the shortcomings of the industry, economic empowerment and income generation. Being upcoming entrepreneurs the academicians will be furnished with relevant information regarding employee's development in this services industry as a way of enhancing services delivery.

To the government

The research will bring in current statistics that the government can utilize in analyzing the mobile phones sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

Quinn (1992) defines strategy as the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. He goes further to state that a well formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents. Strategy is about winning (Grant, 1998). There is no dispute regarding the importance of strategy in business management. The more important issue is to establish how the 'winning' is achieved. This is the essence of competitive strategy. Indeed, there are many approaches to competitive strategy but none are universally accepted.

2.2 Environment Changes and the Organization

A host of external factors influence a firm's choice of direction and action and ultimately, its organizational structure and internal processes. These factors, which constitute the external environment, can be divided into three interrelated subcategories; Factors in the remote environment, factors in the industry environment, and factors in the operating environment (Pearce and Robinson, 2003). The remote environment comprises factors that originate beyond and usually irrespective of any single firms operating situation and include economic, political, social and technological. The remote environment presents firms with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence (Pearce and Robinson 2003).

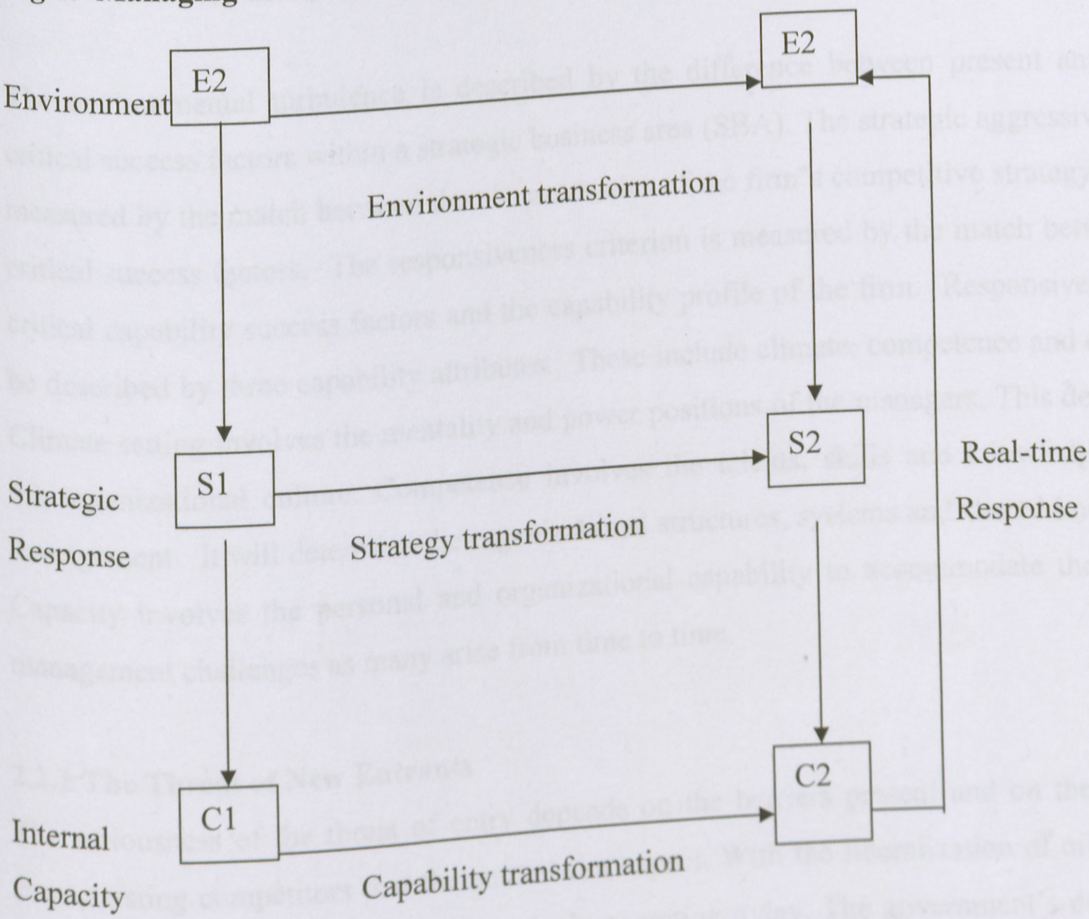
Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and advertising. Suppliers can exert bargaining power on participants, in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers thereby can squeeze profitability out of an industry unable to recover cost increases in its own prices (Pearce and Robinson 2003).

Powerful customers (Buyers) likewise can force down prices, demand higher quality or more services and play competitors off against each other – all at the expense of industry profits.

Abdullahi, (2000) states that the determination of a suitable strategy for a company begins in identifying the opportunities and risks in its environment. The environment of a company in business, like that of any other organic entity is the pattern of all the external conditions and influences that affects its life and development (Abdullahi, (2000). The environment influences relevant to strategic decision that operate in a company's industry, the total business community, its city, its country, and the world. They are technological, economic, social and political in kind. Change in the environment of business necessitates continuous monitoring of a company's definition of its business lest it become inappropriate or even obsolete.

