

**APPLICATION OF DIVERSIFICATION STRATEGIES AT SAFARICOM
LIMITED, KENYA**

MARY ACHUTI

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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

Signature:

..... Mary Achuti Date: 11/11/2012

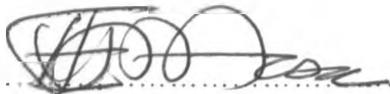
MARY ACHUTI

REG. NO: D61/61652/2010



SUPERVISOR'S DECLARATION

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

Signature.....  Date 11/11/2012

PROF. EVANS AOSA

LECTURER: UNIVERSITY OF NAIROBI

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DEDICATION

To my family members and all those who supported me in the completion of this project writing.

Thank you and God bless you abundantly.

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LIST OF ABBREVIATIONS

ARPU	Average Revenue Per User
CCK	Communications Commission of Kenya
EWK	Econet Wireless Kenya
GSM	Global System for Mobile
LTD	Limited
RBV	Resource-Based View
SMS	Short Message Service

ABSTRACT

The purpose of diversification is to allow the company to enter lines of business that are different from current operations. In this study the main focus is on diversification. Safaricom Limited is a leading mobile network operator in Kenya. Safaricom Limited has implemented diversification strategies and has remained the largest operator in the country with the largest market share in the Kenyan telecommunication industry. The literature review summarizes the information from the available literature in the same field of study. The specific areas covered are the concepts of corporate strategy. The areas covered include; the value of diversification, problems of diversification and diversification and performance. Diversification strategies allow a firm to expand its product lines and operate in several different economic markets. The most common strategies include concentric, horizontal and conglomerate diversification. This study employed a case study. Face to face interviews were used as a primary data collection method. The researcher used the interview guide to aid in obtaining information from the respective respondents who are the top management staff that are well conversant with the companies' operations. The respondents included ten top management staff at Safaricom Limited. The data was analyzed using Content analysis. According to the results of the study, the Company has applied product diversification strategies over the years to become the leading telecommunication company in the country. The study also established that the diversification strategies used by Safaricom contribute to its growth and help the Firm to retain its relative position. Diversification generally requires new skills, new techniques, and new facilities. As a result, it almost invariably leads to physical and organizational changes in the structure of the business which represent a distinct break with past business experience. The study concludes that there are various diversification strategies used by Safaricom which allows it to expand its product lines and operate in several different economic areas. The study further concludes that the reasons for adopting diversification strategies include improving product value/quality, to gain competitive edge and to maintain product loyalty.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of diversification is to allow the company to enter lines of business that are different from current operations. In this study the main focus will be on diversification. Literature that directly links telecommunication companies in Kenya to diversification is not available. However, clues might be found in existing perspectives that explain the choice of diversification (Hoskisson and Hitt, 1990; Montgomery, 1994; Ramanujam and Varadarajan, 1989). These perspectives are rooted in different theories or paradigms, notably the resource-based view of the firm (Penrose, 1959). The resource-based view (RBV) argues that firms possess resources, a subset of which enables them to achieve competitive advantage, and a subset of those that lead to superior long-term performance (Christensen and Montgomery, 1981).

Safaricom Limited is a mobile network operator with headquarters in Nairobi, Kenya. It is Kenya's leading telecommunications company. Further testament to this fact is the Initial Public offering of its shares which was the largest ever in East and Central Africa. Safaricom main revenue generating activity is provision of mobile service although it has diversified its product range to include the following; M-Pesa-this is a mobile money transfer service that has revolutionized the way people conducts business in Kenya, for

example, it has made payments easier. M-Pesa is the first such service of its kind in the world roaming (Daniel, 2010).

1.1.1 Concept of Corporate Strategy

Corporate strategy is the pattern of major objectives , purposes or goals and essential policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be. James, (2002) defines strategy as “...the ways in which the firm, reacting to its environment, deploys its principal resources and marshals its main efforts in pursuit of its purpose. The strategic decision is concerned with the long-term development of the enterprise. It necessarily projects continuously into the future. Therefore the central character and its individuality of a business organization must be determined with clarity. Corporate strategy has two equally important aspects formulation and implementation (James, 2002).

All corporate strategy is motivated by what is termed by the three building blocks of corporate strategy: shared resources, transferred competencies, and the creation of specific assets. When firms expand into a variety of businesses, they frequently transfer successes in the initial business to the subsequent businesses. For example, when Bic pen Corporation expanded beyond ballpoint pen production into disposable cigarette lighters, it used the same plastic-injection molding technology and similar distribution channels to sell what was essentially another mass-marketed, disposable consumer item. The additional learning required to design and produce this new product was relatively low, given that the same technology was employed in the factory (Barney, 1996).

Diversification is a company strategy wherein a company tries to increase profitability through increased sales volume from new products and new markets. In layman's term, diversification means venturing out into new business, new products or new markets to increase profits. It is a form of growth strategy involving a significant increase in the Performance objectives beyond past performance records. Companies employ different diversification strategies to expand firms' operations by adding markets, products, services, or stages of production to the existing business (Merino and Rodriguez, 1997)

There are many reasons why a company may opt for a diversification strategy, main objective being that companies are looking to grow and increase profitability. It is imperative that they decide whether they want to diversify by starting a related or unrelated business line. The effect desired of diversification is improvement in company stability under contingent conditions. Not only should diversification prevent sales from dropping as low as they might have before diversification, but the percentage drop should also be lower (Barney, 1996).

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 (Hammond, 2003).

According to Hammond and Grosse (2003) 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. The challenge is to locate a position within an industry where a firm can favorably influence those factors or where it can successfully defend against their influence. The greater a firm's capacity to favorably influence its industry environment, the greater is the likelihood that the firm will earn above-average returns.

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). A fundamental change is occurring in the world economy whereby the world economies are witnessing the forces of globalization and liberalization of trade. The phenomenon of globalization, according to Hammond and Grosse (2003) refers to "the fact that people around the world are becoming more and more knowledgeable about each other," this is expected to increasingly affect the real estate sector.

