

**STRATEGIC MANAGEMENT OF VALUE CHAIN ACTIVITIES AND
PERFORMANCE OF SAFARICOM KENYA LIMITED**

BY

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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This research project has been submitted for examination with my approval as university supervisor.

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DEDICATION

I dedicate this research project to my late father Gilbert Ghonar Ngamba, my mum Faith Mwaka, brother Melvin Ngamba and sister Loureen Anzazi for their unconditional moral and emotional support throughout the entire period of my study.

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ABBREVIATIONS AND ACRONYMS

BNK	Best Network in Kenya
CEC's	Customer Experience Centres
CEO	Chief Executive Officer
CCK	Communication Commission of Kenya
ETACs	External Total Access Communications System
FY	Financial Year
4G	Fourth Generations
GSM	Global Mobile System
ICT	Information Communication Technology
ISP	Internet Service Provider
ITIL	Information Technology Information Library
IT	Information Technology
KP&TC	Kenya Post and Telecommunication Corporation
KDN	Kenya Data Network
RBV	Resource Based View
R&D	Research and Development
SME	Small & Medium Enterprises
SSPS	Safaricom Staff Pension Scheme
TKL	Telecom Kenya Limited
TV	Television
VRIO	Value Rarity Imitability Organization

ABSTRACT

The objective of this study was to determine the strategy of value chain activities that constitute to the performance of Safaricom Kenya Limited and also ascertain fundamental factors influencing the value chain activities in Safaricom Kenya. Value chain analysis is carried out in order to grasp the behaviour of costs and the sources of differentiation (Shank and Govindarajan, 1993). The charm for differentiation is strong among telecommunication companies, whereby image and perception of quality are important, thus differentiation among telecommunication companies is attained through creating a perception amongst targeted customers where the services offered as a whole are distinct in their own way, importantly by being of a superior quality. At the end, the perception of the offered service allows firms to attach a preferred service fee, with the intention of outperforming their competitors in terms of revenue without the thought of any reduction on costs significantly. The business of a firm can paramountly be illustrated as a value chain activity whereby total revenues minus total costs of all activities carried out to develop and market a product or service yields value (Porter 1980). Firms present in the telecommunication industry have akin internal value chain activities that are marketing and contract management, service provisioning, network infrastructure operations, equipment procurement, service development, billing, developing co-operative agreements and providing customer service. This research was conducted through a case study. This is because it enabled the researcher to have an in-depth understanding of the value addition process in a dynamic telecommunication ecosystem. The main advantage of such a research design is that it can collect a great deal of data about strategic value proposal choices that telecommunication firms have made in reference to the external environment. The data collected was qualitative in nature and the qualitative primary data was collected using an interview guide as an instrument for data collection. A total of seven (7) informers comprising of the heads of departments of the company, selected from various departments such as corporate strategy, operations, finance, human resources, sales and marketing department were interviewed using an interview guide. Secondary data was engaged through questionnaires and review of publications, reports and websites and the data was analyzed using content analysis. The study found out that Safaricom has incorporated abroad range of promotional activities in its marketing programs. Safaricom management has undoubtedly defined its product concept as an objective in customer's terms in order to deliver the expected value. The study also found out that strategy development process of value chain activities adopted by Safaricom was on financial factors; conducts mid-year and annual reviews of budget and economic forecasts. Financial policy; compiles a list of unfunded/unproductive mandates for legislative review and also it reviews budget process regularly for efficiency. The structure acts as a key determinant of what is appropriate. It directly affects the processes and perspectives of the whole strategy process. Organizations that carry out value chain management practices seriously in their specific organization often aim on improving their performance in terms of higher profits, better responsiveness in the market, and long-term market dominance and long-term competitive advantage. The study recommends that organizations should strive to ensure product range extension, product replacement, product improvement, product repositioning and new product introduction to enable the organization be more productive, ensure fast growth, more investments and better performance.

CHAPTER ONE

INTRODUCTION

1.1 Background

Strategic management involves the formulation and implementation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes. It is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives (Pearce & Robinson 2007). Porter (1985) states that value chain is a chain of activities (processes or collections of processes) that an organization performs in order to deliver a valuable product or service for the market. By alignment of the various activities in its value chain with the organization's strategy in a coherent way, a firm realizes good business performance. Strategy is no longer just a broad vision, but the particular configuration of activities a firm adopts compared to its rivals. In analyzing potential business opportunities and sources of organizational performance within an organization, Porter introduces the value chain framework as a strategic tool for doing so.

Resource-based view (RBV) and Dynamic Capability theories are the fundamental theoretical foundations for grasping how sustainable organisational performance can be attained in organizations. RBV is an economic theory that suggests a firm's performance is a function of the types of resources and capabilities controlled by firms (Barney and Hesterly, 2008). Dynamic capability is the firm's ability to integrate, build and reconfigure internal and external competences to address ever changing environment to attain new and innovative forms of organisational performance (Teece et al., 1997).

Dynamic capabilities framework assists in identifying the factors likely to influence an organizations performance, hence developing into an interdisciplinary theory of the modern corporation (Teece, 2010). Industries, to be specific telecommunication industry motivated me to carry out this study as majority of telecom organizations are eyeing more on income generated than the expenses and costs they incur. Porter (2001) says, a firm can achieve a sustainable organizational performance by focusing on operational effectiveness and distinctive strategic positioning. According to Kotler (2003), in a hyper competitive economy with increasing rational buyers, a company can only win by creating and delivering superior value, involving five capabilities; understanding customer value; creating customer value; delivering customer value; capturing customer value and sustaining customer value. The crucial ingredient for a company to improve its market performance is the concept of value chain and value delivery network.

The Safaricom Kenya Limited is licensed under the telecom industry to carry out operations in Kenya, though it's operational in Uganda and Tanzania under the subsidiary of Vodafone it provides services through five product segments; Mpesa, prepaid, postpaid, business and enterprise, international roaming, data, messaging and mobile voice services. Safaricom has employed 3000+ staff. The rapid growth of the telecom industry is posing challenges in the areas of intense competition, new product and technological innovations, customer retention, promotions, brand building. According to Thompson, Peteraf, Strickland and Gamble (2007), a company that does a first rate job of managing its value chain activities relative to competitors stands a good chance of achieving sustainable organizational performance. Safaricom therefore needs to understand how to manage its value chain activities better than rival companies to achieve superior performance.

1.1.1. Strategic Management and Value Chain Analysis

Strategic Management provides overall direction to the firm and involves specifying the organization's objectives, developing policies and plans designed to achieve these objectives, and then allocating resources to implement the plans. Brinkerhoff (1994) characterizes strategic management practices as looking out (exploring beyond the boundaries of your organization to set feasible objectives, identify key stakeholders and build constituencies for change), and looking ahead (wedging strategy with structures and resources to reach policy goals, while monitoring your progress and adjusting as need be).

Majority of firms put in a lot of effort and focus solely on financial results by improving and analyzing, however to succeed in business today such focus should be widened to cover other business determinants such as employees, customers and development. Successful management will lead to organizational performance enhancement, having same goals, strategies and vision. Value chain model helps analyze specific activities through which a firm operating in a specific industry can create value and enhance organizational performance. According to Porter (2001), the business of a firm can best be described as the value chain in which total revenues minus total cost of all activities undertaken to develop and market a service yields value. Porter's framework is based on profit realization, divides value creating activities into two large categories; primary activities and support activities, these categories are linked together in a characteristic way (Porter, 1985).

Various researchers have redefined the value delivery concept making it clear the system includes: its suppliers, partners, manufacturers and customers were the important focus. Awino (2007) defines value chain as a linear map of the way in which value is added by means of supply chain management process from raw materials to finished delivered product and that includes services after delivery. Kotler says that every firm is disaggregated as a collection of value activities that are performed to design, produce market, deliver and support its product.

It involves identification of value chain in business processes, communicating, analyzing, and continuously improving on them. According to Johnson and Scholes (2003), it is the cost of the activities, described as key internal factors by Pierce and Robinson (2002) and the value they deliver that determines the amount of value created. Sanchez and Heene, (2004) noted that Porter's model of value chain is one of the best known and widely applied models of a company's value-creation processes.

Porter presented a value chain model which identifies key activities that are common to all businesses in terms of value generating activities. The model is based on nine categories of activities that can be classified into five core (primary) and four support (secondary) activities, and that these categories are linked together in characteristic ways (Porter 1985). The main goals of value chain are; to measure the value attributes and appreciate how various activities within supply chain adds value, to identify value attributes in services and products and to understand the customer requirements and communicate them to suppliers.

1.1.2 Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs/goals and objectives. According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: Financial performance (profits, return on assets, return on investment); Product market performance (sale, market share); and Shareholder return (total shareholder return, economic value added).

Many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

It is a performance management method that maps an organization's strategic objectives into performance metrics in four perspectives, that is: financial, customers, internal processes, learning and growth. It added strategic non-financial performance measures to traditional financial metrics to give managers a more 'balanced' view of organizational performance (Kaplan and Norton, 1992).

1.1.3 Value Chain and Organizational Performance

A crucial hindrance noted was that most organizations had a tendency to manage their business solely upon financial measurements, which worked well in the times of yore, Kaplan & Norton (1996a) emphasised that financial measures are inadequate in today's dynamic tempo of the market and that businesses require better, more comprehensive measures which also measure where the company is headed and not only where it has been (Hannabarger, Buchman& Economy, 2011).