Ansoff and MC Donell (1990) asserts that the first step in strategic management is to perform a strategic diagnosis which identifies the turbulence, type of aggressiveness and organizational responsiveness a particular firm needs to develop in order to meet the future challenges of its environment. Strategic diagnosis identifies whether a firm needs to change its strategic behavior to assure success in the future environment.

Fig 1: Managing the Firms Adaptation to the Environment



Key

E1	Current Environment	E2	Future Environment
S1	Current Strategy	S2	Future Strategy
C1	Current Capability	C2	Future Internal Capability

Source: Ansoff H.I. and McDonnell E.J. (1990), Implanting strategic management, second edition, prentice Hall.

The above diagram clearly indicates the Environmental dependence of an organization. When there is an environmental shift from E1 to E2, then the organizations' strategy has to be changed from S1 to S2 in order to adapt to the changed environmental conditions. If strategy is not changed there will be a strategy gap. However, this is only possible when the organization's capability is changed from C1 to C2.

The environmental turbulence is described by the difference between present and future critical success factors within a strategic business area (SBA). The strategic aggressiveness is measured by the match between the characteristics of the firm's competitive strategy and the critical success factors. The responsiveness criterion is measured by the match between the critical capability success factors and the capability profile of the firm. Responsiveness can be described by three capability attributes. These include climate, competence and capacity. Climate setting involves the mentality and power positions of the managers. This determines the organizational culture. Competence involves the talents, skills and knowledge of the management. It will determine the organizational structures, systems and shared knowledge. Capacity involves the personal and organizational capability to accommodate the various management challenges as many arise from time to time.

2.2.1 The Threat of New Entrants

The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. With the liberalization of oil industry 18 new firms were licensed and are actively operating today. The government's decision to lower barriers of entry has encouraged new firms entry into market thereby heightening competition. In the light of prevailing circumstances some new entrants have adopted unfair business practices to fight competition. Okunyanyi (1999), in his study on why Kenyan sugar firm are failing to compete effectively within the liberalized trading environment also found that unfair competition exists as new entrants traded in imported sugar, which is not taxed.

A high risk of entry by potential competitors represents a threat to profitability of established companies. But if the risk of entry is low, established companies could take advantage of this opportunity to raise prices and earn greater profits. New entrants to an industry bring in new capacity, the desire to gain the market share and substantial resources. Companies diversifying through acquisition into new industries often leverage their resources to cause a shape up. Pearce and Robinson, (2003), Porter, 1985), give six sources of barriers to entry.

These are economies of scale, brand loyalty, product differentiation, capital requirements, cost disadvantage, access to distribution channels and government policy through licensing controls.

2.2.2 Bargaining power of suppliers

Harvey (1988), states that suppliers can exert pressure on participants in an industry by raising prices or reducing the quality of purchased goods and services. Hill and Jones, (2004) notes that bargaining power of suppliers refers to the ability of suppliers to raise input prices, or to raise cost of the industry in other ways- for example, by providing poor-quality inputs or poor services. Powerful suppliers can therefore squeeze profitability out of an industry. By raising their prices, for instance, soft drink concentrate products have contributed to the erosion of profitability of bottling companies because the bottlers, facing intense competition from powdered mixes, fruit drinks and other beverages, have limited freedom to raise their prices accordingly.

2.2.3 Bargaining Power of Buyers

Harvey (1988) notes that customers likewise can force down prices, demand higher quality or more service and play competitors off against each other all at the expense of industry profits. The bargaining power of buyers refers to the ability of buyers to bargain down prices charged by companies in the industry or raise costs of companies in the industry by demanding better product quality and service. Large volume buyers are particularly potent forces if heavy fixed costs characterizing the industry as they do in metal containers, corn refining and bulk chemicals for example which raise the stakes to keep capacity filled. A company's choice of suppliers to buy from or buyer groups to sell to should be viewed as a crucial strategic decision. A company can improve its strategic posture by finding suppliers or buyers who possess the least power to influence it adversely. Abeka (1999) found that industries players were responding to customers' demands. Firms were found to have become more innovative and sought new ways of approaching the changed environment. They use strategies such as improved customer service, credit facilities, fuel cards and provision of convenience goods and services.

2.2.4 Threat of Substitute Products

E-commerce is becoming a major substitute to supermarkets (Kotler, 2001). The existence of close substitute is a strong competitive threat because this limits the prices the companies in an industry can charge for their products and services.

2.2.5 Rivalry among Existing Competitors

Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and advertising slug tests,. Intense rivalry is related to the presence of a number of factors. Competitions are numerous or are roughly equal in size and power industry growth is slow, precipitating fights for market share that involve expansion-minded members. Fixed costs are high or the product is perishable, creating strong temptation to cut prices (Porter, 1985).