The competitive environment is largely uncontrollable and very wide in scope. This is significant to an organization because changes brought by the external environment are uncontrollable and require to be responded to otherwise the organization will experience a strategic misfit and success will be difficult. The success of every organization is

therefore determined by its responsiveness to the environment. To be able to retain competitive advantage, organizations need to examine their environment both external and internal and respond accordingly (Kazmi, 2002).

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).

1.1.2 Telecommunications Industry in Kenya

Kenya's telecommunications industry provides for three levels of operations recognized by the CCK, namely network facilities providers, application service providers and content services providers. The number of licensees in the three broad areas is determined by the market, with the exception of areas where there exist natural limitations such as spectrum availability. The structure allows direct inter-connectivity between all network operators. Operators who fall into more than one category are expected to obtain applicable licenses for all the categories in which they operate (Waema, 2005).

There are four licensed and operational mobile GSM operators. These are Safaricom, airtel (formally zain), Orange Kenya and Essar Telecom Kenya (Yu), previously referred to as Econet Wireless Kenya. As at April 2010, Safaricom commanded a market share of 78%, Zain had 14% of the market, Orange Kenya had 4%, and Yu had 1%. The main Internet service operators are the Kenya Data Network, Jamii Telkom, UUNET, AccessKenya, Wananchi online, Communication Solutions and Africa Online. The seven

operators command a large share of both individual and corporate subscribers (Waema, 2005).

The trends in the telecommunication industry is characterized by a price war in Kenya's mobile communications market since 2008, following the market entry of the third and fourth network, Econet Wireless Kenya (EWK, in which India's Essar acquired a stake), and Telkom Kenya under the Orange brand. Subscriber growth is now forecast to slow gradually over the coming years, and rapidly falling ARPU levels have driven one of the incumbents, airtel, deeper into negative earnings, leaving only the market leader, Safaricom, with a net profit, although reduced. Financial performance has improved again in the 2011 financial year (Waema, 2005).

1.1.3 Safaricom Kenya Limited

Safaricom, Limited is a leading mobile network operator in Kenya. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone group Plc of the United Kingdom acquired a 40% stake and management responsibility for the company. Safaricom employs over 1500 employees and manages retail outlets. Currently, it has nationwide dealerships to ensure customers across the country have access to its products and services. Safaricom boasts a subscriber base of approximately 12 million, most of whom are in the major cities Nairobi, Mombasa, Kisumu and Nakuru. Its main rival is Airtel Kenya. Other rivals include Essar's YU and Orange Wireless (Business Daily, 2010).

Safaricom has developed and launched nationwide mobile banking service called M-PESA that allows Kenyans to transfer money via SMS. The service does not require users

to have bank accounts, an important aspect in a country like Kenya, where many people do not have bank accounts. With M-PESA, the user can buy digital funds at any M-PESA agent and send that electric cash to any other mobile phone user in Kenya, who can then redeem it for conventional cash at any agent. This system is remotely comparable to hawala banking or services like Western Union. Safaricom stakeholder Vodafone, which partnered in the development of M-PESA, has announced that it intends to roll out M-PESA internationally as well (Business Daily Thursday, 16th march, 2010: 3).

Innovation in the Kenyan mobile money scene has progressed so fast that it is a long while since March 2007 when Vodafone, chose to work with Safaricom and has now become most preferred medium of personal cash transfers. "...M-pesa has served as a testing ground for mobile money transfer systems and processes and the eyes of much of the world have been on it. The success of M-pesa has acted as a starter's pistol for a race to gain the upper hand in mobile money transfers throughout Africa, with at least half a dozen contenders already in the wings..." said Arthur Glodstuck, an industry analyst in an interview (Business Daily Friday 18th December, 2010:17).

1.2 Research Problem

Diversification is a company strategy wherein a company tries to increase profitability through increased sales volume from new products and new markets. Diversification basically incorporates new business efforts with existing strategies in order to increase a firm competitive advantage. Existing perspectives that explain the choice of diversification (Hoskisson and Hitt, 1990; Montgomery, 1994; Ramanujam and Varadarajan, 1989), are rooted in different theories or paradigms, notably the resource-

based view of the firm (Penrose, 1959). The resource-based view (RBV) argues that firms possess resources, a subset of which enables them to achieve competitive advantage, and a subset of those that lead to superior long-term performance (Penrose, 1959).

The telecommunication industry in Kenya, just like the rest of the world, is going through profound changes. In the past decade, technological advancement and regulatory restructuring have transformed the industry. Telecommunication companies in Kenya have witnessed rapid growth and have been locked in competition. However Safaricom Limited dominates the Kenyan telecommunications sector and has recently recorded some improvements in its financial performance despite the intense competition prevailing in the market. The financial benefits of charging calling and texting rates are low due to the competitive market. Thus, diversification provides Safaricom Limited the ability to maintain competitive advantage by combining specific activities, like money transfer services such as Mpesa (Waema, 2005).

Diversification is a central topic of research in business (Ramanujam and Varadarajan, 1989). Studies have been devoted to the performance outcomes of diversification, such as, governance structure, product diversification, and performance (Aswin, Van, and George, 2002). North (1990) study contributes to the corporate diversification literature by explaining the performance implications of both product and international diversification strategies largely conceptualized from an institutional economics perspective. However, the findings are mixed, palich, Cardinal, and Miller (2000). One of the reasons for these mixed findings may be differences in the type of organizations or structure of the companies (Bethel and Liebeskind, 1998). Results of prior researches are

rather inconclusive. Indeed, several works suggested that diversified firms create value tanks to economies of scale, greater debt capacity, greater debt capacity due to risk reduction and a great number of profitable activities (Stein, 1997).

Some companies have reported improvement in their performance by using diversification strategies while others have not. Safaricom limited has implemented diversification strategies. It has remained the largest operator in the country and has the largest market share in the Kenyan telecommunication industry. What are the diversification strategies applied at Safaricom Limited?