It is natural for Kaplan and Norton (1996a) to state that measurement matters: "If you can't measure it, you can't manage it." And if firms measure their success wholly on financial measures much of the value created or damaged in the recent accounting period will not be noticed (Kaplan & Norton, 1996a), with that regard there should be some complimentary measures along it to make sure all the firm value is captured and measured (Kaplan & Norton,1996b).

Organizational performance takes into account a general and combined set of measures that links existing customers, employees, internal processes and system performance to long term financial success (Kaplan & Norton, 1996a; Latshaw and Choi, 2002).

1.1.4 Telecommunication Industry in Kenya

It has been a long journey for the telecommunication industry up to where it is today. In 1977 all telecommunication services were handled by the state owned monopoly the Kenya Post and Telecommunication Corporation (KP&TC) due to its barriers of entry of high initial capital of entry. In 1998, Kenya Parliament passed the Kenya Telecommunications Act as proposed by the Communication Commission of Kenya (CCK).

Communication Commission of Kenya later set-up Telkom Kenya in 1999. With the technological advancement of telecommunication mobile telephony in Kenya started in the year 2000 when Kencell and Safaricom limited were launched on 5th and 19th October 1998 respectively Kencell in 2004 rebranded to Celtel, in 2008 they rebranded again to Zain and now Airtel. Kencell communications Limited was a joint venture of Vivendi Telecom International (a telecommunications operator in France) and Sameer Group (one of the largest business conglomerates in Kenya with strong and stable presence in various sectors of the Kenyan economy including agriculture, construction, banking and manufacturing). (www.cck.go.ke)

Econet is another player in the mobile telecommunications market. It's a joint venture between Essar of India and Econet wireless. Econet Kenya signed an infrastructure deal with Chinese telecommunications equipment manufacturer and vendor ZTE for the development of infrastructure.

Other players in the telecommunications market include ISPs such as KDN, Access Kenya, Swiftglobal, Africa Online, Jamii Telecom, Zuku and Wananchi Online amongst others. The telecommunication sector in Kenya is well developed having two major players-Safaricom and Telkom Kenya. Safaricom is the clear market leader in the mobile service segment while Telkom Kenya is the major player in the fixed line telecom segment. Telecommunication industry experienced strong growth in the year 2014 and the same is likely to continue in the coming years, with increasing subscribers for both mobile and fixed line sectors, the Kenyan telecommunication industry is anticipated to post healthy growth rates in future. With competition heating up in the telecommunication industry network expansion is going to play a key role in driving the industry.

1.1.5 Safaricom Kenya Limited

Safaricom Limited started as a department of Kenya Posts and Telecommunications Corporation and launched its operations in 1993 based on an analogue ETACS network and was upgraded to GSM in 1996 (licence awarded in 1999). Safaricom was incorporated in 3rd April 1997 under the companies act as a private limited liability company. It was converted into a public company with limited liability on 16th May 2002 (Safaricom website 2002). By virtue of the 60% shareholding held by the Government of Kenya, Safaricom was a state corporation within the meaning of the State Corporations Act (Chapter 446) of the Laws of Kenya. Until 20th December 2007, the Government shares were held by Telkom Kenya Limited (TKL), which was a state corporation under the Act. Following the offer and sale of 25% of the issued shares in Safaricom held by the Government of Kenya to the public in March 2008, the Government of Kenya ceased to have a controlling interest in Safaricom under the state Corporations Act (www.safaricom.com)

Safaricom strives to deliver the best service to their customers and for that they have been rewarded with strong commercial and financial performance. They have delivered on their goal of providing unmatched service; improving their network quality; and deepening financial inclusion with the customer uptake of Lipa na Mpesa. 4G network is now available in Nairobi and Mombasa, and they will be rolling out to 13 other towns and cities before the year ends. In December 2014 the Government of Kenya entrusted Safaricom to build the National Police Network in Nairobi and Mombasa to help with security. Delivery of the 4G push-to-talk network and CCTV cameras is progressing, with phase 1 scheduled to be launched at the end of May 2015. Safaricom's total revenue has grown by 13% to Kshs. 163.4bn through focusing on providing quality services that resulted in double digit growth across their non-voice service revenue stream. Their voice service revenue now stands at 54% of total revenue, grew at 4% while non-voice service revenue which accounts for 42% of total revenue sustained its growth trajectory with a 27% increase to Kshs. 68.8bn driven by data and Mpesa. Devices and other revenue contributing 4% of total revenue.

Mobile penetration in Kenya stood at 80.6% with Safaricom recording the largest subscriber share of 67.4%. Their customer base has grown by 8% to 23.3m while churn rate dropped to 17.3% as a result of efforts centred on retaining and rewarding their loyal customers. Voice service revenue grew 4% to Kshs. 87.4bn, which was supported by loyal customers who were attracted by a superior network experience, convenient airtime distribution and attractive consumer propositions such as the 'Tetemsha' campaign. Messaging revenue increased by 15% to Kshs.15.6bn which represents 10% of their total revenue. Mpesa is now contributing 20% of total revenue which is a continuous driving factor in Safaricom's growth. In the year, Safaricom expanded their Mpesa agent outlets to 85, 756 thereby promoting accessibility of the service to customers.

In March 2015 the Lipa na Mpesa service has had 49, 413 merchants active on a 30day basis, who received Kshs. 11.6bn of payments. Safaricom is embarking on modernizing their 2G network which covers 92% of the population and have connected 30% of their base stations to their fibre.

Safaricom expect their net income for FY16 to be in the range of Kshs. 32bn to Kshs. 34bn and free cash flow expected in the range of Kshs. 25bn to Kshs. 26bn. Mpesa is at the forefront in deepening financial inclusion in Kenya. Commercializing the revolutionary Lipa na Mpesa account as a method of payment when retail shopping, accelerating the inroads moving Kenya towards a cash-lite economy. They are focused on being the business partner by empowering the growth of business through the provision of relevant and innovative ICT solutions.

Eyeing the soon completion of the fibre connection of their first 1 000 buildings to further enhance their hosted PABX, fixed calling, fixed data, cloud service and managed services offerings. Mobile data is one of the key drivers of future growth, by their announcement of home broadband solution, which is a set-top box with an added bonus of free-to-air TV channels that brings the 3G and 4G network into the home and distributes the superfast connectivity via Wi-Fi to any existing Wi-Fi enabled devices.

1.2 Research Problem

Strategic management is all about identification and description of the strategies that managers can carry so as to achieve better performance for the organization. It's a bundle of decisions and acts which a manager undertakes and which decides the result of the organizations performance. One of the major role of Strategic management is to incorporate various functional areas of the organization completely, as well as, ensure these functional areas harmonize and get together well, and also guarantees a continuous eye on the goals and objectives of the organization.

According to Michael Porter, value is the chain of activities for a company that operates in a specific industry. And to form a successful product which will enhance the organizations performance it's important to add value in each activity that the product goes through during its life cycle. For that it needs a combination of, value chain activities and a proper synchronization among all the related activities. A proper organization is required to contain all the necessary functional departments to perform these activities and a proper communication approach is essential for the synchronization of the activities of these functional units efficiently.

The telecommunication industry has faced a number of challenges which include: Market demand for mobile/wireless broadband, demand for mobile expansion in value chain, for example advertising, music, TV/Video, Reduce Risks, Fight Competition, Reduce Churn, Reduce costs/resources, Vendor independence, Handle service complexity. According to Abrahamsen and Williams (2005), customers choose on the basis of certain criteria that would enable them discriminate one firm from the other.

A good understanding of value chain in the telecommunication industry will enable telecom industries roll out more innovative and cost effective services to the market. Various studies both locally and internationally have been done on value chain activities. Internationally, Peter H. Antoniou, Catherine Levite, Cynthia Schreihans (2008) researched on Managing Value Chain Strategy seeking to find out a working model for evaluating the impact of autonomous and non-autonomous elements of the value chain as they relate to, outsourcing in accordance to corporate strategy.

Norman McLennan, Sylvia McDonough, Scott Baker (1991, Vol. 1) researched on the global competitiveness of U.S advanced-technology manufacturing seeking to assess competitiveness in the communication equipment industry. Value chain dynamics working group (2005) researched on the value chain dynamics in the communication industry seeking to investigate how innovation in the communication industry today can happen virtually anywhere at any time by anybody. Joe Peppard, Anna Rylander (2006, Vol.24, issue 2) researched on, ‘from value chain to value network: insights for mobile operators’.

Local researchers like, Hellen Igoki (2014) researched on balanced score card as a strategic management tool in commercial state corporations. Tindi (2013) researched on value chain analysis at Mayfair group of companies in Kenya. Marete (2010) carried out a research on perceived service quality and found out a big difference between customer expectations and management’s perception in the industry. Odero (2006) looked at the Value Chain and competitive advantage in the corporate banking industry in Kenya in which he explored the competitive factors in the banks value chain that brought out an advantage.