2.3 Organizational Responses to Environmental Changes

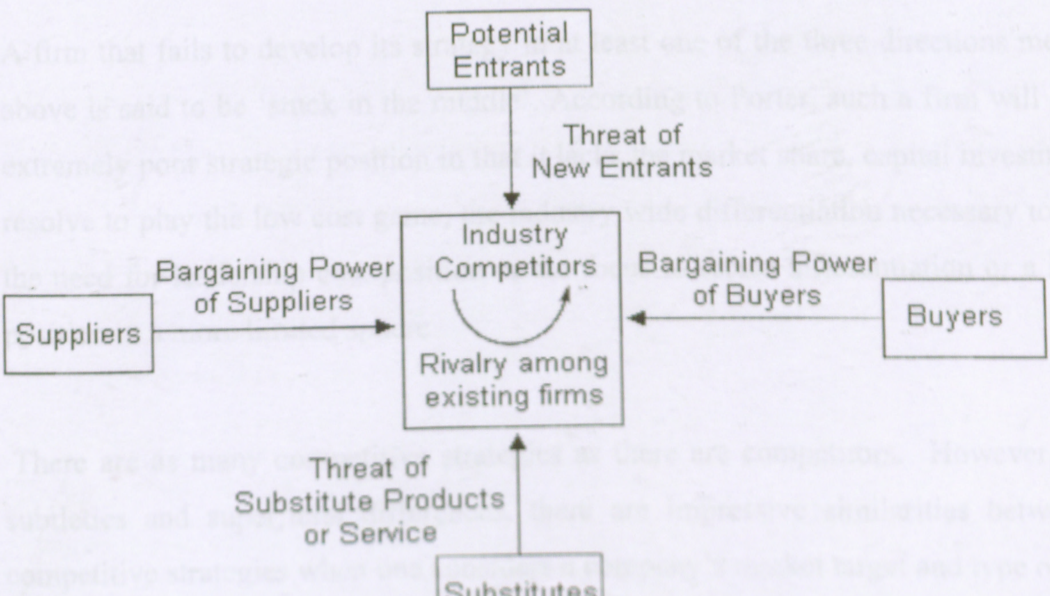
Ansoff and McDonnell (1990) note that strategic responses involve changes to the organizations' strategic behavior. Such responses may take many forms depending on the organizations' capability and environment in which it operates. Well-developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. The strategic responses include new products, new markets, new processes, new services and new strategies for attacking the markets.

In the modern world of globalization, Safaricom has been able to keep pace with the global mobile telecommunication scenario by having strategic business associations; associations which add value to the global mobile telecommunication initiative and which help in meeting the dynamic challenges of the modern mobile telecommunication world. Safaricom is the most performing company in the communication market because it is said to have generated a lot of profits (www.safricom.co.ke).

In his definitive work of competitive strategy Porter (1985) propelled the concept of strategy and competitiveness into the foreground of strategic thought and business planning. The nature and degree of competition in an industry hinge on five forces; the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services and the jockeying among annual contestant. The essences of strategy is coping with competition and appreciating how Porter's Five Forces competitive model-shape a firm's business strategy. The purpose of competitive strategy is to establish a profitable and sustainable position against the forces that determine industry competition.

Porter (1985) states that the corporate strategist's goal is to find a position in the industry where his company can best defend itself against these forces or influence them in his favour. Knowledge of the underlying five competitive Forces provides the groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas where strategic change may yield the greatest payoff and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats (Porter 1985). The contending forces during industry competition are illustrated here below:

Figure 2: Competitive Forces



Source: Porter, M.E. (1985). Competitive Advantage: Creating and sustaining superior performance. New York: Free Press.

These five forces driving industry competition are the threat of potential entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products of services and intensity of rivalry among firms in industry.

2.4 Strategic Responses

Pearce and Robinson (1991) define strategic response as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Mpungu (2005) sees it as a reaction to what is happening to the environment of the organization. Aosa (1992) asserts that modern approach to strategic planning has developed as a response to increasing challenges caused by high levels of environmental turbulence. When firms are faced with unfamiliar changes, they should revise their strategies to match the turbulence level (Ansoff and MacDonnell, 1990). Some of the strategic responses firms use in different competitive situations is the generic strategies reviewed below.

A firm that fails to develop its strategy in at least one of the three directions mentioned above is said to be 'stuck in the middle'. According to Porter, such a firm will be in an extremely poor strategic position in that it lacks the market share, capital investment and resolve to play the low cost game, the industry wide differentiation necessary to obviate the need for leadership cost position or the focus to create differentiation or a low cost position in a more limited sphere.

There are as many competitive strategies as there are competitors. However, beneath the subtleties and superficial differences, there are impressive similarities between different competitive strategies when one considers a company's market target and type of competitive advantage the company is trying to achieve (Thompson and Strickland, 1998). Five categories of competitive strategy approaches stand out as follows (Porter, 1985). Porter named these strategies generic because they are not firm or industry specific. They can be applied to a firm in any industry. Thus, this is the conceptual framework of this study.

