# COMPETITIVE STRATEGIES ADOPTED BY AIRTEL KENYA FOR SUCCESS IN THE TELECOMMUNICATIONS INDUSTRY

BY

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# DECLARATION

## STUDENT'S DECLARATION

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

ONGACHE, EDITH JOAN

Signature: ____________________ Date: NOVEMBER 2, 2015

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## SUPERVISOR'S DECLARATION

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

Signature: ____________________ Date: 2nd/11/2015

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# DEDICATION

I would like to dedicate this research work to my family who are my pillars and sources of great inspiration. To my parents for their continuous prayers for God's wisdom upon me to be the best I can. To my son, Andre Karuga, who has been patient with me and supported me during my studies. God bless you.

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## ABSTRACT

Competitive strategy defines the fundamental decisions that guide the organization's marketing, financial management and operating strategies. Competitive strategy often results in an organization adopting strategic change in the way it conducts its business. Kenya's telecommunications industry has great potential for growth because of its previous low penetration levels in both fixed and mobile markets. The industry has undergone significant changes, with the incumbent operator Telkom Kenya losing its monopoly in the fixed-line and internationals band width sectors. The last one decade has seen rapid growth due to new players entering the market, the introduction of 3G services by the telecommunication operators and, very recently, duty being waived on new mobile handsets and the allowing of number portability. This research therefore sought to identify the competitive strategies being adopted by Airtel Kenya Limited to tackle competition, and the challenges experienced in applying the strategies. A case study research design was adopted. An interview guide was used to facilitate data collection. The data obtained during interviews, through the interview guide, was analyzed qualitatively using content analysis. The study found that the business environment within which the mobile telephony sector operates has been very volatile. The mobile industry's rapid growth can be credited to the affordability of mobile phones, lower interconnectivity charges, the infrastructural improvements by operators, the presence of multiple players in the industry, and a stable regulatory environment, among other things. The competitive advantage that Airtel Kenya has gained is that their customers have become strongly attached to the differentiated attributes, compared to the competitors, such as the data services that enable recognition of other caller's locations. The company faces the stiffest competition in the area of voice service. The study recommends that, although Airtel has been successful in responding to competition in the telecommunication industry and applying suitable competitive strategies, it should engage in more cost reduction as a response to its competitors' strategies. Airtel should deliver benefits that exceed those of competing products to gain a competitive advantage over the firms. The company should undertake appropriate, persuasive and sustained advertisement, marketing campaigns on products and services. This would increase its customer base and competitiveness within the industry.

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## LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **ARPU** | Average Revenue Per User |
| **BTS** | Base Transceiver Station |
| **CA** | Communications Authority of Kenya |
| **CCK** | Communication Commission of Kenya |
| **CDMA** | Code Division Multiple Access |
| **EWK** | Econet Wireless Kenya |
| **GoK** | Government of Kenya |
| **GSM** | Global System for Mobile Communication |
| **IT** | Information Technology |
| **KDN** | Kenya Data Networks |
| **KPIs** | Key Performance Indicators |
| **Ltd** | Limited |
| **MIS** | Management Information System |
| **MTN** | Mobile Telephone Networks |
| **MVNO** | Mobile Virtual Network Operations |
| **NPD** | New Product Development |
| **SBU** | Strategic Business Unit |
| **SMS** | Short Message Service |
| **VOiP** | Voice Over Internet Protocol |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background to the Study

The present day business environment is continuously changing due to globalization, regulatory changes, intensity of growing competition, increasingly demanding customers, new information technology, mergers and acquisitions (Ngonga, 2011). With these changes, the resultant market can be termed as turbulent and volatile. For firms to continue being in business in their respective industry, they need to identify the unique competitive capabilities that enable them to enhance their market and financial performance compared to the other industry players.

Organizational strategy involves determination of the basic long-term goals and objectives of an enterprise, the adoption of courses of action and the allocation of resources necessary for carrying out those goals (Gole, 2005). Johnson and Scholes (2000) define strategy as "the direction and scope of an organization over long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations". They argue that strategy can be seen as the matching of the resources and the activities of an organization to the environment within which it operates. A company's strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, withstand competitive pressures and strengthen its market position, and in the end attain a good overall performance.

Firms develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter, 1995). The core of a company's marketing strategy consists not only of its internal initiatives to deliver satisfaction to customers, but also includes offensive and defensive moves to counter the maneuvering of rivals' actions, to shift resources around to improve the firm's long term competitive capabilities and market position, and tactical efforts to respond to prevailing market conditions. Effective strategy is formulated around four factors namely; the long term goals and objectives, the understanding of the competitive environment, the availability of resources and the effective implementation of the strategy (Hitt et al., 2008).

### 1.1.1 Competitive Strategy

Competitive strategy refers to how a company competes in a particular business environment. These strategies provide opportunities for the organization to respond to the various challenges within its operating environment. It is concerned with how a company can gain a sustainable competitive advantage through a distinctive way of competing (Aaker, 2011). Thompson and Strickland (2002) note that a competitive strategy comprises of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position. It concerns with what a firm is doing in order to gain a sustainable competitive advantage. Porter (1980) asserts that there are three approaches to competitive strategy. Firstly, striving to be the overall low cost producer, therefore being a cost leader. Secondly, seeking to differentiate one's product offerings from that of one's rivals. This is known as a differentiation strategy. Thirdly, focusing on a narrow portion of the market, which is known as focus or niche strategy.

The importance of a competitive strategy for a business is to find a position in the industry that the company can best defend itself against competitive forces or can influence them in its favor, resulting in a competitive advantage. An effective competitive strategy takes either an offensive or defensive action in order to create a defendable position against the market forces, and thereby yield a superior return on investment for the firm. According to Porter (1980), the ability of firms to survive in the business environment is dependent upon their selection and implementation of a competitive strategy that differentiates the firm from competitors.

Over last decade, the telecommunication industry in Kenya has seen an unprecedented growth due to various factors including increase in number of operators, increased mobile coverage, affordability of mobile handsets and stable regulatory environment. The customers have become quite enlightened, and as a result, they demand for better services than before albeit at lower prices. The regulator, Communication Commission of Kenya (CCK), has not made matters any better for the mobile players by reducing the interconnectivity charges and allowing for porting of numbers by customers.

Business entities in the telecommunications industry need to have contingencies to enable them adapt to a competitive environment through the implementation of strategies that permit quick alignment and redeployment of assets to deal with environmental changes, thereby enhancing performance. The ability of firms to survive in the business environment is dependent upon the selection and implementation of a competitive strategy that differentiates the firm from its competitors McGee (2013). The characteristics of the competitive context and the level of profitability are considered to be the factors that most strongly influence the type of competitive strategy a company adopts.

Proper strategy development has a crucial impact on corporation success and the ability to define the competitive advantage, is important for profit as well as for nonprofit organizations (Weerawardenaand Mort, 2012). Attaining a position of competitive advantage and enhancing an organization's performance relative to its competitors are the main objectives that organizations should aim to achieve. A good competitive strategy provides an organization with advantages that lead the organization towards attaining high profits.