A critical look at these studies reveals various ways on how the value chain model has been utilized to improve organizational performance within the different industries. However, none of the studies has focused on the strategic management of value chain activities adopted by Safaricom to be specific, which may further improve its performance. Based on the above review, the following research question will be addressed; what is the influence of value chain activities as a strategic management notion in the performance of Safaricom Kenya Limited?

1.3 Research Objective

The study was to determine how strategic management of value chain activities affects performance of Safaricom Kenya Limited.

1.4 Value of the study

A lot of what is known on Value Chain is focused on the manufacturing industry, thus the findings of this study showed how Value Chain is cross-sectional and how it affects performance through a systematic in-depth study of a leading player in the telecommunication industry.

This study is important to the management of Safaricom Limited and other investors in the service industry in Kenya in making decisions on applications and tradeoffs of Value Chain Management within their activities. The Policy maker gains in-depth knowledge of the telecommunication industry, enabling them create favourable policies and control measures for future growth and sustainability of the industry.

Theories of Resource Based View and Dynamic Capabilities towards enhancing relevance and contribution to performance within an organization forms a foundation of further research on theoretical and empirical studies by researchers and academicians. The study both in the academic and business settings aided stakeholders as well as the consumers of the different services to appreciate the challenges facing the industry and the efforts made by telecom operators to provide cutting edge services.

1.5 Chapter summary

This chapter looks at the background of the study, the research problem identified, research objective and value of the study. The background is based on the study topic which is to determine how strategic management of value chain activities affects the performance of Safaricom Kenya Limited. This study was founded on two theories; Resource Based Theory and Dynamic Capabilities Theory.

Value chain activities in strategic management is the process in which total revenues minus total cost of all activities undertaken to develop and market a service yields value. Thus the importance of identifying and inclusion of key stakeholders like: suppliers, partners, manufacturers and customers in the strategic management process will positively influence the performance of the organizations strategic management process. Without diligent identification and inclusion of the relevant stakeholders the anticipated impact from the strategy will be limited.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents a review of the related literature on the subject under study by various researchers, scholars and authors. Resource - Based View theory, Dynamic Capability theory, and Value Chain are covered. The study draws materials from several sources which are closely related to the theme and objectives.

2.2 Theoretical Foundation

A theoretical framework is a collection of interrelated concepts. Structures that can hold or support a theory of a research work and explain why the problem under study exists. This study will be based on two theories; the resource-based view theory and Dynamic capability theory, which are considered to be useful in making decisions on strategy with the aim of achieving desired goals of an organization.

2.2.1 Resource Based View

The Resource-Based View (RBV) of strategy has a long linkage stretching back to Edith Penrose (1959). Initiated in the mid-1980s by Mwaitu and Mercer (1983), Wernerfelt (1984), Rumelt (1984) and Barney (1986), the Resource - Based View (RBV) has since become one of the dominant contemporary approaches to the analysis of sustained competitive advantage. A central principle of the Resource - Based View is that firms compete on the basis of their resources and capabilities (Peteraf and Bergen, 2003). In the 1990s with the rise of resource – based approach, strategy researchers’ focus regarding the sources of sustainable competitive advantage shifted from industry to firm specific effects (Spnaos and Liukas, 2001).

Behn (2003) emphasizes the importance of the idiosyncratic attributes of the firm in developing its competitive position. A resource is a relatively observable, tradable asset that contributes to a firm's market position by improving customer value or lowering cost (or both); and a capability denotes the ability of a firm to accomplish tasks that are linked to higher economic performance by increasing value, decreasing cost, or both Walker (2004). Barney and Hesterly (2008) also describe resources as tangible and intangible assets a firm uses to conceive of and implement its strategies; and capabilities as a subset of resources that enable a firm to take advantage of its other resources.

No matter the definition, resources are seen as assets and capability, or as a function or process facilitating the competitiveness of the assets. Penrose (1959) pioneered the idea of viewing a firm as a bundle of resources, arguing that it is the heterogeneity, of the productive services available from its resources that give each firm its unique character. The notion of firm's resources heterogeneity is the basis of the RBV.

Wernerfelt (1984) further suggested that evaluating firms in terms of their resources could lead to insights that differ from traditional perspectives. Barney (1991) identified the needed characteristics of firm's resources in order to generate sustainable competitive advantage as: valuable, in the sense that they exploit opportunities and neutralize threats in a firm's environment. Rare among a firm's current and potential competitors, inimitable, and non-substitutable. Peteraf (1993) shows four conditions underlying sustained competitive advantage: superior resources (heterogeneity within an industry), ex post limit to competition, imperfect resource mobility, and ex-ante limits to competition. Peteraf and Bergen (2003) make clear that Barney's (1991) and Peteraf's (1993) frameworks are consistent once some terms are unequivocally defined.

Value rarity imitability organization (VRIO) framework is a tool derived from RBV to analyze the internal strength and weaknesses and asks questions about the valuable, rare, imitable and organization aspects of the firm resources and capabilities in order to evaluate competitive potential. The framework has limitations described by Barney in five ways: the responsibility for competitive advantage in a firm, competitive parity and competitive advantage, difficult to implement strategies, socially complex resources and the role of the organizations. These limitations are what gave rise to the use of Value Chain as a strategic tool for diagnosing the firm's valuable resources and capabilities to improve performance and achieve competitive advantage.

2.2.2 Dynamic Capabilities

The RBV concept, limitations of being effective in inert and non turbulent environment gave rise to the dynamic capability concept that was seen to be suitable to a rapidly changing environment. The primary focus of the resource-based view is on a leveraging current capability for gaining and sustaining competitive advantage and in the same breath, Eisenhardt and Martin (2000) say that this leveraging approach to competitive advantage is not as beneficial in turbulent markets. Hence to ascertain how capabilities evolve in environments of substantial change, the resource-based view is usefully complemented by the dynamic capabilities research literature on dynamic processes.

Dynamic capability is “the capacity of an organization to purposefully create, extend or modify its resource base” (Helfat et al., 2007:1). There is a lot of literature demonstrating how firms use dynamic capabilities for adding, shedding, and transforming the resource base (Cepeda & Vera, 2007; Danneels, 2008; Moliterno & Wiersema, 2007).

Majority of this research focuses on resource creation and reconfiguration within the firm's boundaries (e.g. Zahra et al., 2006; Zollo & Winter, 2002), such as the creation, integration, and retention of internal knowledge assets (Cepeda & Vera, 2007; Marsh & Stock, 2006), the reconfiguration of resources between internal divisions (Galunic & Eisenhardt, 2001), or the transformation of internal organizational forms and functions (Rindova & Kotha, 2001). Rindova and Kotha through their empirical research, identify dynamic capabilities as emergent and evolving.

Dynamic capabilities help sustain firm's evolutionary fitness by enabling the creation, extension and modification of its resource base thereby creating long-run competitive success (Teece 2007). Dynamic capabilities can be clustered into three activities and adjustments which are a necessity if a firm is to sustain itself as a markets and technologies change: identification and assessment of an opportunity (sensing); mobilization of resources to address an opportunity and to capture value from doing so (seizing); continued renewal (transforming).

According to Eisenhardt and Martin (2000) dynamic capabilities consist of many well-known processes such as alliancing, product development, and strategic decision- hence them being studied extensively in their own right, apart from RBV. Their value for competitive advantage lies in their ability to alter the resource base, create, integrate, recombine, and release resources. Their broad structural patterns vary with market dynamism, ranging from the robust, grooved routines in moderately dynamic markets to fragile semi structured ones in high-velocity ones. They evolve through well-known learning mechanisms. Long term competitive advantage lies with resource configuration and not dynamic capabilities.

2.3 Strategic Management Process and Value Chain Activities in Organisations

The strategic management process entails the organisations strategy; it is the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Its continuity appraises the business and industries in which the organization is involved in; appraises its competitors; and fixes goals to meet all present and future competitors' and then reassesses each strategy.

Management process includes four major steps: Environmental scanning which entails collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management evaluates it on a continuous basis and strive to improve it; Strategy formulation, is whereby one decides the best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies; Strategy implementation implies putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources; Strategy evaluation is the final step of strategy management process.

The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial actions. Evaluation makes sure that the organizational strategy as well as its implementation meets the organizational objectives.

According to Porter (1985) there are a number of strategically important activities within an organization that can be systematically reviewed to assist in the search for organizational performance. Value chain acts as a tool to undertake this review, with the process being underpinned by the basis that “organizational performance cannot be understood by looking at a firm as a whole”. The value chain analysis is a systematic way of classifying all the organization’s functional activities that produce value and cost in an organization.