1.3 Research Objectives

This study had three objectives.

- i. To establish the application of diversification strategies at Safaricom Limited
- ii. To identify reasons why Safaricom Limited chose diversification as a strategy.
- iii. To establish whether diversification strategies give Safaricom limited competitive advantage.

1.4 Value of the Study

This study was expected to benefit the telecommunication companies as they would be able to know the role of diversification strategies. It was also expected that the study would aid policy makers in their effort to revamp their companies through the application of diversification strategies in sustaining competitive advantage.

The results of this study would also be valuable to researchers and scholars, as it would form a basis for further research. The students and academics would use this study as a basis for discussions on diversification strategies used in Kenyan telecommunication companies and the overall effect on company performance.

This study would make several contributions to both knowledge building and practice improvement in strategic management. From a theoretical standpoint, this study proposed a comprehensive framework of studying strategic management that links company performance with diversification strategies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from the available literature in the same field of study. The specific areas covered in this chapter are the concepts of corporate strategy. The areas covered include; the value of diversification, problems of diversification and diversification and performance. Diversification strategies allow a firm to expand its product lines and operate in several different economic markets. The most common strategies include concentric, horizontal and conglomerate diversification.

2.2 Concept of Corporate Strategy

Corporate strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision-making throughout the business. Corporate strategy is often stated explicitly in a "mission statement". Corporate strategy is the selection and development of the markets in which a firm competes. Therefore, corporate strategy deals with what industries a firm seeks to compete in (Ansoff, 1957).

Diversification occurs when a firm enters a new industry or market. The definition of an industry or market is critically important. How diversified a firm is can be determined by what portion of its sales are derived from different markets. The larger a percentage of sales are derived from different markets/industries the more diversified the firm can be said to be. A wide range of labels can be applied to the level of a firm's diversification



from single business (95% of sales from one industry), dominant business (70% from one industry) to diversified (less than 70% from any one industry). While single business firms are usually found in fast moving, rapidly evolving industries where there is a need to focus, there are exceptions. William Wrigley, the chewing gum manufacturer, is perhaps the most famous single business firm. However, most large firms engage in some diversification (Montgomery, 1994).

2.3 Diversification

Diversification is a form of corporate strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit level or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry that the business is already in. At the corporate level, it is generally very interesting entering a promising business outside of the scope of the existing business unit (Ansoff, 1957).

Growth strategies involve a significant increase in performance objectives beyond past levels of performance; diversification is a form of growth strategy. Many organizations pursue one or more types of growth strategies. One of the primary reasons is the view held by many investors and executives that "bigger is better." Growth in sales is often used as a measure of performance. Even if profits remain stable or decline, an increase in sales satisfies many people. The assumption is often made that if sales increase, profits will eventually follow (Penrose, 1959).

Companies may choose a diversification strategy for different reasons. Firstly, companies might wish to create and exploit economies of scope, in which the company tries to

utilize its exciting resources and capabilities in other markets. This can oftentimes be the case if companies have under-utilized resources or capabilities that cannot be easily disposed or closed. Using a diversification strategy, companies may therefore be able to utilize all its capabilities or resources, and able to attract new business from market segments not catered to earlier. Managerial skills found within the company may be successfully used in other markets, where the dominant logic and managerial procedures of management can be successfully transferred to other markets (Montgomery, 1994).

Companies pursuing a diversification strategy may be able to cross-subsidize one product with the surplus of another. This way, companies with a very diverse portfolio of products catering to different markets may potentially grow in power, and be able to withstand a prolonged period of price competition (Hoskisson and Hitt, 1990).

2.4 Value of Diversification

A strategy that focuses on value highlights the cost savings or durability of a product in comparison to other products. When a company uses a differentiation strategy that focuses on the cost value of the product versus other similar products on the market, it creates a perceived value among consumers and potential customers. The product differentiation strategy also allows business to compete in areas other than price. For example, a candy business may differentiate its candy from other brands in terms of taste and quality. A car manufacturer may differentiate its line of cars as an image enhancer or status symbol while other companies focus on cost savings. Small businesses can focus the differentiation strategy on the quality and design of their products and gain a

competitive advantage in the market without decreasing their price (Berger and Ofek, 1995)

A successful product differentiation strategy creates brand loyalty among customers. The same strategy that gains market share through perceived quality or cost savings may create loyalty from consumers. The company must continue to deliver quality or value to consumers to maintain customer loyalty. In a competitive market, when a product doesn't maintain quality, customers may turn to a competitor. A product differentiation strategy that focuses on the quality and design of the product may create the perception that there's no substitute available on the market. Although competitors may have a similar product, the differentiation strategy focuses on the quality or design differences that other products don't have. The business gains an advantage in the market, as customers view the product as unique (Flyvbjerg, 2011).

2.5 Types of Diversification

Diversification can be either related or unrelated. The key issue is if the operations of the firm in the new industry share some link in with the firm's existing value chain. Historically it was thought that related diversification would be better than unrelated diversification. However, the coordination costs of related diversification appear to consume a lot of the expected benefits. Therefore, while most firms seem to engage in related diversification its benefits are only slightly, if at all, better than unrelated. (Ansoff, 1957)

Horizontal diversification acquiring or developing new products or offering new services that could appeal to the company's current customer groups. In this case the company

relies on sales and technological relations to the existing product lines. For example a dairy, producing cheese adds a new type of cheese to its products. Vertical diversification occurs when the company goes back to previous stages of its production cycle or moves forward to subsequent stages of the same cycle production of raw materials or distribution of the final product (Martin, John and Sayrak, 2003).