2.4.1 Cost leadership strategy

Harvey (1988) notes that this is striving to be the overall low cost provider of a product or service that appeals to a broad range of customers. Cost leadership strategy is one in which a firm strives to have the lowest costs in the industry and offers its products and services to a broad market at lowest prices. A cost leader's basis for competitive advantage is lower overall costs than competitors. Successful cost leaders are exceptionally good at finding ways to drive costs out of their business.

According to Ansoff, (1988) the aim of cost leadership strategy is to open up a sustainable cost advantage over competitors and then use the firm's lower cost edge as a basis for either under-pricing competitors or gaining market share at their expense of earning a higher profit margin selling at the going market price. Firms acquire cost advantages by improving process efficiencies, accessing lower cost materials, making optimal outsourcing, vertical integration decisions or avoiding some costs altogether.

According to Thompson and Strickland (1998), a cost leadership strategy has advantages. Firms that practice this particular strategy have sufficient capital skills, experienced staff and efficient distribution channel. The cost advantage protects a firm from new entrants hence reducing competition. However, the risk of cost leadership is that competitors may leap frog the technology and production capabilities, hence eliminating the competitive advantage acquired from cost reduction.

2.4.2 A broad Differentiation Strategy

Thompson and Strickland (1998) state that this strategy seeks to differentiate the company's product offering from rivals in ways that will appeal to a broad range of buyers. The value of differentiation commands a premium price. In differentiation there is perceived quality and signals of values, whether real or not. The advantage of differentiation strategy is that the perceived quality insulates a company from threats from many of the five forces that determine the state of competition in an industry.

Audit firms have to broaden their services, they have to embrace various disciplines crucial to world of business, charting what one may describe as new frontiers and they have to adopt such strategy as forensic services to remain competitive

2.4.3 A best-cost provider strategy

According to Ansoff, (1988), strategy is giving customers more value for the money by combining an emphasis on low cost with an emphasis on upscale differentiation. The target is to have the best (lowest) costs and prices relative to producers of products with comparable quality and features. Porter (1985) argued that focus strategy involves targeting a particular market segment. This means serving the segment more efficiently and effectively than competitors. Therefore, focus strategy can be of cost leadership or differentiation aimed at a narrow segment of the market. This strategy concentrates on a narrow buyer segment and out competing rivals on the basis of lower cost. A focused or market niche strategy based on differentiation is based on offering niche members a product or service customized to their tastes and requirements.

2.4.4 Outsourcing strategy

The outsourcing formula for success is based on leveraging external service provider's economies of scale, expertise and scalability of resources, enabling the buyer's enterprise to accomplish core business. Shrewd managers turn to outsourcing as the most effective, time-tested strategy for achieving their objective of higher Return on Investment (Gattorna, 1998).

The key strategic reasons for outsourcing identified by various researchers (Pearce and Robinson 1997) are; firstly the need to improve business focus following realization that several 'how' issues are siphoning off huge amounts of management's resources and attention. Secondly, it is used as a vehicle to access world-class capabilities. The very nature of specialization by outsourcing providers means they have extensive worldwide, world-class resources to meet the needs of their customers. Thirdly, outsourcing is used to achieve accelerated re-engineering benefits. Outsourcing is often the by-product of business process re-engineering. As such, through outsourcing, an outside company that has re-engineered and achieved world class processes takes over the processes thus enhancing attainment of benefits. Fourthly, when firms outsource, they become more flexible, more dynamic and better able to adapt to changing opportunities. This is because their partners do some capital investments on their behalf. Finally, outsourcing enables freeing of resources for other purposes. The firm can then re-direct its resources from non-core activities towards activities that have the greater return in serving the customer.

2.4.5 Market Model

Referral to the (Ansoff, (1988)) matrix is usually conducted in conjunction with a gap analysis assessment. This process should follow the following steps: Determine the objectives of the firm, plot the sales that would occur if no changes are made, determine which strategies are available for implementation from the matrix, Plot the forecasted sales if an expansion strategy is followed then the diversification strategy forecasts, Determine the gap between this cumulative forecasted figure and the objectives. The firm has an option of four strategic directions to follow for growth.

2.4.6 Product Differentiation Strategy

Product differentiation strategy is based on achieving industry-wide recognition of different and superior products and services compared to those of other suppliers. This recognition can be accomplished through the design of special brand images, technology features, customer service or higher quality, all of which have implications for the structure and operation of companies (Porter, 1985).

Achieving differentiation is likely to result in insulation against competitive rivalry due to securing customer loyalty. The resulting competitive advantage also leads to increased returns, sometimes through making customers less sensitive to high product price. Specialization by focus strategy is concerned with selecting (focusing upon) only certain markets, products or geographic areas in which to compete. Porter (1985) argues that by focusing in this way, it becomes feasible for a firm to dominate its chosen area(s). The method of achieving domination could either be through cost advantage or product differentiation.