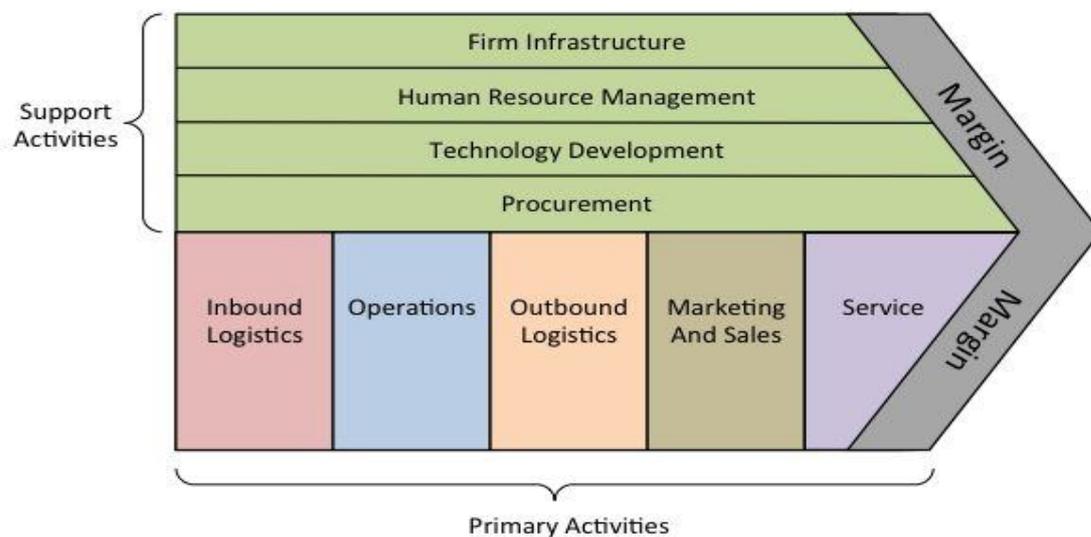
Porter’s framework is based on profit realization, divides value creating activities into two large categories; primary activities and supportive activities. These activities are termed, ‘primary’ because they are the most important ones as they add value to the product or those involved in either producing or selling the product (White, 2004).

They are directly concerned with the creation or delivery of a product or service. They can be grouped into five main areas: inbound logistics (receipt of inputs/materials, storage, stock control, internal distribution of inputs), operations (transformation of inputs into final product, use of labour, manufacturing, technologies), outbound logistics (distribution of finished goods, stock control and inventory, distribution of final product to buyers), marketing and sales (advertising, promotional activity, persuading people to buy), and service (after sales service support). These categories are linked together in characteristic ways which help to improve their effectiveness or efficiency. (Porter 1985).

Support activities provide the assistance required (Porter, 1980; White, 2004) for the primary activities to take place. There are four main areas of support activities: procurement (purchasing of resources, purchasing of inputs), technology development that is including R&D (technology to support primary activities and operations),

Human resource management (recruitment, selection, training, reward & motivation), and firm infrastructure (systems for planning processes, finance, quality, information management, leadership and structure management). Porter also derives the concept of ‘margin’ which is the difference between total value and the collective cost of performing the value activities thereby resulting into sustainable competitive advantage or profitability.

As an elaborate way of understanding organizational performance, the value chain identifies all of the activities an organization performs and which “contribute to a firm’s relative cost position and create a basis for differentiation” (Porter 1985, p.33). The value chain breaks down a firm into its strategically relevant activities (Porter 1985). The improved performance of these activities leads to value creation.



Source: M. E. Porter, Competitive Advantage, Free press, 1985

Figure 2.1: Porter’s generic Value Chain

RBV remains an influential framework for understanding how competitive advantage and sustainability is achieved, thus its extension to the dynamic markets (Teece et al., 1997).

However, there is need for more theoretical and empirical studies to be done on the dynamic capabilities in order to develop it into an interdisciplinary theory of Modern Corporation (Teece 2010). Value chain rather than value addition remains the vital strategic tool for analyzing resources and capabilities within the firms' business activities to examine competitive advantage (Porter, 1998).

2.4 Organisational Performance and Measurement

Organisation performance is an integrated, systematic approach to improving organizational performance to achieve strategic aims and promote an organization's mission and values. It developed as a means of monitoring and maintaining organizational control, which is the process of ensuring that the organization pursues action plans that lead to the achievement of overall goal and objectives. These goals in turn should be direct manifestation of the mission and strategic orientation of an organization. It aims at improving the results of the people by linking them to organization's goals and objectives. Many organizational performance systems utilize some of the new approaches such as "balance scorecard", "total quality management" (TQM), "benchmarking", or "business process re-engineering". Performance measures are concerned with "input" aspects, mainly financial resources.

In today's information environment, a company can no longer be measured solely on past performance, although past performance is a good indicator of future results, it cannot be the sole base for measurement (Platts, et al, 2006). Thus to better gauge a firm's performance one has to balance all areas of the business, by focusing not only on financial outcomes but also on the operational, marketing and development inputs to these. A balanced scorecard in helps provide a more comprehensive view of a business, which in turn helps organizations act in their best long-term interests.

2.5 Empirical Studies and Research Gaps

Empirical Study is a way of gaining knowledge by means of direct and indirect observation or experience and can be analyzed either quantitatively or qualitatively. Pragmatic studies have been conducted in reference to the telecom industry, Mian Dai (2008) being one of them carried out an investigation documenting the determinants and its effect on competition using a unique data set of U.S. wireless telecom markets in 2005. Ade Oyedijo Ph.D. (2012, Vol. 2, No. 3) strategic agility and competitive performance in the Nigerian telecommunication industry, examining the relationship between strategic agility and competitive performance using data generated from nine (9) firms in Nigeria's telecommunication industry. Ming xie (2008) researched on value chain and business model analysis of ICT services in context of next generation network.

Muendo Mulwa (2013) researched on value chain analysis and competitiveness of applications service providers in the telecommunications industry in Kenya seeking to study key competencies and capabilities that are attributed to the success of Application Service Providers in Kenya, to establish effectiveness of optimizing the value chain to create competitive advantage and to identify challenges that application service Providers face in adopting value chain models, Mukasa Victor (2008) researched on the impact of supply chain management practices on performance. Otieno Antony (2010) researched on value chain analysis on Telkom Kenya, seeking to find out the activities that constitute the value chain and the factors influencing value chain activities in Telkom Kenya. The various studies conducted do not give an in-depth study of the strategic management of value chain activities adopted by Safaricom, with an aim of improving on its performance. Basing on the above review the study bridges a knowledge gap in terms of the timing the research was done compared to the previous researches, thus expanding the body of knowledge and foundation for further research.

2.6 Chapter summary

This chapter highlights the theories that guide this study which are; the resource based view and dynamic capabilities theory. The chapter reviews various literature publications on strategic management on value chain activities' impact on performance of organizations and also highlights on the research gap at present.

The chapter summarizes by showing that the various variables and categories, that is primary and secondary activities are linked together in a characteristic way whereby one needs the other in order to maximise on its output. Various firms are present in the telecommunication market and each need a distinctive strategic process in order to attain an advantage over the rest, thus production processes, transaction processes and value of output vary. Literature identifies this possible competitive advantage, thus stressing the importance of an effective management process for the performance of an organization.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods and tools that will be used in collecting the available data in order to meet the objectives. It includes the research design, sampling design, data collection method and instruments, data processing and analysis techniques.

3.2 Research Design

The study adopts a case study design. The case study was found to be more appropriate as it presented an in-depth study on how value chain affects performance of Safaricom Kenya Limited. A case study is a method, which entails the analysis of a single case (Bryman and Bell, 2003), or a single organization: Safaricom Kenya Limited. Yin (2003) suggests that a case study is “an empirical inquiry that investigates a phenomenon within its real-life context”.

A qualitative research “emphasizes words rather than quantification in the collection and analysis of data” (Bryman and Bell, 2003). From a quality research its evident the relationship between theory and research (Bryman and Bell, 2003). Qualitative methods lead to more in-depth analysis (Estherby-Smith. et al., 2002) and it requires a small sample of data. Therefore personal interview with key persons at Safaricom Kenya Limited was considered to be the best alternative. Churchill (1991) agrees that this is an appropriate form of study, especially when the objective of the research is to gain insight into ideas, in this case value chain activities as a strategic concept on Safaricom performance.

3.3 Data Collection

The study will rely on primary data and secondary data will be collected from reviewing the company's publications such as annual reports, financial reports, and press briefings. Various data collection techniques will be employed and used in combination, such as interviews and questionnaires. The data for this study will be collected through interviews by using the interview guide (Appendix 1) as the data collection instrument. The interview guide will enable the interviewees to respond to the questions in their own words in order to achieve a detailed study on how value chain affects performance at Safaricom Kenya Limited.

Bryman (1998, p.90) as cited in Saunders et al., (2007) states that “within a case study a wide range of different people and activities are invariably examined so that the contrast with the survey samples is not acute as it appears at first glance”. The respondents will be composed of strategic decision makers in the company, particularly the heads of departments. The target number of respondents to be interviewed was 7 heads of departments, whom comprehensively covered the areas of the study in the business organization. The researcher primarily conducted direct, personally administered interview. In situations that the respondents are not available for a direct interview, electronic email response will be used, followed by a telephone interview.

3.4 Data Analysis

Analysis of data is a process of inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making. The nature of data collected in this research is qualitative. The interview guide will be checked for consistency and data organized. Content analysis will be used to analyze data collected through an in-depth interview guide and results presented in prose form.

Content analysis is the systematic qualitative description of the composition of the material of the study. Nachmias and Nachmias (1996) defined content as a technique for making inferences by systematically and objectively identifying specific characteristic of messages and using the same approach to relate trends.

According to Mugenda and Mugenda (2003) the main purpose of content analysis is the study existing information in order to determine factors that explain a specific phenomenon. Analysis for the collected data will be compared with the theoretical approaches and documentations cited in the literature review and the researcher made meanings from informants. An in-depth understanding of the responses from the respondents will also be used in the analysis.