Heterogeneous (conglomerate) diversification is moving to new products or services that have no technological or commercial relation with current products, equipment, distribution channels, but which may appeal to new groups of customers. The major motive behind this kind of diversification is the high return on investments in the new industry. Furthermore, the decision to go for this kind of diversification can lead to additional opportunities indirectly related to further developing the main company business access to new technologies, opportunities for strategic partnerships, etc. Corporate diversification involves production of unrelated but definitely profitable goods. It is often tied to large investments where there may also be high returns (Martin, John and Sayrak, 2003).

2.6 Problems of Diversification

After a business operates for several years, it may choose to expand its operation. Many businesses choose to expand by merging with another company or by acquiring a different company. Sometimes companies choose to diversify by merging activities or acquiring companies in different industries. These businesses often fail to consider the problems associated with diversification (Villalonga, 2004).

Diversification has its disadvantages. It makes diversifying firms turn their backs on the present situation of the business. First, diversifying firms disregard business costs in order to fulfil the purpose of coming up with varying products and achieve extensive market penetration. Sometimes, diversification makes firms ignore their current financial situation to make way for costly expansion and thus, long-term debts for the company. The diversified corporation spends too much financial expenses in acquiring new assets, and in hiring, training and even firing people for the new organization, and may allocate extensive scarce and essential managerial resources to the integration process between the new assets and existing ones (Flyvbjerg, 2011).

Second, diversification thinly spreads the firm managerial resource by devoting too much management effort and time to the newly acquired components. Thus, the existing activities and endeavours of the company are put to second priority. Also, the diversified firm becomes preoccupied with training and developing new staff that would run and facilitate the new expansion operations. This activity entails cost and the firm deviates from a more crucial focus of managing the existing core competency among the existing employees. Diversification does not necessarily result to high performance because the process basically creates deviations from present organizational competencies (Barney, 1996).

Effective business performance entails embracing new methods but also recognizing existing strengths and competencies. Most firms that are undergoing diversification have the tendency to disregard present competencies as they concentrate on developing new expertise to handle the greater volumes of products or increasing proportion of services

and new markets. The consequence is the inability to manage and make the most of present competencies to deliver the desired results (Flyvbjerg, 2011).

Considering that performance is the major objective of an organization, it is generally accepted that the structure and decision making in an organization is influenced by environmental complexity and volatility (May et al. 2000). Furthermore, it is argued that the alignment of strategies of organizations with the requirements of their environment outperform organizations that fail to achieve such an alignment (Beal 2000). Environmental scanning is generally accepted as being the first step in the process of aligning strategy with environment (Hambrick 1982; Beal 2000). This is because environmental scanning will help the organization to learn more about opportunities for taking competitive advantage and threats referring to its survival. As Beal (2000) 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 (Mose, 2007).

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 (2002) 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 compete 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 managers 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 habitat, 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).

2.7 Diversification and Performance

Another alternative is that diversification will lead to an increase in performance. Support for this alternative explanation of causality is usually based on the following. First, firms may choose diversification as a means of entering industries which are more profitable than the firm's current businesses, thereby recognizing an increase in performance. In fact, Christensen and Montgomery (1981) report that firm performance is closely correlated with the industry profitability of the businesses in the firm's portfolio. From this perspective diversification is viewed as the path or means to generate higher levels of performance.

Second, diversification may provide the opportunity for exploiting economies of scale or scope, which will lower the organization's cost structure and increase profit margin. When a firm diversifies into related businesses, which by definition suggests that the potential for synergy exists, they are able to share a portion of their resources and services among the businesses and spread the cost, making more efficient use of the available resources (Rumelt, 1982). Higher levels of efficiency should lead to a leaner and more profitable organization. A variety of synergies are available based on several different areas of sharing.

The availability of information and its accuracy is superior to specialized firms, who have to rely on external resource markets for such resources as labour and capital (Williamson, 1981). Diversified firms have the benefit of an internal capital market, which makes

additional financial resources available for allocation to the most promising businesses. All of these benefits suggest that diversification offers the opportunity of reaping efficiencies and economies which may result in increases in firm performance if fully exploited and properly managed. Diversification also allows for the separation of operational and strategic control, thereby, insulating top executives from agency problems (Williamson, 1981).

Agency problems may arise when a firm's management is integrally involved in the operations of the firm to the extent that the agency relationship between management and Stockholders are blurred. By separating the strategy component from the day-to-day operational component, managers are better able to focus their attention on a specific aspect of the organization, such as monitoring the organization's various businesses and their performance, instead of suffering from information overload. Williamson (1981) suggests that there are benefits of internal monitoring and coordination of various business operations by upper management due to the access of information.

2.8 Diversification and Competitive Advantage

A common feature of the industrial landscape of most emerging economies is the existence of diversified business groups. Many contemporary studies of business groups (Khanna and Rivkin, 2001) have established that diversification is beneficial in emerging markets, unlike in developed economies where diversified companies are valued at a discount. Li and Wong (2003) suggested that when analyzing the competitiveness effects of corporate diversification strategies, one should keep in mind the different institutional contexts in the emerging economies. Specifically, the lack of well-established product

markets, financial markets, and labor markets, coupled with the lack of necessary laws and regulations and inconsistent enforcement of contracts may make it difficult for firms to pursue resource building and leverage alone in emerging economies.

On the one hand, resource-based theory suggests that since related diversification is inherently positioned to identify, develop, and leverage resources, it would lead to a competitive advantage. On the other hand, considerations of the institutional environment predicts that unrelated diversifications in emerging economies can help firms internalize market institutes and manage institutional relations. As a result, contrary to the common belief in the developed economies that single/concentration strategy and related diversification strategy are more effective than unrelated diversification and high diversity strategy, Li and Wong (2003) found that it was the joint effect of both related and unrelated diversification strategies that are affecting firm competitive advantage. Manikutty, (2000) argues that resource allocation can be handled much more efficiently in internal capital markets than external capital markets. Thus, diversified firms by this very logic are at an advantage because of their ability to create sizeable internal capital markets.