2.4.7 Pricing Strategy

According to Quinn (1992) one of the most difficult areas of making decisions is pricing strategy, which deals with methods of setting profitable and adjustable prices. It is closely regulated subject to considerable public scrutiny. One of the factors influencing marketers pricing strategy for both goods and services is the competition. Despite being so critical to the profitability of a mobile phone service provider; aggressive pricing strategies have been rarely used.

The pricing policy affects sales volumes, demand, profit, the target market penetrated, and consumer perception of services and competitive evaluation of the service attractiveness. Safaricom's pricing policy is flexible and uniform for each category of products. The peak and off peak charges on each tariff plan has a great influence choice of each tariff plan (www.safaricom.co.ke).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This was a census study, which was meant to establish the competitive strategies adopted by Kenyan mobile Phone companies. Mugenda (1999) agrees that this is an appropriate form of research, especially when the objective of the research is to gain insights into ideas, which is applicable in this case. A census study is also the most appropriate form of research whenever the population is small (Kothari, 1990).

3.2 Population of the Study

The population of interest in this study was all the five mobile phone companies in Kenya which are Safaricom Limited, Zain Kenya Limited, Flashcom, Popote Wireless and Telkom Kenya limited. The sample size comprised of 50 participants who were drawn from all the five mobile phone companies.

3.3 Data Collection Method

The study used primary data, which was collected using a questionnaire containing both structured and unstructured questions. The basic data collection method was through the "drop and pick later" technique for those without time and personal interviews for those with time, in order to reduce the non-response rate. This is an approach that was successively used by Abdullahi (2000). Responses were sought from Managers who have been in the industry for at least three years. They included Senior Corporate and Strategy managers, Heads of Departments, Marketing managers, Technical managers and Customer Care managers who have been involved in the crafting and implementation of strategic responses in their respective organizations.

3.4 Data Analysis

Data analysis method was qualitative. The structured questionnaire was coded in respect to questions for ease of electronic data processing prior to the commencement of the fieldwork. After tabulation, the data was coded to facilitate statistical analysis.

The SPSS (Statistical Package for Social Sciences) package was used to analyze the data. Descriptive statistics such as means, percentages, standard deviation and frequency distribution was used to meaningfully describe the distribution of measurements.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter covers data analysis, discussions and findings of the research. The data has been summarized by means of statistical averages (including rankings) and presented in the form of tables and charts. Out of the 50 questionnaires distributed, 35 of them were completed and returned representing a response rate of 70%.

4.2 Period with organization

The researcher wanted to establish the duration the respondents have worked with their organizations. It was established that most of them i.e. 57.1% had worked for 3 years and below. This shows that employees in these type of organizations do not stay for long in a single organization .Therefore these organizations have to come up with incentives to retain their employees for long. Table 4.1 shows the various durations for which the respondents have worked with their organizations.

Table 4.1 Employee's duration with the various organizations

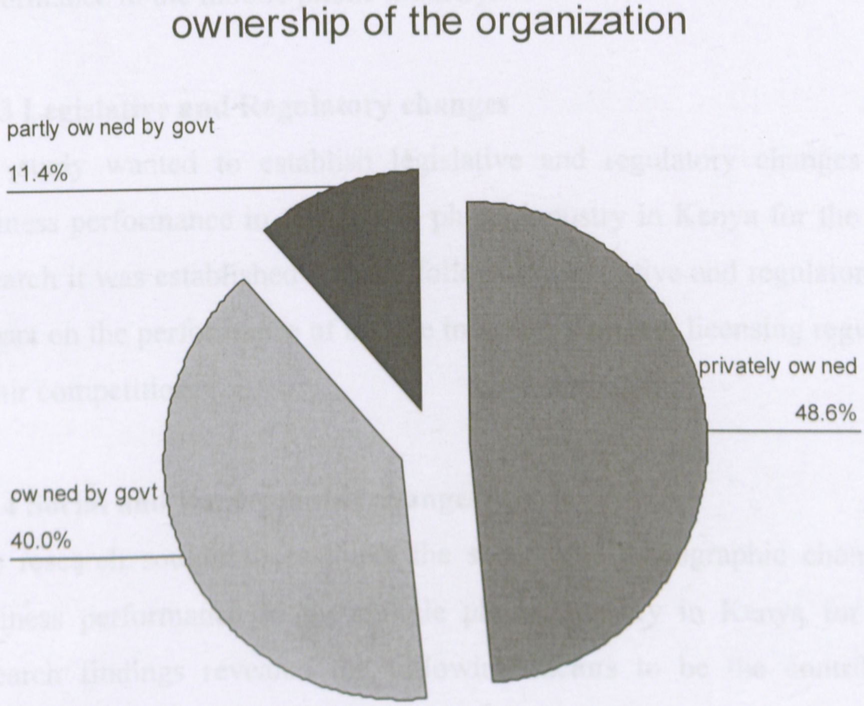
	Frequency	Percentage
Below 3 yrs	20	57.1
3-5 yrs	6	17.1
5-7 yrs	5	14.3
Over 7 yrs	4	11.4
Total	35	100.0

Source (Research data)

4.3 Ownership

The researcher also wanted to know who owns the organizations he is interested in doing his research. From the chart shown below, the researcher established that 48.6% are privately owned while the government owns 40%.the remaining 11.4%are jointly owned by individuals and the government. The government should therefore create conducive environment to attract more private investors into this sector.