An important assumption for the competitive advantage definition is based on the ability of an organization to process knowledge in a turbulent environment (Chilchrist a kol., 2012), and the ability to implement the knowledge into the strategic development process (Ehmke, 2008). This is consequently transformed into desired performance as an evidence of the fruitfulness of developed strategy (Van Marrewijk, 2010). The basis of organization's competitive strategy is to attain an advantage in business activity realization in a competitive environment. This is connected to competitive advantage achievement that enables a profitable and sustainable position of a company, not only in the short term, but also in the long-term.

### 1.1.2 Telephony Industry in Kenya

Kenya's telecommunications industry has experienced extensive growth in the number of subscribers, as well as geographic expansion of cellular mobile services (cck.go.ke). Since inception, mobile penetration in Kenya has grown dramatically and stood at 78 per cent as at March 31, 2013 (CCK Quarterly Sector Statistical Report January-March 2013, Pg. 6). Kenya had over 30 million subscribers as at December 31, 2014, with Safaricom enjoying 66.5 per cent market share, followed by Airtel Networks Kenya Limited at 17.6 per cent, Orange at 7.1 per cent, while Yu market share stood at 8.8 per cent (CCK Report, September-December 2014). The competition in the sector also resulted in Safaricom and Airtel buying out Yu Mobile in a deal in which Safaricom bought Essar-owned Yu Mobile infrastructure, and retained about 130 employees in the technical department. Airtel acquired 2.7 million Yu Mobile subscribers by taking over the mobile number prefix, thus allowing the customers to migrate to its network without having to change their identities.

The presence of more mobile network operators has led to the development of new products and services, and significantly changed the lives of Kenyans. Mobile telephony has improved the face of communication and changed the basic role from mere communication, to include making contacts, interaction and exchange of ideas, mobile banking, mobile money transfer and internet access, among other forms of transmission of business and social information and services.

In the past decade, the telecommunications industry in Kenya, just like the rest of the world, has undergone intense changes due to technological advancement and regulatory restructuring. This has resulted in creation of new markets, entry of new players, and formation of new challenges.

Market liberalization efforts have also picked up resulting in the successful partial privatization of Telkom Kenya Ltd (December 2007), divestment of Government of Kenya's (GoK) 25 per cent stake in Safaricom Kenya Limited through a public listing (May 2008), and the launch of a fourth mobile operator Econet Wireless Kenya (November 2008).

Additionally, some of the world's best known telecommunication providers including Vodafone, France Telecoms and Essar Communications, have become serious industry players in the Kenyan market through their investments in Safaricom Kenya Limited, Telkom Kenya Limited and Econet Limited respectively. Kenya's telecommunications industry has experienced massive infrastructural development by operators, and this has yielded high network expansion and increased nationwide coverage.

### 1.1.3 Airtel Kenya Limited

The company has rebranded severally, starting off in Kenya initially as Kencell, then rebranding to Celtel, then to Zain and presently Airtel, after being acquired by Bharti Airtel Limited. As the second largest operator in Kenya's mobile industry, Airtel Kenya Limited is positioning itself as the most innovative mobile phone operator company in Kenya by introducing value add products such as Airtel Money, prepaid and postpaid plans, One Network, Blackberry devices and services, international roaming, cheaper local and international text messaging, 24-hour customer care service, internet services, directory enquires, SMS information services, Mobile Top up and Me2U. As a result of added innovation, Airtel Kenya has been registering growth in its customer base. According to the CCK (2014) report, the company market share in 2014 grew to 17.6 per cent from 10.6 per cent in 2013. The same report stated that Airtel Kenya management expect growth to continue being witnessed in the short term period.

Airtel Kenya's strengths include having a wide network coverage, clarity of the network and having a coverage of 82 per cent of the Kenyan population, improved distributor investment on bank guarantee, dedicated account developers, a changed perception of the company being expensive and developing segment specific products. Airtel is currently experiencing challenges in renewal of its operating license with the Communications Authority of Kenya (CA) due to the high renewal fee, and as of August 2015, forcing the company to operate using the license acquired from Essar (Yu Mobile). Airtel is disputing the high renewal fee and is negotiating that the renewal fees should be pegged on a percentage of the annual gross turnover of each operator as opposed to a flat rate.

Kenya's mobile market has continued to show strong growth in the number of mobile subscribers. This has translated into sustained revenue growth for operators as they develop mobile data services, backed by heavy investments in technologies and infrastructure upgrades. Competition has nevertheless presented challenges to the profitability of network operators, encouraging them to streamline operations and develop a diversity of revenue streams including mobile data, m-commerce and m-banking. At present the strategies adopted by Airtel Kenya are becoming highly important and critical for the company's survival, as competition in the telecommunications sector in Kenya continues to intensify.

## 1.2 Research Problem

As the current economic environment becomes more competitive, companies must find new strategies to increase their capacity and competitiveness (Lipponen et al., 2004). This creates the need to formulate competitive strategies in response to the turbulent environment and for the company's survival. The competitive strategy put in place must ensure the company maintains its market dominance, and improve its overall performance. The need to respond to market changes on a daily basis, and the difficulty of predicting the direction of such changes means that organizations must focus on their core competences and capabilities (McIvor, 2008). This assists to boost the company's performance by enabling it to remain competitive and grow profits.

Airtel is the World's fifth largest mobile operator with 180 million customers, is the second largest operator in the African continent after MTN, and covers a population of 450 million and is currently the number one operator in ten countries in Africa. The rapidly falling Average Revenue Per User (ARPU) levels had driven Airtel deeper into negative earnings, leaving only the market leader, Safaricom, with a net profit, although reduced (http://africa.airtel.com/kenya/). Additionally, price wars characterized Kenya's mobile communications market in 2008, following the market entry of the third and fourth network, Econet Wireless Kenya (EWK), in which India's Essar acquired a stake, and Telkom Kenya under the Orange brand with its new majority shareholder, France Telecom. This growth in Kenya's telecommunications industry placed Airtel Kenya under increased pressure to meet its organizational objectives and goals, by coming up with competitive strategies that would lead the company to increased competitiveness and profit.

Research studies on competitive strategies adopted in the global mobile telephony industry carried out by Accenture (2012), show that operators will need to create competitive differentiation by: (i) controlling the costs of their network and technology platforms, (ii) developing collaborative business models to share costs, (iii) driving new capabilities and innovation, and (iv) developing new and distinctive customer value propositions. Corrocher and Lasio (2013) in their research paper 'Diversification strategies in network-based services' state that the most successful mobile network operators are those characterized by the ability to find a perfect match between their core competencies (large network management, strong brand reputation) and the needs of specific segments of demand that had not been previously fulfilled. A research paper on determinants of International Telecommunication Alliances (Tsaichen, 2013) indicated that host governmental restrictions exerts greater influence than inter-firm trust on the choice of alliance by mobile network companies. Mobile network companies tend to develop non-equity alliances when governmental restriction is strong.