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 (Hammond, 2003). 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. Senior (1997) notes that there are various catalysts for organizational changes such as restructuring. These triggers may include the purchase of new IT equipment or system, business process reengineering through process intensification/extension, the redesign of a group of jobs, staff right sizing and subsequent staff cutbacks, as well as staff redundancies.

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 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. These 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. The highlight of the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas of strategic changes and may yield the greatest payoff

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. The company could seek new products that have technological and/or marketing synergies with existing product lines even though the new products themselves may appeal to a different group of customers (this is referred to as concentric diversification) (Zou , Fang and Zhao 2003).

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 (horizontal diversification). Finally, the company might seek new businesses that have no relationships to the company's current technology, products or markets (Conglomerate diversification) Strategic responses to a changing competitive environment therefore entail substantial changes to organization long term behaviour (Safford (2005). This adaptation may be gradual or revolutionary depending on the nature and circumstances facing the organization.

Diversification strategy is the process of entering new business markets with new products. Such efforts may be undertaken either through acquisitions or through extension of the company's existing capabilities and resources. The diversification process is an essential component in the long range growth and success of most thriving companies, for it reflects the fundamental reality of changing consumer tastes and evolving business opportunity. But the act of diversifying requires significant outlays of time and resources, making it a process that can make or break a company (porter, 1998).

The resource-based view seems to suggest that firms diversify into related industries and related diversification leads to superior competitive edge (Montgomery 1994). The firm resources include the factors of production, services created from the factors of production and the specialized competencies it has created over time. According to the resource-based view, firms diversify in response to the excess capacity in the resources they possess. Therefore, as long as the firm can find profitable ways of exploiting its unutilized resources, it has incentive to expand in a bid to achieve a competitive edge.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. This section was an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the research identifies the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

This study employed a case study. A case study is a detailed investigation of a single individual or group. Case studies can be qualitative in nature. The defining feature of a case study is its holistic approach it aims to capture all of the details of a particular individual or group, which are relevant to the purpose of the study, within a real life context (Bent, 2011).

The design shows which individuals are to be studied, when and where and under which circumstances they are being studied. More equally, research design refers to the way the study is designed, that is, the method used to carry out a research. It is important to highlight the method used when investigating and collecting data that is qualitative

approach. A qualitative approach to research generally is concerned with inductive testing (Saunders, 2003).

3.3 Data Collection

The study employed face to face interviews as a primary data collection method. Primary data is data that has not been previously published, that is, data derived from a new or original research study and collected at the source. It is information that is obtained directly from first-hand sources for example by means of surveys, observation or experimentation.

An interview guide was employed as the sole research instrument. The researcher used the interview guide to gather information from the selected top management staff of Safaricom ltd. The interview guide had both open and close-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that may not have been captured in the close-ended questions.

The researcher used the interview guide to aid in obtaining information from the respective respondents who are the top management staff that are well conversant with the companies' operations. The researcher exercised care and control to ensure all interview guides used to collect data from the respondents are filled and to achieve this, the researcher maintained a register of interview guides, which was used.

The primary focus in this research was on top management. This is ultimately where strategic management starts, and the first level of management where, if it fails, then

lower level management cannot make strategic management work. The respondents included ten top management staff at Safaricom Ltd.

3.4. Data Analysis

Before processing the responses, the completed interview guide was edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. The data was analyzed using content analysis. Content analysis enables researchers to sift through large volumes of data with relative ease in a systematic fashion. It can be a useful technique to discover and describe the focus of individual, group, institutional, or social attention. It also allows inferences to be made which can then be corroborated using other methods of data collection (Weber, 1990).

Qualitative content analysis does not produce counts and statistical significance. It uncovers patterns, themes, and categories important to a social reality. Presenting research findings from qualitative content analysis is challenging. Although it is a common practice to use typical quotations to justify conclusions (Schilling, 2006), the study incorporated other options for data display, including graphs and charts (Miles & Huberman, 1994). Qualitative research is fundamentally interpretive, and interpretation represents your personal and theoretical understanding of the phenomenon under study.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and interpretations of the data from the field. It presents analysis and findings of the study as set out in the research methodology on the application of diversification strategies at Safaricom Limited. The data was gathered exclusively from an interview guide as the research instrument. The interview guide was designed in line with the objectives of the study. To enhance data quality of data obtained, unstructured questions were used whereby respondents indicated their views and opinions about the application of diversification strategies at Safaricom Limited. The study targeted ten top management employees in collecting data with regard to application of diversification strategies at Safaricom Limited. The researcher managed to secure ten respondents in total for the interview.

4.2 Interview Data Presentation

4.2.1 Application of Diversification Strategies

On whether the Organization has a product diversification policy, all the interviewees were unanimous in agreement. They explained that Safaricom has applied product diversification strategies over the years to become the leading telecommunication company in the country, Safaricom has pursued an aggressive product diversification strategies which are pre-positioned on leveraging on product and service delivery to generate new value propositions. They further argued that the product diversification efforts which are used in the company are still working when more ideas keep emerging

making the company more competitive. The Company has diversified data products to individuals and corporate.

The interviewees were required to indicate the various diversification strategies that are applied by the Organization. From the study, the interviewees reiterated that there are various diversification strategies used by Safaricom which allows it to expand its product lines and operate in several different economic areas. These diversification strategies include concentric, horizontal and conglomerate diversification strategies each focusing on a specific method of diversification. Diversification strategies are adopted to consolidate the company's market share and ward off competition from its rivals, so as to spread the risks occasionally by using cost of operation, to maximize on profits by making use of idle capacity.

From the study the diversification 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 diversification strategies 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.

The adoption of the diversification 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.

4.2.2 Reasons for choosing Diversification as a Strategy

The interviewees were required to indicate what motivated their Firm to engage in diversification strategies. From the study, the interviewees reiterated that the Company engaged in diversification strategies to increase product offering, to improve product value/quality, to gain competitive edge and to maintain product loyalty. Superiority was the company's market power in large number of audience and hence higher revenues. The other aspect of the company's market power was in reaching a wider market.