Fig 4.1 Ownership of the organization



4.4 Environmental Changes

4.4.1 Political changes

The researcher wanted to establish the Political changes that have influenced business performance in the mobile phone industry in Kenya for the last 7 years. The study findings indicated that liberalization of mobile phone services, change in political leadership and political interference in operations in the mobile phone industry were the major political changes that affect the performance of the business.

4.4.2 Economic changes

The researcher sought to know the economic changes that have influenced business performance in the mobile phone industry in Kenya for the last 7 years. The study findings indicated that change in tax regime; income levels of the consumers, unemployment levels, inflation levels and poverty are the major economic factors that influence business performance in the mobile phone industry.

4.4.3 Legislative and Regulatory changes

The study wanted to establish legislative and regulatory changes that have influenced business performance in the mobile phone industry in Kenya for the last 7 years. From the research it was established that the following legislative and regulatory changes have had an impact on the performance of mobile industry; stringent licensing regulations, price wars and unfair competition.

4.4.4 Social and Demographic changes

The research sought to establish the social and demographic changes that have affected business performance in the mobile phone industry in Kenya for the last 7 years. The research findings revealed the following factors to be the contributors to the business performance: the need for corporate social responsibilities, population growth and peer pressure, change of social status, love affairs, business matters and social events.

4.4.5 Information Technology Changes

The researcher wanted to establish the information technology changes that have influenced business performance in the mobile phone industry in Kenya for the last 7 years. The study findings indicated that ICT, wireless communication, evolution of complex mobile phone features and electronic advertisements have had an impact on the performance of the mobile phone industry.

4.5 Strategic Responses

To establish current strategic responses by Kenyan mobile phone companies to changes in environment, specific strategies were posed to the respondents to indicate the levels of adjustments they have effected in response to the changes in the environment.

The adjustments were ranked on a 5-point likert scale .A mean score and a standard deviation was computed for each strategy, with 1 taken to mean the lowest level and 5 to mean the highest level.

The strategic responses identified were restructuring, marketing, diversification, market development, product development, pricing strategies and distribution strategies. These were considered to be the major strategic variables that Kenyan mobile phone companies pursued in responding to the changes of environmental conditions.

4.5.1 Restructuring

The respondents were asked tick yes or no if their organizations have for the last 10 years undertaken some suggested restructuring activities. It was established that most organizations have not reduced the size of their staff.

It is only 40% of the organizations that have reduced their staff. This shows that employment in this sector is slightly stable. Most organizations have also not entered into strategic alliance with other companies. It is only 34.3% that have entered into strategic alliance with others.

However, restructuring has been done where companies have divested from the line of business and acquiring new businesses.60% of the organizations have divested from their business e.g. they have started to perform some roles traditionally done by banks like money transfers. These organizations therefore do not entirely rely on telecommunication.

Table 4.2 How the various organizations have undertaken restructuring for the last 7 years.

Restructuring	Yes	No
Reduced staff(downsizing)	40%	60%
Strategic alliance with another company	34.3%	65.7%
Divested from any line of business	60%	40%

Source (Research data)

4.5.2. Marketing

The respondents were asked to tick yes or no if their organizations have for the last 7 years undertaken some suggested marketing activities. It was established that most organizations have opened new branches within Kenya. It is only 8.6% of the organizations that have not opened new branches within Kenya. Most organizations market themselves by spreading the outlets within the country. However, most organizations have not opened new operations outside Kenya to market themselves. It is only 31.4% of them that have spread their operations outside Kenya. This shows that the Kenyan market is better compared to other markets outside Kenya. Of the total number of the companies, 42.9% had also merged with other networks to provide a wide coverage. This shows that there is a general need to extend services beyond the Kenyan borders.

4.5.3 Market development strategies

The respondents were also asked to indicate on a scale of 1-5(1=no extent, 2=small extent, 3=some extent, 4=large ext4ent and 5=a very large extent) extent with which they considered the suggested market development strategies. From the responses all aspects of market development strategies are considered to be important for a firm to remain competitive. However, targeting new market segments is seen as the most important market development strategy for a firm to remain competitive. This is then followed by identification of new potential users and lastly connecting with other subscribers.