3.5 Chapter summary

This chapter highlighted the design used in carrying out the study, in which is a case study design. It also highlights the method of data collection used which was through relying on primary and secondary data. The study targeted Heads of Departments who are in a better position to shed insight on the organizations strategy and forecast on the future of Safaricom. The chapter shows how data analysis was done and this was by use of content analysis.

The study was a case study as a strategic research, with a view of understanding and explaining the phenomena in question. Primary data was collected through the use of interview guide and secondary data through questionnaires and reviewing the company's publications. The research analyzes data from the interview guide filling in on the open ended answers to establish the relationship between the response and final data further developing the elementary theory.

CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. It expounds on the findings of the researcher after the employment of an interview guide, questionnaires and review of publications, reports and websites to collect data and the evaluation of how value chain activities affect performance of Safaricom Kenya Limited. Data collected was qualitative and therefore the researcher used content analysis to analyze the open ended questions based on three variables, strategic management, organizational performance and value chain activities.

4.2 Research Findings

Primary data was collected from seven (7) informers through the use of an interview guide. The data from 25% of the respondents was by direct personal interview, 25% of the respondents responded through electronic mail and 30% followed by telephone interview or face- to- face meetings. According to Mugenda O.M. & Mugenda A.G (1999) a response rate of 50% is adequate for reporting. Therefore this study has a response rate of more than 50% and it thus passes the threshold required for data analysis.

Majority of the respondents made up of 70% of the total respondents had worked for Safaricom Kenya Limited for more than 5 years. The core business for Safaricom Kenya Limited is to provide voice and data communications services to consumers, businesses and public sector clients.

Safaricom has been offering voice and data communication services for the past 18 years of its existence as a private limited liability company, the management has put more emphasis on the primary activities that directly impact voice and data communication operations. The findings presented shall be based on three parameters, strategy, performance and value chain activities.

4.3 Strategic Management

Safaricom Limited's strategy is driven by; putting their customers first; delivering relevant products; and ensuring excellence in operations, having seven strategic statements under their belt, which include; choosing the right and appropriate partner of choice of business, delighting their clients, provide the best network in Kenya, democratising data, growing the youth segment, deepening financial inclusion and finally staying way ahead of the curve. Safaricom's core goals and targets of the strategies adopted are navigational risk approach, which is a tool of control particularly with middle managers. It is a source of coherence and direction for both individuals and organizations by specifying the resources that are required to achieve an objective. The approach looks at the general direction of the organization as a whole and enables the organization to identify prevailing environmental opportunities and threats, thus helping them decipher or estimate the organization's resources capabilities taking into account the strengths and weaknesses of its resources so as to align itself accordingly to combat the environmental challenges.

Safaricom has adopted some strategies in financial, organizational structure, technology, product and operations. On financial strategies, the company conducts half-year financial review, full-year financial review of Budget and Economic Forecast as well as carry out a sustainability report, which reviews their material matters, strategic sustainability objectives, strategic response, stakeholders engagement and their financial performance.

Their financial reviews consist of a compilation of unfunded mandates for legislative review and also review budget process regularly for efficiency. On organizational structure, the interviewees felt that the structure of the organization directly affects the processes and perspectives of the whole strategy making process.

Safaricom in regards to structure assessed organizational needs in the context of markets, disciplines, services, organizational complexity, and overall vision, developing alternative organization and management structures warranting consideration, assisting the firm leaders and managers in deciding on the most suitable management structure, and assisting in implementing the preferred structure. In regard to technology, the organization uses the latest technology, that is 4G, 3G, 2G, WiMax and WiFi. They cover 92% of the population on 2G and 69% on 3G, whereas 4G was launched in Nairobi and Mombasa which now have 236 sites. Boasting of having over 2,010km of fibre in key metro areas and their M-PESA services running on the upgraded (G2) system.

Safaricom also has a wide range of products and services including, provision of internet on mobile phones, tablets and desktops, money transfer services via the mobile phones (M-PESA), data, voice and messaging services and other value-added services and converged business solutions such as access services like wireless, fixed line and mobile solutions including fibre and leased lines, as well as a dedicated internet solutions for enterprises and hosted services, such as data storage, hosting and security solutions.

The study also established that Safaricom has benefited from strategy development process which consists of various processes that are undertaken in firms to develop strategies that might contribute to performance. The interviewees indicated that the goals and aims of the strategies adopted by Safaricom Limited are to enhance its products, cut costs, increase revenue and diversify its product portfolio.

On the query whether Safaricom has adopted strategy development, the interviewees agreed to having adopted it through the review of fundamental trends and issues that are going on in the sector and draw potential implications as part of strategy development process, discussion of the implications of changes in our external environment upon the organization; identifying the key external stakeholders and incorporating their perspective into the strategy development process, understanding and agreeing on the critical issues facing the organization and the barriers to abating them, understanding the organization's internal strengths and opportunities for improvement, understanding the external opportunities and threats and the implications upon the organization's future bearing, determining a few broad areas which to focus their efforts and have a meaningful positive impact upon the future of the organization and putting measures of success in place so that they could monitor their performance.

The benefits of strategy development at Safaricom is that it stimulates thinking to make better use of the association's resources, make informed choices, assign responsibility, coordinates and unifies efforts, facilitates control and evaluation of the association's activities (accountability), avoids the trap of linear thinking and facilitates progressive advancement of the organization's goals. The interviewees indicated that strategy development is important in the telecommunication industry in Kenya because the industry is faced with increased competition and fast evolution of technology.

Strategy development consists of three parameters which are analysis, choice and implementation. Strategy analysis is undertaken at Safaricom through a decisive review of the main trends and issues that are happening in the telecommunication sector and extraction of potential implications from the trends, followed by a detailed discussion among the senior management on the implications of changes in the external environment upon the organization, then identifying the key external stakeholders and incorporating their views into the strategy development process and also ascertain the external opportunities and threats and the implications upon the organization's future bearing.

Strategic choice is undertaken by determining a few broad areas where to focus their efforts which will have a meaningful positive impact upon the future of the organization and putting a measure of success in place so that they could monitor their performance during the period of their strategy execution. Strategy implementation is undertaken by involving the firm's resources and motivating the staff to achieve objectives, deciphering into a more detailed policy that can be understood at the functional level of the organization, identifying the required resources and putting into place the necessary organizational changes.

At the strategy implementation phase, Safaricom uses the bottom-up communication approach. Strategies are formulated by the middle managers whereby employees are asked for ideas and the various reports from departments analyzed. The formulated strategies are then passed to the senior management and eventually to the CEO for approval and consolidation. Once approved the strategies are passed back from top-down for implementation. The bottom-up approach strategy development process is an effective process as the employees feel as playing part in the strategy formulation procedure, thus motivating them to actualize the strategy and impact positively on the organizational performance.

4.4 Value Chain Activities

Creating value proposition focuses on producing new products and modifying existing ones to target the customer in the mobile service market share. Activities in a value chain are not a collection of autonomous activities, but a structure of interdependent activities connected by linkages within the value chain. To reduce cost and improve performance Safaricom focuses on each value activity as part of activities that are interrelated; the analysis includes both related activities and linkages between activities.

4.4.1 Sales and Marketing

The company shows a wide distribution network with a high level of automation and point-of-sales intelligence. Through the IT department Safaricom has in-house tools to ensure customers are served in minimal time at the customer experience centres (CEC's). Sales promotion according to the respondents constitutes a range of tactical marketing techniques designed within a strategic marketing framework to add value to a product in order to achieve specific sales and marketing objective. Sales promotion targeted consumers with the aim of pulling sales through a channel of distribution, pushing products through the channel, or sometimes they applied a combination of both. The most common consumer sales promotion techniques used by Safaricom include special offers or bulk purchase offers which ensure that the company creates value proposition for its customers.

The firm's broad distribution channels are also able to reach a wide segment of the Kenyan population. Safaricom Limited has above 350 dealers that are exclusive to the firm and a further 10,000 sub-dealers who only sell Safaricom products. Respondents indicated that Safaricom has a lot to do with its ability to recognize the diverse nature of its customer base and provide different products to different market segments.

Safaricom Limited has in this respect incorporated a broad range of promotional activities in its marketing programs. This has been instrumental in enhancing not only its brand visibility in the mobile telephone market place, but also its market leadership. Such new products have generated considerable business gains, especially in relation to internet data, money transfer and money banking.

Safaricom resigned sponsorship of Safari sevens annual tournaments initiative as a way of giving back to the community, which is a path way to sponsor future initiatives like grass root rugby projects. In May 8th, 2015 Safaricom announced the launch of a unique data solution that would enable subscribers to view TV content and share data connectivity, known as ‘The Big Box’. Through such activities, customer interaction is enhanced and gives a good forum for customers to give feedback on the wide range of product/ service offering. Some respondents identified promotion advertising activities as important to the organization in the last one year the company has embarked on an aggressive advertising campaign through above the line advertising press, TV, Radio and below the line through road shows and a product demonstrations in supermarkets, trade fares and conference. Safaricom Kenya Limited has invested in understanding the market as well as their competitor’s strengths and weaknesses which has assisted in making strategic decisions and gain mileage in their performance as an organization.