Recent local studies done in the area of competitive strategy include: Obado (2005), who did a research on competitive strategies employed by the sugar manufacturing firms in Kenya, and found that the sugar manufacturing firms have formalized vision and mission statements. They employ competitive strategies of cost leadership, differentiation and focus to different degrees. Cost leadership strategy is the most widely practiced amongst the firms, while differentiation strategy mainly revolves around customers' service, distribution networks and branding. Amir (2007) did a study on competitive strategies adopted by petroleum retail stations in Kenya - a case of Mombasa city, and the findings showed that all stations are applying some strategies for competition but most of them combine both the cost leadership and differentiation strategies at the same time, most of which are the multinationals due to their favorable financial capabilities.

A few local companies (with independent owners) mainly focus on price strategy, and tend to sell at lower prices. Kamau (2009) researched on competitive strategies employed by Zain, and established that the company uses low cost and differentiation strategies, which enables it to minimize costs, outsource services, adopt strategies to increase market share, provide quality offerings, have an efficient delivery system, and ensure market penetration and development, thus enabling the efficient use of company resources in order to compete effectively with other companies. Kinyua (2010) undertook a study on competitive strategies adopted by small supermarkets in Nairobi. He established that the strategies which were adopted, for example branding of an outlet, differentiated it from others. Thus, the outlets use a brand name in order to cultivate customer loyalty. Other competitive strategies used by small supermarket outlets include charging fair prices, ensuring good customer service, reducing the prices of goods in order to attract customers and improving goods quality before selling, convenience and ease of accessibility, increased advertising and staff training.

It is clear that a poor or vague strategy can limit implementation efforts dramatically. Good execution cannot overcome the shortcomings of a bad strategy or a poor strategic planning effort (Hrebiniak, 2006). Gupta (1987) classifies Strategic Business Units (SBU's) strategic contexts into two dimensions: strategic mission (such as a "build" strategic mission and a "harvest strategic mission) and competitive strategy (such as differentiation and low cost). Walker and Ruekert (1987) divided business strategy behaviors into three types: prospectors, differentiated defenders and low cost defenders. These distinctions are based on the strategy categories introduced by Miles and Snow (1978) namely prospectors, defenders, analyzers and reactors; and by Porter (1980) namely overall cost leadership, differentiation and focus niche.

Chimhanzi (2004) suggests that cross-unit working relationships have a key role to play in the successful implementation of marketing decisions. Implementation effectiveness is affected negatively by conflict, and affected positively by communication, specifically, interpersonal, as opposed to written. In turn, these interdepartmental dynamics are affected by senior management support, joint reward systems, and informal integration. Chimhanzi (2004) also points out that marketing and research and development interface remains the most extensively researched area within the specific context of the new product development (NPD) process. Chimhanzi and Morgan (2005) findings indicate that firms devoting attention to the alignment of marketing and human resources are able to realize significantly greater successes in their strategy implementation. Specifically, these findings imply that marketing managers should seek to improve the relationship with their human resources colleagues by emphasizing two of the process-based dimensions: joint reward systems and written communication.

This research therefore sought to identify the competitive strategies being adopted by Airtel Kenya Limited to tackle competition, and the challenges experienced in applying the strategies. This problem statement led to the following questions: What competitive strategies has Airtel Kenya Limited adopted to succeed in Kenya's telecommunications industry? What are the challenges in applying these strategies?

## 1.3 Research Objectives

The objectives of this study were as follows:

i. To determine the competitive strategies adopted by Airtel Kenya Limited to deal with competition in the telecommunication industry.
ii. To establish the challenges faced by Airtel Kenya Limited in applying the strategies.

## 1.4 Value of the Study

The study would be important to enable Airtel Kenya Limited evaluate the strategies they can adopt in the face of high competition in the telecommunication sector. In addition, the study would be a valuable source to those interested in establishing a business within the telecommunication sector as it highlights competitive strategies employed.

The findings of the study would be relevant to management and practices as it would enable the management of Airtel Kenya to know the influence of various strategies on the overall company competitiveness. The findings of the study would expose the effect of strategies on competitive environment and as a result, the companies would be more endowed with knowledge and prepared to fit in the prevailing competitive environment. The results may provide the company with the ability to identify best strategies that if applied can assist in creating a competitive advantage.

The findings of this study would be compared with competitive strategies in other sectors to draw conclusions on various ways an institution can respond to competitive forces within its environment. It would also benefit consultants who endeavor to provide assistance to successful running of organizations in developing and sustaining a competitive edge.

The study would help in identifying the strategies that can be referenced by other companies. Most importantly, this research is further aimed at offering some practical suggestions on the strategies to be put in place in order to gain competitive advantage. The policy makers would obtain knowledge of the telecommunication sector dynamics and the appropriate competitive strategies. They would therefore obtain guidance in designing appropriate policies that would regulate the sector. Future scholars may use the results of this study as a reference.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter summarizes the information from other researchers who have carried out studies in the same field. The specific areas covered here include theoretical foundations by different scholars, competitive strategies that can be adopted to survive an industry, and the challenges encountered in the implementation of the competitive strategies. In the analysis of the theoretical foundations, a special focus will be on Porter's (1980) generic competitive strategy and Ansoff's (1957) product development matrix.

## 2.2 Theoretical Foundation

According to Davidson (2001), a company's competitive strategy is choosing a favorable industry. There are two main questions - the first one is the profitability in the long term and which factors determine that, while the second one is the components that are affecting the company's position in the market. This question is important to ask no matter if it is a local or a global company. To be able to see if the industry is profitable, the company has to undertake research on the industry competitors, suppliers, buyers, potential entrants and substitutes for the product or service. These are factors that determine the company's required revenue in the end because they are all factors that affect the prices, costs and the demanded investments. According to Davidson (2001), the next step is to decide which strategy to use. If this does not happen, the company will be stuck-in-the-middle and often become a failure.

Competitive strategy is concerned with how a company competes in a particular business and gains a competitive advantage through a distinctive way of competing Kim et al., (2004). Business firms need to consider the overall strategy if a company diversifies. It is concerned with the mix of businesses the company should compete in, and the ways in which strategies of individual units should be coordinated and integrated. Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture and good implementation. Competitive strategies help to search for a favorable competitive position in an industry, and to establish a profitable and sustainable position against the forces that determine industry competition. The ability of a company to capture the opportunity that an industry gives depends on its core competency. The theoretical perspectives plays an important role in guiding management decisions, shaping the organization, creating awareness of the business environment and are a good source of new ideas. Competitiveness theories are further discussed below.

#### 2.2.1 Porter's Generic Competitive Strategy

Porter's (1980) generic competitive strategy is one of the most well-known strategies involving three elements:(a) cost leadership, a firm's goals to meet low cost in its industry, (b) differentiation, a firm prospects becoming unique and different in its market, and (c) focus, a firm engages in focusing on particular buyers, product lines, or markets. Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope. A company chooses to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price.

A company also chooses one of two types of scope, either focus (offering its products to selected segments of the market) or industry-wide, offering its product across many market segments. The generic strategy reflects the choices made regarding both the type of competitive advantage and the scope.