The interviewees were required to indicate their opinion on whether the diversification strategies in place contribute to the growth of the Firm. All the interviewees unanimously agreed that the diversification strategies in place contribute to the growth of the Firm. They reiterated that the diversification strategies help the firm to retain its relative position. The strategy has also enhanced the firm to grow through increased, market penetration, through market development and through product development. Diversification enabled spread of risk, competitiveness in growing market, moving accolades to the company, increasing market share and helps to raise the company's profile.

4.2.3 Diversification Strategies and Competitive Advantage

On whether the organization has many competitors within the industry of operation, the respondents overwhelmingly agreed that the firm has many competitors within the industry. They however indicated that Safaricom is the market leader in the overall

mobile market and Safaricom has strengthened its leadership in the mobile market over the past years. They also explained 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 interviewees vindicated 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 study further sought to establish the interviewees' opinion on whether the diversification strategies increase their firm's competitive advantage. They opined that the diversification strategy is part of the Company's planned approach to growth and comparing the advantages of the various products and services. They also reiterated that the diversification strategies increase the company's market power in large number of audience and hence higher revenues as well as in reaching a wider market. The diversification has enabled the organization to take advantage of the evolution of markets and future opportunities in industries of rapid growth in that it has been able to lap to the

emerging market such as short message texting, sending breaking news to subscribers, it has enabled it to favourably compete, online scenarios has reached wider markets even in the diasporas and it has also helped the company remain as one of the leaders in the industry.

The study sought to establish the challenges that the firm has experienced in implementing diversification strategies. The interviewees indicated that harsh economic conditions, external interference mainly from the industry regulator, CCK, as well as competition are the major challenges in the implementing diversification strategies at Safaricom. Others indicated that employee turnover, consumer demands, technological advancements and globalization also affect the implementation of diversification strategies.

On rating the effectiveness of the application of diversification strategies, majority of the interviewees rated that them as being effective, while others thought they are very effective. On the same they explained that diversification strategies adopted enable the Company to consolidate the company's market share and ward off competition from its rivals, so as to spread the risks occasionally by using cost of operation and to maximize on profits by making use of idle capacity. From the study, diversification has enabled the organization to take advantage of the evolution of markets and future opportunities in industries of rapid growth in that it has been able to lap to the emerging market, it has enabled it to favourably compete, online scenarios has reached wider markets even in the diasporas, and it has also helped the company remain as one of the leaders in the industry.

In addition, the diversification strategies 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 adopt 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 through M-Pesa and engage in heavy advertisement and promotions for the same like selling subsidized phones, giving offers and other promotions.

On the ways of employing diversification strategies that has helped the company yield financial success, the study found that the company adopted ways such as tapping on the advertisement revenue that would otherwise be going to other companies, increasing job portfolio of human resource, promotions, lowering costs on incurred than starting a fresh recruitment and that it has captured a wider market both in the upper and lower income brackets. They further explained that 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.

4.3 Discussion of the Findings

4.3.1 Comparison of the findings to the theory

A firm is essentially a pool of resources, the utilization of which is organized in an administrative framework. In a sense, final products being produced by a firm at any given time merely represents one of the several ways in which the firm could be using its resources, an incident in the development of its basic potentialities' (Penrose 1995). In this study, Firms diversify into other businesses in an effort to: reduce risk, or reduce dependence on certain products or markets; capitalize opportunities; seek synergies in terms of markets, products or technology; strive for aggressive growth; gain power through market or market; and capital access or reflect owners or manager's aspirations and goals (Sambharya, 2000).

Resource-based theory can provide an explanation for the limits of firm growth. It suggests that a firm's human and physical resources limit the markets to which that firm can enter in order to realize its ability to produce, fund needed investments and manage growth. One of the key findings of this study was that the company's management and professional skills play a major role in achieving success. These skills have direct and indirect causal relationships for a firm's success. In addition, sharing and processing information with other decision-makers have impacted on other resources and on the level of success. Penrose (1995) states that even though it might be true for most lines of production, that productivity and costs would *ceteris paribus* be lower in specialized firms, it is only limited to the determination of the most profitable use of its resources in changing conditions. The changing nature of the business opportunities provides a firm's potential to invest in new things, while maintaining its current lines of businesses.

From the results, there are various diversification strategies used by Safaricom which allows it to expand its product lines and operate in several different economic areas which include concentric, horizontal and conglomerate diversification strategies each focusing on a specific method of diversification. M-PESA's convenience and low cost has provided financial inclusion to many Kenyans who do not have bank accounts and provides them with an avenue to conveniently transfer money, pay for bill or even buy goods. According to Martin, John and Sayrak (2003) there are various diversification strategies such as; the company relies on sales and technological relations to the existing product lines. However the coordination costs of related diversification appear to consume a lot of the expected benefits. The key issue is if the operations of the firm in the new industry share some link in with the firm's existing value chain.

4.3.2 Comparison of findings with other empirical studies

This study established that the diversification strategies used by Safaricom contributes to its growth and help the Firm to retain its relative position. Diversification generally requires new skills, new techniques, and new facilities. As a result, it almost invariably leads to physical and organizational changes in the structure of the business which represent a distinct break with past business experience. These findings concur with those of North (1990) study which contributes to the diversification literature by explaining the performance implications of both product and international diversification strategies largely conceptualized from an institutional economics perspective. Indeed, several works suggested that diversified firms create value tanks to economies of scale, greater debt capacity, greater debt capacity due to risk reduction and a great number of profitable activities (Stein, 1997). They also concur with those of Aswin, Van, and George, (2002)

that diversifying firms disregard business costs in order to fulfil the purpose of coming up with varying products and achieve extensive market penetration hence growth.