4.4.2 Management Infrastructure

One of the fundamental businesses of Safaricom is to deliver the best network by maintaining and enhancing network quality in order to deliver satisfactory services to the clients, through the adoption of up to date infrastructure materials. Two years ago, their technological division adopted the Information Technology Information Library (ITIL) framework, a widely accepted industrial framework, consistent with the Safaricom ISO 9001 quality policy.

Through this there is an assurance of quality network and sustained through set processes and procedures that include active network monitoring, event management and addressing the root causes of failures. In 2012 Safaricom launched the Best Network in Kenya (BNK) programme, which sets performance benchmarks that assist in providing the best network quality to customers. And the recent initiative rolled out of fibre optic cabling in major towns in Kenya that is Nairobi, Mombasa, Kisumu, Nakuru and Eldoret to improve the coverage of their network and the stability of the M-PESA services.

Rolling out of alternative energy solutions and enhancing energy security for future growth, which is dependent on a secure and sustainable energy supply. The use of electricity throughout the telecommunication industry is becoming more important as Safaricom look to expand their network, particularly in rural areas that have less reliable access to grid electricity.

The respondents identified that through the management of their environmental impact they recognise that it allows for opportunities to improve efficiencies and reduce costs to be identified. Having a number of initiatives in place addressing their primary environmental impacts, which are caused by the development of their infrastructure, the use of natural resources and the generation of E-waste and greenhouse gas emissions Safaricom has come up with environmental policies which have been approved by the CEO and Executive Committee, which commits them to transform the lives of their customers and stakeholders in their ecosystem in an environmentally sound and sustainable manner, in line with the industries best practices.

4.4.3 Technology/Product development

Respondents agreed that the activities included technology selection, timing of new technology introduction, and modes of technology acquisition, horizontal strategy of technology, project selection, evaluation, resource allocation and control, technology organization, human resources, development of new products/solutions.

The respondents agreed that the mode of technology acquisition was done mostly through outsourcing from suppliers. These acquired technologies help the company improve on its core network that consists of the mobile technology. With heavy reliance on suppliers, dealers and agents for their impact on Safaricom's ability to provide quality products and services in a responsible and ethical manner a thorough pre-qualification process is followed.

There are 974 suppliers that service Safaricom by providing various products and services, for their smooth operations, has a network of over 500 dealers across Kenya that sell data, devices and airtime on behalf of Safaricom, they also have over 87 000 M-PESA agents in Kenya that assist with registering M-PESA customers, processing cash withdrawals for non-registered M-PESA customers and customer education.

4.4.4 Procurement

The respondents identified the following activities carried out by the sourcing department: selection, evaluation and development of suppliers, Quality management of Purchase equipment, materials management of purchased equipment, value analysis, price/cost analysis and standardization, procurement organization and managerial infrastructure.

Through the above activities the company has strategic relationships with its key vendors or suppliers. The suppliers facilitate the company with information regarding the latest trend in technology with the hope of doing business with Safaricom. The company through its SLA's allows suppliers to perform maintenance support and routine checks on equipment that they have supplied. When the company doesn't have the required skill set to maintain the supplied equipment the procurement function outsources this activity. Value analysis, price/cost analysis and standardization area activities that procurement carry out before buying any new equipment. Example of equipment include power supply UPS, network equipment, servers, software purchases and training on new technologies by coordinating with the human resource department. The bought equipment is maintained at a certain level of standard through the use of Quality Management Practices.

4.4.5 Finance

The respondents here identified capital budgeting, mergers, acquisitions and divestures, Equity management and dividend policy, long-term debt financing, working capital management, pension fund management, Tax management, Risk management, Relationship with financial community, and the financial organization as a source of their finance.

On equity management Safaricom maintained position as Kenya's most admired brand, with an overall brand equity score of 85%, a youthfulness score of 79% and a net promoter score of 53%. On recent acquisitions, Safaricom acquired Huawei mobile brand as their new product in the industry which is performing very well in the market. On capital budgeting Safaricom conducts mid-year and annual reviews of budget and economic forecasts and also compiles a list of unfunded/unproductive mandates for legislative review and also it reviews budget process regularly for efficiency.

4.4.6 Human Resource Management

The respondents indicated that the organization carries out on-line recruitment whereby the successful candidate has to go through a customer service training exercise before going into service so as to offer quality service to customers. Employees go through constant training exercises in the course of their stay in the organisation with the dynamism of the technological world and ever increasing competition in the telecommunication sector.

The company is working on having a solid reward scheme that compensates the best employees who have excelled and those nearing retirement. Safaricom through the launch of a multi-billion shilling real estate project in Machakos County on 13th July 2015, through its Safaricom Staff Pension Scheme (SSPS), launched a 3.4 billion real estate project dubbed Crystal Rivers, with an aim of securing the future of its workforce.

The salaries, allowances and medical cover are benchmarked with offers provided by the leading and best paying organizations in the country. The respondent identified performance review and appraisals are carried out annually. Training and development was another key activity in Human Resource Management with a view of succession at various management levels. The firm has adopted a wide span of control at the top and limited matrix structure.

4.5 Organizational Performance

This study further sought to find out the level of involvement in the performance measures carried out in Safaricom Kenya Limited. The data was collected on the level of the performance measurement, inputs, output, effectiveness and impact. On the level of performance measurement, the interviewees indicated that the company set targets on quarterly and annual basis that it aims to achieve. The planned targets and the outcome are measured on quarterly basis and variance analyzed. On the input, Safaricom measures the effectiveness with which inputs are used to generate revenue i.e. cost minimization or optimization of cost; the lowest possible cost that can produce the same level of revenue. On outputs, performance measures are on the level of revenues that can be generated in a given period with the same level of inputs or cost, that is, revenue maximization.

The interviewees further divulged that the company strikes a balance between the two during strategic development process so as to maximize on its profits without compromising on efficiency. On effectiveness, the interviewees said that Safaricom Ltd ensures that resources are optimally put into use, without over or under employment. In addition the interviewees said that the result of the strategies on the company's profits is assessed on an annual and semi-annual basis.

On how Safaricom is continuously improving on its strategies and performance, the respondents indicated that they focus on knowledge of economy. Investments in intellectual assets are considered to be key strategic elements to maintain its growth, profitability and performance as shown in table 4.1 below.

Table 4.1: Financial performance

	FY15	FY14	GROWTH	H2 FY15	H2 FY14	GROWTH
Voice revenue	87.41	84.32	3.7%	43.74	43.27	1.1%
MPesa revenue	32.63	26.56	22.8%	17.03	14.06	21.1%
Messaging revenue	15.63	13.62	14.8%	8.46	7.27	16.4%
Mobile data revenue	14.82	9.31	59.2%	8.32	5.06	64.3%
Fixed service revenue	3.13	2.57	21.7%	1.64	1.35	21.3%
Other service revenue	2.63	1.98	32.9%	1.45	1.08	35.0%
Service Revenue	156.25	138.36	12.9%	80.65	72.09	11.9%
Handset revenue	5.67	4.95	14.6%	2.57	2.72	-5.8%
Acquisition and other revenue	1.45	1.36	6.4%	0.81	0.65	23.8%
Total Revenue	163.37	144.67	12.9%	84.03	75.47	11.3%
Other income	0.58	0.13	>100%	0.02	0.12	-83.5%
Direct costs	(56.71)	(51.96)	9.1%	(27.79)	(27.17)	2.3%
Contribution margin	107.24	92.83	15.5%	56.26	48.42	16.2%
Contribution margin %	65.6%	64.2%	1.5%	66.9%	64.2%	2.8%
Operating costs	(36.04)	(31.89)	13.0%	(18.60)	(16.34)	13.8%
Operating costs % total revenue	22.1%	22.0%	0.1%	22.1%	21.6%	0.5%
EBITDA	71.19	60.94	16.8%	37.66	32.08	17.4%
EBITDA margin %	43.6%	42.1%	1.5%	44.8%	42.4%	2.4%
Depreciation, amortisation & impairment	(25.57)	(25.79)	-0.8%	(12.98)	(13.08)	-0.8%
	0.42	(0.17)	>100%	0.26	0.08	>100%
Net Financing cost	0.11	0.00	>100%	0.11	0.00	>100%
Asset Purchase Gain	(14.28)	(11.97)	19.3%	(7.88)	(7.32)	7.7%
Taxation						
Net Income	31.87	23.02	38.4%	17.16	11.76	45.9%
Earnings per share	0.80	0.57	38.4%	0.43	0.29	45.9%
Free Cash Flow	27.52	22.69	21.3%	12.04	8.95	34.5%
Recommended dividend	25.64	18.83	36.2%			
Recommended dividend per share	0.64	0.47	36.2%			

Source: Financial Report Presentation Full Year 2014-2015

During the period there was an increase in the number of customers to 23.35million as at 31st March 2015 from 21.57million as at 31st March 2014. In support of growth the company continues to invest heavily in both the expansion and modernisation of its 2G and 3G networks. The company experienced an increase in population coverage of 3G network to 69% and completed modernization of 2G network which covers 92% of the population. In March 2015 Safaricom commissioned an independent drive test to measure key quality metrics, for example dropped calls, voice quality and data speeds, to confirm that their network is the best and offers world class services.