Table 4.3 Market Development Strategies

Market development strategy	Mean	Standard deviation	Ranking
Targeting new market segments	3.4	1.03	1st
Identification of new potential users(e.g. late night users)	2.97	1.12	2nd
Connecting with other subscribers	2.89	0.80	3rd

Source (Research data)

4.5.4 Product development strategies

The respondents were also asked to indicate on a scale of 1-5(1=no extent, 2=small extent, 3=some extent, 4=large ext4ent and 5=a very large extent) the extent to which they considered the suggested product development strategies. From the responses all aspects of product development strategies are considered to be important for a firm to remain competitive. Majority of respondents feel that diversification is the most important product development strategy to ensure a firm remains competitive in the market .This is shown in the table below from the most important product development strategy as perceived by respondents.

Table 4.4 Product Development Strategies

Development strategies	Mean	Standard deviation	Ranking
Diversification	4.26	0.82	1st
Adding product features/product refinement	3.57	0.92	2nd
Expanding product line	3.51	0.98	3rd
Developing new products for existing market	3.46	0.85	4th
Developing a new generation product(tariffs)	2.94	0.87	5th

Source (Research data)

4.5.5 Pricing strategies

The respondents were also asked to indicate on a scale of 1-5(1=no extent, 2=small extent, 3=some extent, 4=large ext4ent and 5=a very large extent) the extent to which they considered the suggested pricing strategies. From the responses all aspects of pricing strategies are considered to be important for a firm to remain competitive except subsidized price.

The findings show that most respondents believed that cost leadership is the most important pricing strategy to ensure that a firm remains competitive in the market while subsidizing prices is the least important of all the pricing strategies. This is shown in the table shown below starting with the most important pricing strategy.

Table 4.5 Pricing strategies

Pricing strategies	**Mean**	**Standard deviation**	**Ranking**
Cost leadership(low price tariffs)	4.09	0.85	1st
Based on market price	3.86	0.81	2nd
Top ups for free talk time	3.54	0.92	3rd
Buying price + mark up	2.77	1.37	4th
Market skimming high prices	2.66	1.16	5th
Subsidized price	2.31	1.16	6th

Source (Research data)

4.5.6 Distribution strategies

The respondents were also asked to indicate on a scale of 1-5(1=no extent, 2=small extent, 3=some extent, 4=large ext4ent and 5=a very large extent) extent to which they considered the suggested distribution strategies. From the responses all aspects of distribution strategies are considered to be important for a firm to remain competitive. However, most respondents feel that mobile producer-consumer plays a significant role in ensuring that a firm remains competitive in the market through the distribution strategies. The other distribution strategies were ranked by respondents as shown in the table below from most significant to the least significant distribution strategy.

Table 4.6 Distribution strategies

Distribution strategies	Mean	Standard deviation	Ranking
Mobile producer-consumer	2.89	1.05	1st
Selective distribution	2.74	0.85	2nd
Multiple channels	2.54	0.95	3rd
Direct marketing channels	2.54	1.07	4th
Intensive distribution	2.49	0.92	5th

Source (Research data)

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings and makes conclusions based on the objectives of the study which were to determine the environmental changes occurring in mobile phone industry and to determine the strategic responses by mobile phone companies in Kenya to these environmental changes. This chapter also contains a summary and makes recommendations for improvements arising from the study, limitations and proposes a direction for further study.

5.2 Summary

The study revealed that Telecommunication industry in Kenya faces many challenges due to constantly changing environmental changes. Some of the major challenges that have greatly affected the growth of this sector include; liberalization of mobile phone services, social reforms, political anxieties, technological advancement, and changing income levels of the consumers, inflation levels, stringent licensing regulations, price wars and unfair competition.

The study also revealed that on the issue of restructuring, most organizations have not reduced the size of their staff. Most organizations have also not entered into strategic alliances with other companies. This shows that the companies are making huge profits and are therefore self sufficient. However, restructuring has been done where companies have divested from the line of business and acquired new businesses.

Telecommunication industry was revealed to be very competitive and for an enterprise to survive, aggressive marketing has to be undertaken. The study showed that most organizations have opened up new branches within Kenya. Most organizations market themselves by spreading the outlets within the country.

It was also clearly shown that all aspects of distribution strategies are considered to be important for a firm to remain competitive. However, most respondents feel that mobile producer-consumer strategy plays a significant role in ensuring that a firm remains competitive in the market through the distribution strategies.

5.3 Conclusion

Telecommunication industry in Kenya and worldwide is quite lucrative but faces challenges just like any other industry. Some of the challenges that have greatly affected the growth of this sector include: social reforms, political anxieties, technological advancement and globalization. For instance, mobile phone operators face a big challenge from the government who have put a number of taxes levied on mobile phone services to accelerate growth of the telecommunications sector.

5.4 Recommendations

There is need for the telecommunication authority to define the company's' scope of operations. This will enable the involved companies have healthy competition and avoid unfair practices. There is also need for the enterprises in telecommunication industry to market themselves by spreading the outlets within the country and open new operations outside the country. This will enable the enterprise in question to market themselves.