According to the results of the study, the Company has applied diversification strategies over the years to become the leading telecommunication company in the country. The preference for diversification in Safaricom was mainly concentrated on three areas. Per second billing strategy where the subscribers were charged on the basis of the number of seconds their calls lasted rather than per minute. The other strategy is the introduction of M-pesa a mobile money transfer system that enables Safaricom subscribers to send and receive money and also to pay bills like those of electricity, rent and water straight from their mobile phone. The Mpesa addressed the challenge where normal money transfer methods like Western Union or through the post office were not only ambiguous and time consuming but also very costly to undertake and many subscribers had no option but to choose Safaricom as their preferred mobile network provider.

The mpesa business has massively increased Safaricom's revenues even when the company's profitability were compromised by the massive voice calls price reduction done by its biggest competitor Airtel. According to Flyvbjerg (2011) a successful product differentiation strategy creates brand loyalty among customers. The same strategy that gains market share through perceived quality or cost savings may create loyalty from consumers. The company must continue to deliver quality or value to consumers to maintain customer loyalty. In a competitive market, when a product doesn't maintain quality, customers may turn to a competitor.

Entry of Safaricom into the internet and data market has been another major boost of its diversification endeavours. The early entry into the internet and data market has also contributed to the success of Safaricom. Today safaricom provides broadband internet to both corporate and individual users. The entry into the internet business has not only increased Safaricom's revenues but has also given subscribers one more reason to be happy and stay forever with safaricom whose tagline is "The better option".

Today forty five percent of Kenya's internet users are using Safaricom as their preferred internet service provider. Safaricom subscribers can today access cheap and fast internet on the phones and computers. This is quite a determined approach that demanded that the Company spends a lot in terms of finance and human resource to realized success. These is in concurrence with the proposition of Flyvbjerg (2011) that the diversified corporation spends too much financial expenses in acquiring new assets, and in hiring, training and even firing people for the new organization, and may allocate extensive scarce and essential managerial resources to the integration process between the new assets and existing ones.

Safaricom's voice business has continued to perform beyond expectations with increased traffic and an impressive growth in voice revenue, while the strategy to diversify into non-voice services has continued to deliver strong growth with these revenue streams gaining traction. Further the Company's Ringback Tone service, "SKIZA" has experienced strong growth in subscribers. This is mainly due to the development of an easy USSD search mechanism that made it easy for subscribers to search for tunes hence increased uptake of the product. Premium rate services continued to grow in subscription among Safaricom customers. These services include purchase of ring tones, wall papers,

and music as well as gaming activities. As such Safaricom continue to be the leaders in innovation as witnessed by the enhancement of the Bonga Loyalty Program which introduced sharing of Bonga points (“Changa Na Bonga”) and purchase of merchandise using part cash and part bonga points (Bonga Part Payment), all aimed at rewarding and retaining the loyal subscribers.

This is regarded as one of the most influential aspects of diversification that the company adopted to match with the operating environment. According to the available literature, the alignment of strategies of organizations with the requirements of their environment outperforms organizations that fail to achieve such an alignment (Beal 2000). As Beal (2000) argued, 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.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to establish the application of diversification strategies at Safaricom Limited, to identify reasons why Safaricom Limited chose diversification as a strategy and to establish whether diversification strategies give Safaricom Limited competitive advantage.

5.2 Summary of the Findings

The study found that Safaricom has applied product diversification strategies over the years to become the leading telecommunication company in the country, Safaricom has pursued aggressive diversification strategies which are pre-positioned on leveraging on product and service delivery to generate new value propositions. The diversification efforts which are used in the company are still working when more ideas keep emerging making the company more competitive. There are various diversification strategies used by Safaricom which allows it to expand its product lines and operate in several different economic areas focusing on a specific method of diversification.

5.2.1 Application of diversification strategies at Safaricom Limited.

From the study, the interviewees reiterated that there are various diversification strategies used by Safaricom which allows it to expand its product lines and operate in several

different economic areas. These diversification strategies include concentric, horizontal and conglomerate diversification strategies each focusing on a specific method of diversification. Diversification strategies are adopted to consolidate the company's market share and ward off competition from its rivals, so as to spread the risks occasionally by using cost of operation, to maximize on profits by making use of idle capacity.

The study found that the Company engaged in diversification strategies to increase product offering as revealed by the interviewees. From the study, the interviewees reiterated that there are various diversification strategies used by Safaricom which allows it to expand its product lines and operate in several different economic areas. These diversification strategies include concentric, horizontal and conglomerate diversification strategies each focusing on a specific method of diversification. Diversification strategies are adopted to consolidate the company's market share and ward off competition from its rivals, so as to spread the risks occasionally by using cost of operation, to maximize on profits by making use of idle capacity.

Other reasons for adopting diversification strategies include improving product value/quality, to gain competitive edge and to maintain product loyalty. The diversification strategies in place contribute to the growth of the Firm. The diversification strategies help the firm to retain its relative position. The strategy has also enhanced the firm to grow through increased, market penetration, through market development and through product development.

5.2.2 Reasons as to why Safaricom Limited chose diversification as a strategy.

The study showed that the diversification strategy is part of the Company's planned approach to growth and comparing the advantages of the various products and services. Safaricom diversifies to compensate for technological obsolescence, to distribute risk, to utilize excess productive capacity, to reinvest earnings and to obtain top management. These diversification strategies increase the company's market power in large number of audience and hence higher revenues as well as in reaching a wider market. These findings are concurrent with Flyvbjerg (2011) who indicated that the differentiation strategy focuses on the quality or design differences that other products don't have. Accordingly the business gains an advantage in the market, as customers view the product as unique.

The study found that the firm has many competitors within the industry. However Safaricom is the market leader in the overall mobile market and Safaricom has strengthened its leadership in the mobile market over the past years. The diversification strategy is part of the Company's planned approach to growth and comparing the advantages of the various products and services. The diversification strategies increase the company's market power in large number of audience and hence higher revenues as well as in reaching a wider market. They enable the Organization to take advantage of the evolution of markets and future opportunities in industries of rapid growth in that it has been able to tap to the emerging market such as short message texting, sending breaking news to subscribers, it has enabled it to favourably compete, online scenarios has reached wider markets even in the diasporas and it has also helped the company remain as one of the leaders in the industry.