Safaricom has grown its total revenue by 13% to Kshs 163.4billion compared to Kshs. 144.67billion for the period ended March 2014 through focusing on providing quality services that resulted in double digit growth across their non-voice service revenue streams. Voice service revenue which now stands at 54% of total revenue grew at 4% while non-voice service revenue which accounts for 42% of total revenue, sustained it's growth trajectory with a 27% increase to Kshs68.8billion driven mainly by data and MPESA. Devices and other revenue contribute 4% of total revenue.

MPESA now contributing 20% of total revenue continues to be a significant driving factor in our growth, which was driven by a 14% increase in 30 days active MPESA customers to 13.9m as at March 2015 compared to 12.16million as at March 2014. MPESA revenue grew by 22.8% to Kshs.32.63billion compared to Kshs. 26.56 billion for the period ended March 2014. Mpesa is on an expansion drive as the number of agent outlets is on the rise to 85 756 as at present.

Mobile data penetration in Kenya stood at 80.6%* as Safaricom recorded the largest subscriber share of 67.4%*. Their customer base has grown by 8% to 23.3 million while churn rate dropped to 17.3% as a result of efforts centred on retaining and rewarding their loyal customers. Mobile data customers who were active in the last 30 days increased by 21.2% to 11.59 million as at March 2015 from 9.56 million as at March 2014. Mobile data revenue increased by 59.2% to Kshs 14.82 billion compared to Kshs. 9.31 billion for the period ended March 2014.

Voice service revenue which now stands at 54% increased by 3.7% to Kshs. 87.41 billion compared to Kshs. 84.32 billion for the period ended March 2014. SMS revenue growing by 14.8% to Kshs. 15.63 billion which is 10% of the total revenue compared to Kshs. 13.62 billion for the period ended March 2014. While the fixed service revenue increased by 21.7% to Kshs. 3.13 billion compared to Kshs. 2.57 billion for the period ended March 2014.

Non-voice service revenue (MPESA/SMS/Broadband/other service revenue) increased to 42.1% of total revenues from 37.4% for the period ended March 2014. EBITDA increased by 16.8% to Kshs. 71.19% compared to Kshs. 60.94 billion for the period ended March 2014. Net income increased by 38.5% to Kshs. 31.87 billion compared to Kshs.23.02 billion for the period ended March 2014.

Due to their exemplary performance in the telecommunication market Safaricom recently launched 4G network which is Kenya's first. It has been rolled out in Nairobi and Mombasa which currently has 236 sites. Safaricom has also been entrusted by the Government of Kenya to build the National Police Security Network which is set to be operational soon.

4.6 Chapter summary

In this chapter data has been analyzed on the efforts to determine how strategic management of value chain activities affects the performance of Safaricom Kenya Limited. The chapter also includes the discussion of the study which has been linked to the theory and also linked to other studies.

The chapter shows that, major steps are taken by management in making sure that the main stakeholders, who are the customers are the key to the organisations existence and are allocating all their resources and energy in ensuring customers attain value for their money and at the same time ensure positive performance of the organization.

The study found out that Safaricom employees the bottom up approach in the strategic formulation process of the firm, which enables the employees understand goals, vision and mission of the company putting all employees at the same platform, owning the process hence ensuring exemplary performance of the organization.

CHAPTER FIVE

SUMMARY, DISCUSSION AND CONCLUSION

5.1 Introduction

This chapter presents the summary, discussion and conclusion of the study in relation to the objective of the study that sought to determine how strategic management of value chain activities affects performance of Safaricom Kenya Limited. The limitations and the implications of the study will also be presented.

5.2 Summary

The study found that the process of strategy development was designed by Safaricom management into a cycle of phases. It was found that indeed Safaricom applied new solutions in its operations so as to meet the customer's needs. Safaricom Limited offered unparalleled quality service and increasing their coverage in their already existent area of coverage which was their main focus. Safaricom applying new solutions in its operations to meet the customer's needs the study found like any other company, Safaricom is faced with the daunting task of having to confront their competitors which has led to the operationalization of the new solutions which has led to their current performance hence have emerged as Kenya's largest mobile telecommunications network service provider.

The study also established that Safaricom has adopted strategies in areas which include financial, technology, organization structure, customer care and also in its products. Safaricom management has clearly defined their product concept as an objective in customer's terms in order to deliver expected value which is immeasurable to competitors.

Safaricom back in 2013 carried out a strategic review which concentrated across all the mobile telephone strategy, effective practice areas within a structured framework that integrated company assessment, targeted customer interviews and participatory working sessions into putting in place an appropriate strategy for the organization. Safaricom's main aspiration for the strategic review was to offer the essential services of enabling consumers to access a wide assortment of quality products under one roof.

From the study, the mission statement of Safaricom constitutes a sense of purpose to employees and pitches the company image to customers. Safaricom also carry out situation analysis to reach out its objectives. The level of the performance measurement, inputs, outputs, effectiveness and impact are performance measures carried out in Safaricom Limited.

The study finally found that Safaricom concentrated on present and future potential customers for satisfaction which goes hand in hand with quality services. Customers are enveloped and incessantly inundated by communication incentives correlated with new products, these incentives reach the targeted market. Safaricom Limited continuously improves on its strategies by focusing on knowledge economy, investments in intellectual assets which are considered more and more to be fundamental strategic building blocks to maintain Safaricom's growth, profitability and performance. Safaricom is operating in an increasingly competitive market and innovation is often a condition for simple survival.

5.3 Discussion

According to Porter (1985) value chain is a widely used and accepted tool for assessing business activities and identifying competitive advantage. Though value chain focuses mainly in manufacturing sector it has also been established that it can be relevant also in the service context as was evident in the case of Safaricom Limited. Safaricom heavily relies on the activities of different functional units in order to create sustainable performance and competitive advantage.

The key activities being marketing, sales and contract management, service provisioning, network infrastructure operations, human resource management and strategy and technology. However there are business activities in the value chain activities that need to be adjusted to cater for service-based firms and other areas are in need of improvements so as to achieve full satisfaction on customer's value. The findings reveal that with inbound logistics which involves the process of receiving of raw materials, storage, stock control and internal distribution of the raw material should be looked into in order to incorporate service delivery as an input in a service based context. Service delivery should be inclusive of developing and production of manuals on standard operating procedures, training in customer care service and handling of clients, taking customer's requests and suggestions and deployment of service providers to the various departments.

The study established that Safaricom has adopted strategies in areas such as: finance, technology, organization structure, customer care and in its products. Strategic management process develops strategies that contribute to performance.

The findings also reveal that human resource is a significant valuable resource that contributes to the performance of an organization, as it's an attribute to value creation. According to Porter (1985) human resource has been identified as a support activity, but with the case of Safaricom Limited it has revealed that human resource is important in the business function of any telecommunication player in the sense that without them operations maybe paralyzed in instances where the infrastructure is faulty and needs maintenance.

Human resource holds the largest percentage of operation costs and management has invested heavily in terms of development and training programs, better short and long term incentives, medical aid schemes and motivation programs. Porter describes that primary activities are directly concerned with the delivery of a service or product and this was the case of the human resource department of Safaricom Limited. Thus human resource department should be considered as a primary activity rather than secondary activity in the manufacturing context as we were looking at value chain on a service level context.

The findings reveal that marketing is a response to the existing price differentiations and regulations by inaugurating new/different sustainable tariffs in accordance to the market segments that is youth, residential, SME and corporate markets. Thus the management should boost their differentiation strategy through development of products that are valuable, rare, and unreplicable in order to foster better positive performance of the organization.

Safaricom Kenya Limited can embrace thinking globally and acting locally by formulating practices which will be considered on the international arena. For example China mobile which is the largest carrier of subscribers in the world and Verizon makers of AT&T in America are known for their dynamism in the telecommunication industry globally as they offer an integrated approach of telecom experience. The senior staff of Strategy and innovation department and staffs of finance department can attend telecommunication exhibitions which are organized on an annual basis to enrich their learning process and also provide a platform for networking and having insight on new trends and best practices in the market.

Procurement of the organization should be centralized, in the sense that all the independent purchases by the operations department, finance and logistics should be looked into and a way of integrating them to the main procurement system should sought so as to curb cost drivers and ensure that materials are purchased at competitive prices with an aim of attaining an overall cost advantage. The finance department can improve controls on cost management through real time supplies management.

Due to the dynamism and volatility of the telecommunication sector, Safaricom Limited can create, extend or modify its resource base (Helfat et al., 2007) hence ensuring long-run competitive performance. The dynamic capabilities already in existence that can be modified include strategic decision-making and internal knowledge assets. Also in terms of creation they can look at strategic alliances in order to address the challenge of market saturation, as they recently acquired Huawei products under their umbrella in order to increase their product base. Eisenhardt and Martin (2000) reckon that dynamic capabilities are not tautological, vague and endlessly recursive, but rather consist of well known processes.

Service Provisioning consists of activities associated with establishing, maintaining and terminating links between customers and billing for value received. Service provisioning depends on the nature of the arbitration. Establishing a network or a link, for example billing requires measuring of a customer's use of network capacity both in volume and time, which includes things like invoicing, customer service and manual services. A link can also be in the form of a bank transaction or a phone call which requires some form of feasibility check, such as classifying the nature of transaction, accessibility of linking possibility and the eligibility of the customer in making the link.