##### 2.2.1.1 Differentiation Strategy

This strategy is usually developed around many characteristics such as product quality, technology and innovativeness, reliability, brand image, firm reputation, durability, and customer service, which must be difficult for rivals to imitate. A firm implementing a differentiation strategy is able to achieve a competitive advantage over its rivals because of its ability to create entry barriers to potential entrants by building customer and brand loyalty through quality offerings, advertising and marketing techniques. Thus, a firm that implements a differentiation strategy enjoys the benefit of price-inelastic demand for its product or service. This would in turn help the firm to avoid potentially severe price competition and allow it to charge premium prices leading to above-normal profits (Porter, 1980). The successful implementation of the differentiation strategy requires resources and skills such as strong marketing capabilities, product engineering skills, creative flare, corporate reputation for quality, reliable and durable products and/or technological leadership, and strong cooperation from distribution channels (Porter, 1980).

When using this strategy, a company focuses its efforts on providing a unique product or service (Hlavacka et al., 2001). Since, the product or service is unique, this strategy provides high customer loyalty (Porter, 1985). Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share.

#### 2.2.1.2 Cost leadership

This strategy is usually developed around organization-wide efficiency. In order for firms implementing the cost leadership strategy to maintain a strong competitive position and sustain their profit margins for a considerable period of time, they have to place a premium on efficiency of operations in all functional areas (Porter, 1980). Firms that implement a cost leadership strategy are able to secure a relatively large market share by being the lowest cost producers or service providers in their industry or market.

Thus, firms implementing the cost leadership strategy can obtain above-normal profits because of their ability to lower prices to match or even below those of competitors and still earn profits. By pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitors' growth in the industry through its success at price war and undercutting the profitability of competitors. If the firm's cost of sale or cost of raw material is lower than its competitors, then the firm can offer lower prices, higher quality, or both (Spulber, 2009, p.356).

Lower costs and cost advantages result from process innovations, learning curve benefits, economies of scale, product designs reducing manufacturing time and costs, and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs. Firms do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Bauer & Colgan, 2001). Lower prices lead to higher demand and, therefore, to a larger market share. As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market. The leader then is somewhat insulated from industry wide price reductions (Porter, 1980). The cost leadership strategy creates little customer loyalty and if a firm lowers prices too much, it may lose revenues.

#### 2.2.1.3 Focus Strategy or Market Niche

In the focus strategy, a firm targets a specific segment of the market (Davidson, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line (McCracken, 2002). Focus also is based on adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements.

A successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

Porter (1983) posits that firms in the same industry can choose different competitive scopes in the same segment. The basic choice is between a broad target and a narrow target within the same segment. The narrow target is a well-defined market and the broad target is a larger market defined in a wider perspective. Porter (1990) further indicates that it is difficult, however not impossible, to have both lower cost and to stay differentiated relative to the competitors. It is hard to provide unique performance, quality or service and at the same time have lower costs when the products are costly to produce. The worst scenario is to get stuck in the middle or to have more than one type of strategy at the same time, because then the firm is unable to reach the right target of buyers. According to Shapiro and Varian (1999) focus is achieved by personalizing the product. If a company succeeds in creating a unique product it will have breathing room to both personalize the pricing, and to design the product.

#### 2.2.1.4 Pricing Strategy

It is discussed by Kotler (2005) that setting a low initial price indicates that the company wants to penetrate the market fast and gain high volume quickly. The company wants to capture a large market share with minimal economic efforts for the customer. Companies which use this kind of strategy set the price as low as possible to attract as many customers as possible. After winning a large volume, they can decrease their falling costs which will lead to a higher long run profit. They enter the market with the strategy to get a lot of customers, which will help the company decrease their cost and therefore become a cost leader in the market.

Caroline (2008) was of the view that to apply this method successfully a company has to ensure that the customers are price sensitive so they buy more of the product when the price is low, and that when the volume increases the company´s product and distribution cost must be falling. The idea with this kind of approach is that the company with a low price could attract many customers while keeping the competitors out. But this will only work if the company sticks to the low price position, otherwise the advantage will only last for a little while, and then the competitors will catch up. That is why this kind of strategy is a bit risky. The company has to be sure that none of the competitors are going to set the price lower than them, otherwise the concept fails.

### 2.2.2 Ansoff’s Product Development Matrix

Ansoff (1957) developed a framework to help executives, senior managers, and marketers to devise a strategic planning tool for future growth. In the product market growth matrix, Ansoff describes four growth alternatives to overcoming the environmental barriers that obstruct the attainment of organizational goals, namely, market penetration, market development, product development and diversification.

#### 2.2.2.1 Market Penetration

In market penetration strategy, the organization tries to grow using its existing offerings (products and services) in existing markets. In other words, it tries to increase its market share in the existing market segment. This is achieved by selling more products or services to established customers or by finding new customers within existing markets. Here, the company seeks increased sales for its present products in its present markets through more aggressive promotion and distribution. This can be accomplished through: (i) price reduction; (ii) increase in promotion and distribution support; (iii) acquisition of a rival in the same market; (iv) modest product refinements

#### 2.2.2.2 Market Development

In market development strategy, a firm tries to expand into new markets (geographies, countries etc.) using its existing offerings. This can be accomplished by: (i) different customer segments; (ii) industrial buyers for a good that was previously sold only to the households; (iii) new areas or regions of the country (iv) foreign markets. This strategy is more likely to be successful where:- (i) the firm has a unique product technology it can leverage in the new market; (ii) it benefits from economies of scale if it increases output; (iii) the new market is not too different from the one it has experience of; (iv) the buyers in the market are intrinsically profitable.

#### 2.2.2.3 Product Development

In product development strategy, a company tries to create new products and services targeted at its existing markets to achieve growth. This involves extending the product range available to the firm's existing markets. These products may be obtained by: (i) investment in research and development of additional products; (ii) acquisition of rights to produce someone else's product; (iii) buying in the product and "branding" it; (iv) joint development with ownership of another product who need access to the firm's distribution channels or brands.

#### 2.2.2.4 Diversification

In diversification, an organization tries to grow their market share by introducing new offerings in new markets. It is the most risky strategy because both product and market development is required. (i) related diversification - here there is relationship and, therefore, potential synergy, between the firms in existing business and the new product/market space; (ii) unrelated diversification - this is otherwise termed conglomerate growth because the resulting corporation is a conglomerate, i.e. a collection of businesses without any relationship to one another.

## 2.3 Challenges of Applying Competitive Strategies

For effective implementation, the strategy must be supported by decisions regarding the appropriate organization structure, reward system, organizational culture, resources and leadership. Just as the strategy of the organization must be matched to the external environment, it must also fit the multiple factors responsible for its implementation (Bateman and Zeithaml, 1993). As was further observed by David (2003), successful strategy implementation must consider issues central to its implementation and that affect the success of the strategy implementation. These factors include organizational culture, leadership and management, organization structure, resources and capacity.