The management in telecommunication industry should also involve themselves in aspects of community involvement. Aspects of community involvement include corporate social responsiveness, good corporate citizenship especially in marketing, research and development. This will help the telecommunication industry benefit the community in return to what derive from the customers in terms of profits.

Staff training should be of great focus in telecommunication sector. Strategic responses by mobile phone companies to environmental changes highly depend on staff development.

Telecommunication enterprises need to target new market segments as it is the most important market development strategy for a firm to remain competitive. This should then be followed by identification of new potential users and a determination to acquire new subscribers in to their networks. This will assist the firm increase its market share and therefore remain competitive.

5.5 Limitations of the study

The mobile phone industry operates in a very sensitive environment and due to the stiff competition involved in the mobile phone industry, the stakeholders' were not so comfortable with interviews especially on strategic planning and technological issues. There was apparent discomfort especially at the thought of such information leaking to their competitors. This made data collection process a bit difficult and may have affected the accuracy of information collected.

The employees of the mobile enterprises especially in the city are very busy and as such dedicating their time to fill the questionnaires was problematic. This greatly affected the exercise of data collection.

5.6 Suggestions for further research

The study focused on Strategic responses by mobile phone companies to environmental changes in Kenya. The researcher proposes that a study should be carried out to establish the challenges facing the mobile phone providers in the implementation of various strategies within their organisations. This will enable the companies' management to improve on their competitiveness if they have to survive through the environmental challenges.

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Appendix: Questionnaire

PART ONE: BACKGROUND

1. Name of the company: ______________________________

2. Year of Establishment: ______________________________

3. Position of the respondent in the organization________________

4. How long have you been with the organization?

- 3 years and below [ ]
- 3-5 years [ ]
- 5-7 years [ ]
- over 7 years [ ]

5. Ownership (kindly tick one below):

- Privately owned [ ]
- Wholly owned by the government [ ]
- Owned partly by the government and partly privately [ ]

SECTION B: ENVIRONMENTAL CHALLENGES

The broad external environmental factors that greatly influence business performance are political/Legal, Economical, Social and Technological changes. Please state the changes in the above mentioned factors that have favorably or adversely affected the long term mobile phone industry in Kenya in the last 7 years.

1. Political changes

(a) ....

(b) ....

(c) ....

2. Economic changes

(a) ....

(b) ....

(c) ....

3. Legislative and Regulatory changes

(a) ....

(b) ....

(c) ....

4. Social and Demographic changes

(a) ....

(b) ....

(c) ....

5. Information Technology Changes

(a) ....

(b) ....

(c) ....

6. Other changes

(a) ....

(b) ....

(c) ....

SECTION C: STRATEGIC RESPONSES

Restructuring

1. Have you undertaken any of the following activities in your company in the last 7 years?

	Yes	No
Reduced staff (downsizing)	( )	( )
Entered into strategic alliance with another company	( )	( )
Divested from any line of business	( )	( )
Acquired any new companies/businesses	( )	( )

Marketing

New markets

2. Have you opened new branches or other form of outlets within Kenya in the last 7 years?

Yes ( ) No ( )

(3) Have you opened new operations/companies outside Kenya in the last 7 years?

Yes ( ) No ( )

(4) Have merged with other networks to provide a wide coverage?

Yes ( ) No ( )

Market Development					
Identification of new potential users (Late night Users)	[ ]	[ ]	[ ]	[ ]	[ ]
Connecting with other Subscribers	[ ]	[ ]	[ ]	[ ]	[ ]
Targeting new segments of the market	[ ]	[ ]	[ ]	[ ]	[ ]
Product Development					
Adding product features or product refinement	[ ]	[ ]	[ ]	[ ]	[ ]
Expanding the product line	[ ]	[ ]	[ ]	[ ]	[ ]
Developing a new generation product (Tariffs)	[ ]	[ ]	[ ]	[ ]	[ ]
Developing new products for the existing market	[ ]	[ ]	[ ]	[ ]	[ ]
Diversification	[ ]	[ ]	[ ]	[ ]	[ ]
Pricing Strategies					
Cost leadership (Low price Tariffs)	[ ]	[ ]	[ ]	[ ]	[ ]
Market skimming high prices	[ ]	[ ]	[ ]	[ ]	[ ]
Based on market price	[ ]	[ ]	[ ]	[ ]	[ ]
Buying price + mark up	[ ]	[ ]	[ ]	[ ]	[ ]
Subsidized price	[ ]	[ ]	[ ]	[ ]	[ ]
Top ups for free talk time	[ ]	[ ]	[ ]	[ ]	[ ]

Distribution Strategies

Mobile Producer -consumer	[ ]	[ ]	[ ]	[ ]	[ ]
Multiple channels	[ ]	[ ]	[ ]	[ ]	[ ]
Intensive distribution	[ ]	[ ]	[ ]	[ ]	[ ]
Selective distribution	[ ]	[ ]	[ ]	[ ]	[ ]
Direct marketing channels	[ ]	[ ]	[ ]	[ ]	[ ]

THANK YOU FOR YOUR TIME