Amid the support activities of the value network, two distinct but related technology development activities are of special interest; network infrastructure development and service development. Network infrastructure development involves activities associated with designs, development and implementation of network infrastructure. Service development involves everything from the adjustment of a large set of possible customer contract terms, for example development of brand new services such as voice mail services. Procurement is profoundly linked to network infrastructure and service development and it's frequently specialized for these activities. Firm Infrastructure the general management financing and management information system would not be confused with the staple value network. The former facilitates operating the company, while the latter is at the heart of value creation for customers.

5.4 Conclusion

The study concludes that strategy development of value chain activities adopted by Safaricom Limited were on financial, organizational structure, technology, operations and product. On financial strategies, Safaricom conducts mid-year review and full-year reviews of budget and economic forecast, it reviews Financial Policy; it compiles a list of unfunded mandates for legislative review and also it reviews budget process regularly for efficiency.

On organizational structure, interviewees felt that the structure acts as a key determinant of what is appropriate. The structure of the organization directly affects the processes and perspectives of the whole strategy development process. Safaricom limited with regards to structure assessed organizational needs in the context of markets, disciplines, services, organizational complexity, and overall vision, developing alternative organization and management structures warranting consideration, assisting the firm managers in deciding on the most suitable management structure, and assisting in implementing the preferred structure.

On technology, the organization uses the latest technology, for example, 3G, 4G, WiMax, WiFi and fibre optic, while the company has dedicated customer representatives to each of its products cater for its customers. Safaricom limited also has a wide range of products and services, for example provision of mobile handsets, mobile broadband modems, routers, tablets and notebooks, distribution services, that is airtime, M-PESA, enterprise business and retail outlets, data services, dedicated internet solutions for enterprises and hosted services, such as data storage and security solutions, wireless, fixed line and corporate social responsibility.

In addition Safaricom utilized market innovations such as environmental analysis and response to change and aggressive anti competitors marketing campaigns that greatly affected their performance. Aggressive anti-competitors marketing promotions contributed to the company's performance. Product innovations such as product replacement and product repositioning contributed to the firm's market dominance. Product development was important in both the supply of the staple product as well as in the support part of any offer. Innovation ensured that the services given to customers were of high quality.

5.5 Recommendations

The study recommends that for Safaricom limited to succeed in the strategic development process, it should adopt a more of proactive than reactive strategy. While retorting to other competitors' strategy is important to ensure existence, proactive strategies are essential in ensuring that a company's financial performance is to the fore of the competitors' and enhance customers' loyalty.

The study also recommends that for all the firms in the telecom sector to bring to fruition higher performance, increase number of customers, for the growth of their business and for them to also invest more, they should accept the exposition of market innovation strategies. The study also recommends that the companies should also strive to ensure product range extension, product replacement, product improvement, product repositioning and new product introduction to enable the companies be more productive, grow faster, invest more and also to earn more performance.

The study further recommends that firms in the telecom sector should ensure new products introduction, reduction of costs, improvement on innovation processes and adherence to regulations are used to influence performance of the firms under study, which will help them tap into customers' needs well, that new products spawn their own source of marketing momentum.

The study also recommends that the firms should ensure that they adapt new technology in order to cope with the fast changing technology. Technology innovation encourages ease of flow of information and fast delivery to the intended persons. For efficient adoption of technology innovation strategies, there should be reliable infrastructure, enough financial resources.

Due to an unpredictable industry that is faced by intense competition, technology transformation and globalization there is need for the policy makers to institute policies that will nurture growth and sustainable performance through application of strategic tools such as the value chain activities. Managers need to ask themselves where they can reduce costs in the value chain while keeping service, revenue and credibility constant.

The Porters value chain activity has heavily been applied in the manufacturing industry. The study has however, shown value chain can be applied in the service industry and especially if their main focus is profit maximization like was the case of the telecom industry to be specific Safaricom Limited that is perceived to make so much profit yet most of the returns are pegged on high fixed costs. Thus more studies on value chain activities should therefore be carried out in the service industry to increase the knowledge body on the subject.

The study can enhance the furtherance of concurrent theoretical and empirical research by academicians and researchers in the area of resource based view and dynamic capabilities theories and how organizations can utilize the resources and capabilities to maximize on attaining exemplary performance.

5.7 Limitations of the study

The researcher met with various challenges, key among them being time. The study required an in-depth interview to be conducted for the respondents. Some of the respondents were busy managers, assistant managers and heads of departments who were only able to give short interviews.

Some key informers did not want to divulge too much information due to the intense atmosphere from their competitors' concerning their market dominance and prowess in the telecom industry being experienced currently in the sector that is challenging the position of Safaricom Kenya Limited as the market leader. In fact some key respondents requested not to conduct the interview due to the sensitive nature of information. But because of the structural breakdown, the interviewer was able to replace those who couldn't respond with others of relative position.

5.8 Area of further research

This study was mainly focused from an inside-out approach, that is, the activities were extracted from an internal analysis of Safaricom Kenya Limited. It would have been fascinating to analyze external factors such as industry analysis, competitor's analysis and benchmarking to get a better view of how competitive Safaricom Limited's value chain activities are in relation to its challenger. Furthermore, to study the competitors it would have been possible to test the value chain activities with more cases from across the telecommunications industry and thus to verify the usefulness of this tool.

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APPENDICES

APPENDIX I: Introduction Letter



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE...15/09/15

TO WHOM IT MAY CONCERN

The bearer of this letter BRAD GHORAR

Registration No. DG1/80137/2012

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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

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

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS



APPENDIX II: Interview Guide

Kindly respond to the following questions in a summarized way

PART 1

Value Chain

1. From your own perception what's your department's value chain? What activities do you perform?

Value

1. Where do you create more value in your value chain or what is your core value?
2. Are any activities threatened by outsourcing?
3. How do the actors in the industry develop/grow?
4. Value network: how advanced is the Safaricom Kenya GSM network? What roles do employees play for Safaricom in building value?
5. Do you have any contact with actors not directly in front or behind you in the value system?
6. Do you integrate value from other value chains? (Horizontal integration)

Resource Aspect

1. Identify your most important strategic resources.
2. What are your strengths and weakness?

Industry aspects

1. What are the prerequisites for survival?
2. What are the Key Success Factors for Safaricom Kenya?

PART II

MANAGEMENT/ORGANIZATION

1. In the area of organization and management, what are your major needs/opportunities?
2. Who does most of the work in the areas of: general management/supervision, product design, purchasing, shipping of equipment, accounting, marketing, repairs, etc. (owner, employees, or external)?
3. What processes do you subcontract?
4. Do you sometimes collaborate with other firms to produce and deliver customer orders?

5. Which aspects of your business do you intend to change in the next 2 years (equipment, computers, new products, marketing strategy, quality control, management system, worker skills, etc.)?

6. What management skills would you like to strengthen in order to grow your business?

PROCUREMENT

1. What are your major needs/opportunities in the areas of input cost, quality, and availability?

2. Do you have any strategic relationship with suppliers? Explain

3. Who are your most important suppliers and what do you buy from each?

4. Describe the relationship with your suppliers. How open are these relations?

5. How active are your suppliers in the different stages of development of new products?

6. Do your suppliers/vendors have a thorough understanding of your business situation?

7. Are there problems in obtaining some important inputs? Explain.

8. Have you ever purchased inputs jointly with other business? Explain.

FINANCE

1. Where do you source for credit financing? What are the terms?

2. Do you have need for additional financing at the moment? If so, what would it be used for?

3. What sources (formal or informal) have you approached for loans, and what have been the key problems, if any?

TECHNOLOGY / PRODUCT DEVELOPMENT

1. What are your major needs/ opportunities in product design or service delivery?

2. What are your products and/or services in order of contribution to gross revenue?

3. What have you done recently to improve your products or services?

4. Please describe your important pieces of services/products (type, age, make, features)

5. What kind of infrastructure could improve your business?

6. Do some of your employee's need additional training for emerging technology? In what skills?

SALES AND MARKETING

1. What do you see as your main need/opportunities in the Kenyan market?

2. To whom do you target your product or service (large firms, small firms, wholesalers, exporters, retailers, direct to consumers)? What percentage goes to each?

3. Describe the relationship with your customers. How open are these relations?

4. Describe your offers (for example: total customer solution, deliveries, etc) customized/commodity products?
5. How active are your customers in the different stages of development of new products?
6. How integrated are you and your customers? Are they involved in the service design process?
7. How do you promote and market your products/services?
8. How strong is the market for your products/services right now? Next year?

INFRASTRUCTURE OPERATIONS

1. What are the most important infrastructure constraints affecting your business' growth and profitability (electric supply, crime/corruption, storage)?
2. What is your company doing about these problems?
3. How does the organization carry out maintenance of switches, lines and terminals?
4. How is interconnection with other operators done? How beneficial is it to the company?

HUMAN RESOURCE

1. How does HR department carry out recruitment?
2. Do you reward innovation and good performance? If so what kind of reward scheme do you own internally for the employees?
3. What is your benchmark with regard to compensation? Do you compare yourself with other firms in the industry?

PART III

1. What do you think are the strengths of your company locally and/or internationally?
2. What do you think is the greatest challenge facing your company today?