Organizational culture helps in nurturing and dissemination of core values. Implementation of new strategy will be concerned with adjustments in the structure, employees, systems and style of doing things in order to accommodate the perceived needs of the strategy (Pearce and Robison, 2007). Weihrich and Koontz (1993) look at culture as the general pattern of behavior, shared beliefs and values that members have in common. Culture can be inferred from what people may do and think within an organization setting. Organizational culture sets the tone for the company and establishes rules on how people should behave. Without these rules, strategies might be difficult to implement as there is no accountability.

Leadership is the key to effective strategy implementation as the leader is ultimately accountable for the success of a strategy. The leader's actions and the perceived seriousness to a chosen strategy will influence subordinate managers' commitment to implementation. A weak leadership will lead to lack of goodwill and ownership to strategy and affect effective implementation.

Motivating and rewarding of good performance for individuals and units are key success factors in effective strategy implementation (Shirley, 1983). According to Cummings and Worley

(2005), organizational rewards are powerful incentives for improving employee and work group performance. Lack of a reward system can affect strategy implementation as production and employee satisfaction might be low.

According to Thompson et al (2007), effective strategy implementation depends on competent personnel and effective internal organizational systems. No organization can hope to perform the activities required for successful strategy implementation without attracting, motivating and retaining talented managers and employees with suitable skills and intellectual capital. As was reinforced by Cummings and Worley (2005), the task of implementing challenging strategic initiatives must be assigned to executives who have the skills and talent to handle and can be counted on to turn decisions and actions into results to meet established targets.

Strategies fail because not enough resources were allocated to successfully implement them. Lack of resources is generally a bigger threat to capital-intensive strategies. Axelsson and Easton (2012) observed this failing in both “fast-growth, new companies that feel understaffed due to growth demands” and companies “under heavy competitive pressure” who felt they could not spare resources to drive strategic innovation. It is generally a good idea to include financial evaluation of a (draft) strategic plan in the process – in part to ensure the strategy does not inadvertently destroy shareholder value and in part to ensure that sufficient resources (especially capital dollars) will be available to achieve implementation.

Communication allows sharing of ideas, facts, opinions and emotions and above all provides feedback. Communication down the organization or across different functions becomes a challenge. If a strategy is not communicated clearly, there will be serious challenges in the implementation process. Organizations need to ensure that there is clear communication.

## 2.4 Empirical Studies and Research Gaps

From the discussions above it has been deduced that Airtel Kenya uses different ways to promote its services and products to the market and consumer at large. No channel is irrelevant as both have significant appeals and attracts an equal measure of listening and viewership. It is therefore evident that marketing plays a crucial role in enhancing a company's growth and performance in capturing new markets, retaining the market and promoting financial muscles in profits of an organization.

Further recommendation should be the study in detail of each variable under discussion to show the level of influence that competitive strategies have on the performance of a company. Besides, more studies should be done to highlight other strategies, not included in this study, and tolerate their effect on productivity. This could be expanded to cover other telecommunications companies, especially the market leader in the sector.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter was aimed at providing information about the applied research process for this study. This included the target population, sample size and sampling procedures. It also included research instruments, data collection procedures, data analysis techniques and ethical considerations.

## 3.2 Research Design

The research design utilized in this study was a case study. The merit of using a case study is that it allows an in-depth understanding of the behavior pattern of the concerned unit. The study sought to identify the competitive strategies adopted by Airtel Kenya Limited to tackle competition in the telecommunications industry, and to establish the challenges faced by the company in applying the strategies.

In this study, the qualitative paradigms were used. Qualitative research allowed the researcher to exercise judgment, do appraisal and interpret the major factors influencing the competitive strategies used for success in the telecommunications industry in Kenya, as well as the challenges faced by the company in applying the strategies.

## 3.3 Study Interviewees

The study interviewees consisted of senior selected staff of Airtel Kenya Limited, specifically, those involved in formulation and implementation of the company's strategies. They included the top managers in charge of strategy and planning, and heads or leaders of the following departments: administration, enterprise business solutions, human resource management and development. These interviewees were considered to be key informants for this research. The study targeted about 7 interviewees.

### 3.4 Data Collection

The study used primary data which was collected using an interview guide. An interview guide is a set of questions that the interviewer asks when interviewing. In-depth interviews reduced the "distance" between interviewer and interviewee. The interviews were semi-structured so that some questions could be omitted or added if some new and useful information came up during the procedure, which was a "face to face" interview. The order of the questions also varied depending on the flow of the conversation. Some of the interviews were recorded in the case that the interviewee accepted this action. This had advantages like keeping the interviewer concentrated on listening and allowing formulation of questions, but it could also distract the interviewee by “focusing" on the recorder.

### 3.5 Data Analysis

The data obtained from the interview guide was analyzed qualitatively. Qualitative data analysis makes general statements on how categories or themes of data are related. Qualitative analysis was adopted in this study because the researcher was able to describe, interpret and at the same time criticize the subject matter of the research since it was difficult to do so numerically. The qualitative analysis was done using content analysis.

A content analysis technique was used to generate and categorize items for comparison with the interview results from the managers of the company. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Hsieh & Shannon, 2005). It involves observation and detailed description of objects, items or things that comprise the object of study.

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter provides the data analysis, presentation and interpretation of the results of the study as set out in the research methodology. The purpose of the study was to establish the competitive strategies adopted by Airtel Kenya for success in the telecommunications industry and to determine the challenges experienced in applying the strategies. This chapter presents the research findings and the subsequent discussions which take cognition of the pre-stated objectives of the study which were; to determine the competitive strategies adopted by Airtel Kenya Limited to deal with competition in the telecommunication industry and to establish the challenges faced by Airtel Kenya Limited in applying the strategies. The findings of the study and the analysis of the results are established from the interview guides.

This chapter also discusses the findings in comparison with relevant theory and literature as established by other authors in the same field of study. The data was collected through semi-structured interview specifically designed to generate data relevant to the research objective and analyzed through content analysis. To enhance data quality of data obtained, unstructured questions were used, whereby interviewees indicated their views and opinions about the competitive strategies adopted by Airtel Kenya for success in the telecommunications industry.

The interviewees targeted for the study were the management staff of Airtel Kenya Ltd, who included the top managers in charge of strategy and planning, heads or leaders of administration and enterprise business solutions, and human resource management and development departments at Airtel Kenya. Content analysis was used in this study since the research instrument was an interview guide, hence the data collected was qualitative. The following analysis is based on 6 responses received out of the sample of 7 interviewees intended for the study, which means the response rate was 85.7%.

## 4.2 Demographic Information

The study involved the management staff currently serving in Airtel Kenya, who are directly dealing with the day to day management of the company. This is because these staff are conversant with the competitive strategies adopted by Airtel Kenya Limited to deal with competition in the telecommunication industry, and the challenges faced in applying the strategies. The demographic data of the interviewees was investigated in the first section of the instrument, and presented in this section under job titles of the interviewees, departments of service, level of education and the interviewees' work experience in their areas of expertise.