5.2.3 The use of diversification strategies at Safaricom limited to gain competitive advantage

The study also found that harsh economic conditions, external interference mainly from the industry regulator, CCK, as well as competition, employee turnover, consumer demands, technological advancements and globalization are the challenges in the implementing diversification strategies at Safaricom. The application of diversification strategies is effective and it enables the Company to consolidate the company's market share and ward off competition from its rivals, so as to spread the risks occasionally by using cost of operation and to maximize on profits by making use of idle capacity.

Despite the firm having many competitors within the industry Safaricom is the market leader in the overall mobile market and has strengthened its leadership in the mobile market over the past years. The findings also coincide with the findings by Li and Wong (2003) that as a result, contrary to the common belief in the developed economies that single/concentration strategy and related diversification strategy are more effective than unrelated diversification and high diversity strategy, found that it was the joint effect of both related and unrelated diversification strategies that are affecting firm competitive advantage.

To sustain this leadership the Company has pursued aggressive product diversification strategies which are pre-positioned on leveraging on product and service delivery to generate new value propositions. From the study, a simultaneous pursuit of market penetration, market development, and product development is usually a sign of a progressive, well-run business and may be essential to survival in the face of economic

competition. According to Martin, John and Sayrak (2003) there are various diversification strategies of which the decision to go for a specific kind of diversification can lead to additional opportunities indirectly related to further developing the main company business access to new technologies and opportunities for strategic partnerships.

5.3 Conclusions

The study concludes that there are various diversification strategies used by Safaricom which allows it to expand its product lines and operate in several different economic areas. These diversification strategies include concentric, horizontal and conglomerate diversification strategies each focusing on a specific method of diversification.

The study further concludes that the reasons for adopting diversification strategies include improving product value/quality, to gain competitive edge and to maintain product loyalty. The diversification strategies further contribute to the growth of the Firm. They help the firm to retain its relative position and also enhance the firm to grow through increased, market penetration, through market development and through product development.

The study also concludes that the diversification has enabled the organization to take advantage of the evolution of markets and future opportunities in industries of rapid growth in that it has been able to lap to the emerging market such as short message texting, internet/data, mobile financial services and product, it has enabled it to favourably compete, online scenarios has reached wider markets even in the diasporas and it has also helped the company remain as one of the leaders in the industry.

5.4 Recommendations

The study found that the Company adopts diversification strategies to maximize profits and compete effectively in the telecommunication market, diversification strategies are adopted to consolidate the company's market share and ward off competition from its rivals, so as to spread the risks occasionally by using cost of operation, to maximize on profits by making use of idle capacity and that the company was investing in all the telecommunication platforms. This study therefore recommends that the organization should enhance its diversification strategies in order to realize even more profits and market share.

The study recommends that the organization should also incorporate diversification in its business operations through use of technological advancements and other aspects such as innovation and benchmarking strategies to realize full benefits of diversification.

It was clear that diversification influenced sustainability of business growth by tapping additional revenue from additional areas as magazine distribution. It is deduced that there is introduction of the online services to reach wider markets, maximization of profits through mopping up of advertisement revenue. It is against this observation that the study recommends that the company should work towards leading the telecommunication industry by setting up strategic advisory committee to oversee strategic decision that need to be undertaken to enhance the diversification strategies through various aspects of telecommunication.

The threat by government to limit the number of telecommunication outlets a company or individual may operate has negatively affected the diversification in the

telecommunication business. The study thus recommends that the organization should ensure that there is full usage of the available human resource and other resources as well as ensuring that the organization fully complies with the government regulations for it to successfully realize the intended results of the diversification strategies.

5.5 Limitations of the Study

Being that this was a case study on one company the data gathered might differ from diversification strategies that other companies in the Telecommunication industry have adopted to match the competitive environment. This is because different companies adopt different diversification 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 diversification strategies that companies adopt.

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 diversification strategies are made and rolled out to other branches that operate on the blue print.

5.6 Suggestions for Further Research

This study has explored the application of diversification strategies at Safaricom. There are other telecommunication companies in Kenya whose orientation in the

telecommunication industry is close to that of Safaricom limited but differ in their diversification strategies. There is therefore need to do another comprehensive study to investigate the diversification strategies in the telecommunication industry in Kenya. Further, a similar study should be carried out to investigate the effect of diversification strategies on performance of organizations in Kenya.

The study further recommends that further research should be done to evaluate how the indigenous companies have adopted diversification strategies on what acclaimed scholars have postulated as the best diversification strategies 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: Interview Guide

APPLICATION OF DIVERSIFICATION STRATEGIES AT SAFARICOM LIMITED

I am a student at the University of Nairobi carrying out a research on the application of diversification strategies at Safaricom limited as part of my school course work. I assure you that the information that you provide will be treated with utmost confidentiality and your identity will not be revealed.

PART A: APPLICATION OF DIVERSIFICATION STRATEGIES

1. Does your organization have a product diversification policy?

Explain.....

.....

2. Which diversification strategies are applied by your organization

Explain.....

.....

PART B: TO IDENTIFY REASONS WHY SAFARICOM LTD CHOSE DIVERSIFICATION AS A STRATEGY

3. What motivated your firm to engage in diversification strategies?

.....

.....

4. Do you think that the diversification strategies in place contribute to the growth of the firm?

Explain.....

PART C: TO ESTABLISH WHETHER DIVERSIFICATION STRATEGIES GIVES SAFARICOM LTD COMPETITIVE ADVANTAGE

5. Does your organization have many competitors within the industry of operation?

Explain

6. Do you think diversification strategies increase your firm's competitive advantage?

Explain

7. What are the challenges that your firm has experienced in implementing diversification strategies?

Explain.....

8. How effective is the application of diversification strategies?

Explain.....