The study included heads of departments designated as managers in charge of strategy and planning, and heads or leaders of administration, enterprise business solutions, human resource management and development departments at Airtel Kenya. The study found it relevant to assess the distribution of the interviewees across the various job tiles in the company. The interviewees that participated in the study held various designations at Airtel Kenya, such as, Human Resources Officer, Corporate Affairs Manager, Customer Service Manager, Enterprise Business Officer, Operations Supervisor and Airtel Money Manager. This implies that most of the departments' heads or leaders that were targeted in this research participated in the study, and that the findings are therefore not biased, and are representative of the various departments' views on competitive strategies adopted by Airtel Kenya as well as the challenges in application of strategy. The interviewees' responses, therefore, had the advantage of good knowledge of the company practices and culture, as well as adequate staff responsibility or supervision being that they are managers.

Based on the demographic information, the study also confirmed that Airtel Kenya employs different calibre of staff for different duties and responsibilities based on academic qualification. Most of the interviewees recapped that they had acquired a post graduate qualifications including Masters and PhD, while some of the interviewees indicated that they had attained Bachelor's degrees and other academic qualifications in each case. This finding is in line with Thompson et al (2007), who posited that effective strategy implementation depends on competent personnel and effective internal systems. Most of the interviewees had at least a post-graduate degree, and are therefore academically qualified, and in addition, have working experience of between 5 to 10 years in their area of expertise. The study therefore found that interviewees were very experienced in their duties and could dispense work effectively in terms of professional work ability and performance. This also implies that senior staff at Airtel are those of a capacity to use their skills and talent to handle strategy interpretation, and turn decisions and actions into results to meet the company's established targets. This again aligns with the report by Cummings and Worley (2005) on competency and capacity of leaders in handling strategy application.

### 4.3 Telecommunication Industry Growth in Kenya

The study sought to establish the interviewees' impression of the telecommunications industry growth in Kenya presently, compared to some years ago. The interviewees reiterated that the business environment within which the mobile telephony sector operates has been very volatile. The mobile industry's rapid growth can be credited to the convenience of using and affordability the mobile cell phone. The telecommunications sector is also very technology dependent. Because of high level of technological innovations at the global level, new versions of telecommunication equipment were developed on a regular basis. Political anxieties, competition from new entrants, social reforms, technological advancements and globalization are some of the challenges that have greatly affected the growth of this sector. The firms in this industry introduced new technologies of product development, differentiated their products, segmented and targeted their customers more and improved customer services. This finding also resonated with the CCK Quarterly Sector Statistical Report January-March 2013, Pg. 6, which described Kenya's vast growth in the telecommunication industry.

The study posed a statement that the industry growth has presented some opportunities and some threats (challenges) to Airtel as a company. In this regard the interviewees were requested to indicate what the company has experienced in terms of opportunities and threats. The interviewees reported that the competitive advantage that Airtel Kenya has gained is that their customers have become strongly attached to the differentiated attributes, such as the data services, that enable recognition of other caller's locations. This has allowed Airtel Kenya to command a premium price for its products and gain buyer loyalty to its brand (because once buyers are strongly attracted to the differentiating features, they bond with the company and its product). This finding from the research on Airtel fits in with the study undertaken by Accenture (2012), on competitive strategies adopted in the global mobile telephony industry that showed that operators will need to create competitive differentiation by, among other things, developing new and distinctive customer value propositions. It also resonates with McGee (2013) when he says that the ability of firms to survive in the business environment is dependent upon the selection and implementation of a competitive strategy that differentiates the firm from its competitors.

In terms of challenges or threats, the study found that Airtel stiffest competition is the voice service. This is illustrated by the price wars among industry players, where mobile companies are lowering their calling rates per minute. The interviewees however indicated that Airtel has been able to cope with the stiff competition by offering a lower calling rate across all networks as well as for international calls. This finding is consistent with Porter (1980), when he positions that firms implementing cost leadership strategy can obtain above-normal profits because of their ability to lower prices to match or even below those of competitors and still earn profits.

From the study findings, Airtel has focused on a cost leadership strategy for its products and calling rates, while it has used a differentiation strategy for customer service, distribution network and branding. This relates to the study by Obado (2005) on competitive strategies employed by manufacturing firms in Kenya, where he found that firms employ competitive strategies of cost leadership, differentiation and focus to different degrees. Additionally, the Airtel findings correspond to Amir's (2007), in his study on petroleum retail stations in Mombasa, the findings were that most retails stations combine both the cost leadership and differentiation strategies at the same time.

### 4.4 Competition in Kenya's Telecommunication Industry

On how they would consider the state of competition in the telecommunications industry in Kenya, generally, the interviewees reported that competition in the sector is high because of presence of competitors in the market. The interviewees said that the Airtel faced competition in terms of price wars in the telecommunication industry as well as sabotage of Airtel network by rivals. The interviewees also reiterated that the company was facing distinct technological change in terms of the increasing need to maintain high quality services due to increased customer demand after being exposed to the global telecommunications industry and licensing of other Voice over Internet protocol (VoIP) providers. These new entrants into the telecommunications industry offer low cost voice calls that have posed a major competition challenge to the operations of Airtel Kenya Limited.

The interviewees also confirmed that Airtel internet service also faced challenges from those of the other competitors, such as Safaricom and Orange. There is also indirect competition from firms, such as Econet, Wananchi, MTN, Access Kenya, Jamii and Liquid Telecoms (formerly KDN), who provide dark fiber to connect homes and corporate, but in addition also offer Voice over Internet Protocol (VoIP) calls and data. According to Cartwright (2002), competition is the main driving force leading marketers to search for areas of competitive advantage that will lead to greater financial success. In line with Cartwright's (2002) argument, Airtel Kenya has adopted some strategies to obtain a competitive edge over rivals in the industry. The interviewees recapped that the company has been able to counter competition despite the long battle for market share with the main player in the market Safaricom. Airtel has done this by (i) offering diverse affordable products and services compared to its competitors, (ii) the adoption of the outsourcing model, which has enabled the company to optimize operational costs thus increasing its efficiency, (iii) investing in staff development and rotation, (iv) applying competitive pricing as the company sets the pace by reducing its calling rates, and (v) investing in infrastructure which has seen the company command the strongest network which enables the customers to have a clear communication, have wide coverage throughout the country and no drop calls. These factors have given the company an edge over its competitors.

On how revenue and company expenditure have been affected in order to survive competition, the interviewees indicated that there has been an increase in expenditure in an attempt to enhance the company's infrastructure, assets and IT systems as well as promotions to gain market. The company's revenues have also been affected by the competition in the telecommunication industry. The cost of putting up the infrastructure to ensure that the company competes effectively with other competitors was high, and in order to maximize the available resources, the company has taken various steps to achieve its objectives. According to the interviewees, the increased use of mobile phones and modems to access the internet has enabled the company to gain more revenue from data use and attract more customers due to 3G technology for higher internet speed. Other infrastructure investments by Airtel include optimization of existing Base Transceiver Station (BTS) sites by increasing capacity, migration of BTS sites from areas of underutilization to high traffic areas, and sharing of BTS sites with operators. The company's resources deliver competitive advantage by offering consumers greater value through reduced roaming costs due to one network, cost optimization due to outsourcing and competitive pricing. This finding resonates with Ansoff's (1957) product development matrix. Airtel has adopted one of Ansoff's four growth alternatives to overcoming the environmental challenges, by using the market development strategy, and specifically possessing a unique technology that can be leveraged in the market for a more competitive edge. Conversely, implementing this strategy might again be challenging due to the high financial resources involved. However, Airtel does conduct a financial evaluation of its strategic plans to ensure adequate resource allocation.

In addition, Airtel has been able to cope with the stiff competition by offering a low calling rate across all networks and internationally. Further, the interviewees stated that Airtel's current management team is currently exploring a range of options to reduce the cost base of the business and introduce new revenue streams. One of the new ventures by Airtel is the announcement that it will host three mobile virtual network operators (MVNOs) on its Kenyan network, as part of the company's innovation and differentiation agenda. This is in line with Porter's (1980) generic competitive strategy and Hlavacka et al (2001) research, where both scholars generally indicate that a company can create a competitive advantage by focusing its efforts on providing a unique product or service to its customers. Airtel's innovation and differentiation agenda is compatible with the two scholar's theories.

Airtel Kenya's robust telecommunication network infrastructure plays a critical role in the company's overall competitive advantage as it bolsters services reliability, and customers do not encounter dropped calls when network is busy as experienced with other competitors' network. The network expansion increases the potential of acquiring new customers. Airtel Kenya appreciates the role its distribution network plays, and has adopted in-house training of its distributors as a competitive strategy. It places considerable emphasis on the trust and confidence it has on its distribution network to mitigate the doubts and uncertainties experienced by consumers in relation to the purchase of products which are complex and difficult to comprehend. Again, this resonates with the theories posited by Porter (1980) and Hlavacka et al (2001), on unique products and service to customers.

### 4.5 Discussion of Findings

The study aimed at investigating the competitive strategies adopted by Airtel Kenya for success in the telecommunications industry, and the challenges faced by the company in applying the strategies.

The study posed a questions on (i) the strategies adopted for success in order to help counter competition and (ii) the extent to which Airtel has faced challenges in applying the strategies. These findings are discussed further below.

#### 4.5.1 Strategies Adopted for Success in Kenya's Telecommunications Industry

Low cost strategy on the company products and services or cost leadership strategy was identified by the interviewees to be an applicable strategy at Airtel Kenya both from an internal and external perspective. This is in line with what different scholars including Porter (1980), Spulber (2009) and Bauer and Colgan (2001), have written on low cost or cost leadership strategy. All these writers generally agree that low cost or cost leadership strategy leads to higher demand and therefore to a larger market share. Caroline (2008) cautions that to apply this strategy successfully, the company has to stick to the low price position, otherwise the advantage will only last for a little while, then the competitors will catch up.

The interviewees noted, however, that since the services offered by the company is similar to that offered by competitors, Airtel Kenya has not employed the low cost strategy to a large degree in its external environment. This is because the competition is stiff to the extent that some competitors have even reduced their calling rates to zero, and also offer other value add services such as money transfer services, which Airtel does not consider sustainable. Within the internal environment however, the interviewees reported that Airtel Kenya has employed low cost strategy successfully through tight control of costs and overhead, minimization of operating expenses, reduction of input costs, tight control of labor costs, and lower distribution costs. This agrees with Porter (1980) who proposed that in order for firms implementing a cost leadership strategy to maintain a strong competitive position and sustain their profit margins for a considerable period of time, they have to place a premium on organization wide efficiency of operations in all functional areas. The study found that Airtel's mechanisms of achieving internal efficiency includes gradual phasing out of scratch cards top up and instead encouraging customers to use Airtel Money, restructuring the organization structure to reduce the duplication of duties, managing the corporations resources efficiently by sensitizing the staff on minimizing wastage, putting in place business planning committee who normally plan where to procure the cheapest products in the market and at the same time have a pricing committee who normally meet frequently to review the market prices and ensure that their prices are lower than the competitors.

The interviewees also identified price differentiation as yet another strategy employed by Airtel Kenya, which aims to categorize its customers according to their needs, market segmentation and engaging in infrastructure development. Towards the same, the company has achieved competitive advantage over its rivals because of its ability to create barriers by building customer and brand loyalty through quality offerings, advertising and marketing techniques. This strategy relates to Porter (1985) and Hlavacka et al (2001), who both stated that when a company focuses its efforts in providing a unique product, it provides high customer loyalty, and enables the company to charge a premium price to capture market share. Airtel has also ensured that the employees are continuously trained so as to improve service delivery that is found by the customers to be unique. Therefore it was noted that the use of various differentiation attributes make customers perceive the company as having properties which make it distinct from other mobile telephony players, thus giving it the necessary competitive advantage. The interviewees noted that the company undertakes aggressive marketing on all new and existing products to increase the awareness of the products in the market, customer classification on their needs, continuous training of its staff and continuous improvement/re-engineering of its process, investing in quality technology and equipment in all facilities, reducing the operational cost and thus making their products competitive, working towards surpassing competitors in service delivery and staff involvement that they can own the various strategies and see them to completion.

The focus strategy aims at making the company target a particular segment of the market to capture their unique characteristics. The interviewees reported that Airtel Kenya has segmented the local market according to their various needs and wants, and by so doing, the company is able to tailor products to these unique markets, very much similar to Shapiro and Varian (1999), who in their writing posit that focus is achieved by personalizing the product and creating a unique brand. The interviewees indicated that Airtel Kenya targets markets that are less vulnerable to substitutes or where competition is weakest, as they will be able to introduce their products to the customers and at the same time prepare themselves for competition in case a new competitor enters the target market. On being asked what factors Airtel Kenya considers in developing a product that focuses on a particular segment, the interviewees reported that the some of the considerations include functionality, budget, target age, social characteristics of the market, among others, so that the products meet the needs of the targeted market. The study found this to be in line with McCracken (2002) theory that the firm can choose to focus on a select customer group, product range, geographical area or service line.

The interviewees also reported that the company has applied diversification strategy to a great extent. Diversification strategy is adopted at Airtel Kenya with an objective to grow, respond to certain market demands and to spread the risk. Other reasons include reducing risk of relying on only one or few income sources, avoiding cyclical or seasonal fluctuations by producing goods or services with different demand cycles, achieving a higher growth rate, and countering a competitor by invading the competitor's core industry or market. Diversification strategy aims to provide long term value for shareholders and to increase market penetration thereby increase sales and market share. This result is in agreement with Ansoff's (1957) product development matrix, where on diversification, it is noted that an organization can grow its market share by introducing new offerings in new markets. Ansoff considers this as the most risky strategy as both product and market development are required.

The interviewees affirmed that Airtel Kenya uses market penetration as a strategy and noted that the company seeks to enroll new subscriber on their network. The strategy is mostly done on the basis of product bundling and marketing campaign like enrollment drives. They also noted that version are informed by value preposition targeted at specific market segments where there's need to maximize on the opportunity. The other techniques employed by Airtel Kenya in penetrating the market include offering incentives such as bundling services, giving devices tied to specifically to their network, and also most recently, rolling out retail shops and partnering with device manufactures to avail access devices to customer to help them enjoy the network, as the company expects to earn revenue from increased usage. The interviewees noted that indeed Airtel Kenya has been quite successful in the penetration drive, and though the penetration price could be considered to be low, this is mitigated by the higher sales volume. This result is in line with Ansoff's (1957) product development matrix on market penetration, where he states that an organization tries to grow using its existing offerings (products and services) in existing markets, and tries to increase its market share. Similar to Ansoff's theory, it was also found that Airtel used this strategy by (i) implementing price reduction, (ii) increasing promotion and distribution support, (iii) acquiring a rival in the same market – Airtel acquired Essar-owned Yu mobile and acquired 2.7 million subscribers by taking over the mobile number prefix and allowing the customers to migrate to its network without having to change their identities, and (iv) undertaking modest product refinements.

In addition, the interviewees reported that Airtel Kenya has applied product development and market development competitive strategies to survive competition in the telecommunications industry in Kenya. In the Kenyan market, Airtel Kenya Ltd offers various services, including prepaid plans, international roaming, local and international text messages, Internet access, directory enquires, voice mail, and SMS information, as well as offers standard parts of mobile phone plans. As the mobile industry in Kenya evolves, so do the needs and demands of the users. The drive to come up with these products was necessitated by the need of the company to assist its subscribers when they need to make urgent calls, but have inadequate air time. This was found to be in line with Ansoff's (1957) product development matrix, which states that in order to increase competitiveness, a company tries to create new products and services targeted to its existing market to achieve growth, by extending the product range available

The study further sought to establish the strategy pattern that Airtel has adopted more – offensive, defensive or guerrilla. The interviewees indicated that Airtel uses offensive strategy and defensive strategy. This could include harvesting and selling the business before environmental to competitive conditions cause its value to drop. On explaining why the chosen pattern was more effective, the interviewees explained that the strategies create a defendable position against the five forces and thereby yield a superior return on investment for the firm. An effective competitive strategy takes either offensive or defensive action in order to create a defendable position against the five forces and thereby yield a superior return on investment for the firm.
The discussion on the use of the offensive and defensive strategy by Airtel is in line with the Competitive Strategy Model (Three Sigma Inc. 2003). This is where the offensive strategy is used to overcome barriers to goal achievement by: (a) changing or altering the competitive structure or environment in the specific industry (forward or backward integration, acquiring competitors, etc.) ; (b) anticipating industry competitive structural change and positioning your organization to exploit this change before others recognize it (developing substitute products, changing the mode of sales and distribution, etc.); (c) diversifying into more attractive markets. The defensive strategy, according to the same model, and similar to what is practiced by Airtel,

involves accepting the industry competitive forces as a given and positioning the organization to best defend against them.

The study further sought to establish the underlying factor in Airtel's choice of strategy. The interviewees explained that the company's resources and market demands are the compelling factors that determine the choice of the strategy adopted. They facilitate the adoption of a dynamic strategy-making process which involves a complex pattern of actions and reactions partially planned and partially unplanned. From the study, the organization is set in this sense to withstand competition by adoption of Information Communication Technology such as Management information System (MIS); 3G network that transfers data at a very high speed which is geared towards the completion from land-line and CDMA offered by Telkom wireless, internal messaging system, automatic call distribution system and automated query handling. This is similar to Bateman and Zeithaml (1993) theory that, just as the strategy of the organization must be matched to the external environment, it must also fit the multiple factors responsible for its implementation. Airtel's model attests to this statement.

### 4.5.2 Challenges Facing Application of Strategy

The study established that competitive forces such as strong suppliers, price sensitivities, disloyal consumers, high levels of regulation and strong competitors constitute the challenging environment in which Airtel was operating. This means that applying strategy effectively can be challenging. The study sought to establish the extent to which Airtel has experienced challenges in the use of strategy based on various factors provided.

With regard to leadership the interviewees were required to indicate the challenges that managers, through their actions, ownership and goodwill, face in influencing other staff members on commitment to strategy use. The interviewees pointed out that the leadership faces challenges of resistance, misunderstanding of the strategy adopted by the company, slow adaptation to the strategy, lack of clarity amongst some of the staffs and anxiety and low staff morale. There is also conflicts and incompatibility of the strategy and the existing structures and sometimes lack of resources to implement the strategy. Similar to Thompson et al (2007), effective strategy implementation depends on competent personnel and effective internal organizational systems. Improving internal communication will mitigate issues such as misunderstanding, resistance and lack of clarity among staff.

On organization culture the interviewees indicated that this was challenging. Influencing staff on their general behaviors, shared beliefs and common values in use of strategy could be hindered by uncertainty of the expectations and the adverse effects of strategy may have on the employees. Some staff are not usually open and welcoming to the strategy and tend to reject it initially, before gradually accepting. Varying norms, behaviors, shared beliefs, common values, trust and way of doing things also contribute to the challenges in influencing use of strategy. According to the interviewees, organizational culture helps having shared beliefs and values within the organization. This resonates with Pearce and Robison (2007), who say that organization culture helps in nurturing and dissemination of core values.

Organization structure is critical as Airtel is a large organization, and the interviewees reported challenges relating to organization structure experienced by management in designing it, in order to breakdown how work is to be carried out within divisions and unit, to effectively achieve strategy objectives. These challenges include distortion of the existing organizational structures, change of objectives, plans, and policies, conflicting roles and chains of command and introduction of new structures divisions, departments and sections/business units in Airtel Kenya. Airtel has also rebranded severally, thus affecting structure. Other challenges included internal/organizational communications; and technology and/or innovation create changes in workflow and production processes. Successful strategy implementation depends on a large part on how a firm is organized. Ohmae (1983) agrees that strategy and structure need to be matched and be supportive of each other in order to achieve objective set. The structure helps an organization identify its activities and the way in which it will coordinate them to achieve the firm's strategic objective.

As stated by Shirley (1983) that motivating and rewarding good performance for individuals and units are key success factors in effective strategy implementation. This agrees with the findings at Airtel as the interviewees reiterated that motivating and rewarding staff who have contributed to ensuring successful use of strategy is widely used in the organization. This is done through bonuses, commendation, and promotions. In addition, challenges are sometimes experienced in staff recruitment, loss of some management staff to the competitors and challenges of attracting new staff to work with. The execution of a strategy depends on individual members of organization especially key managers, similar to Thompson el al (2007), who says that effective strategy implementation depends on competent personnel and effective internal organization systems. No organization can hope to perform the activities required for successful strategy implementation without attracting, motivating and retaining talented managers and employees with suitable skill and intellectual capital.

On staff competency, the interviewees were required to indicate the challenges experienced by Airtel in deploying human resource skill and intellectual capital to successfully use strategy. Most of the interviewees echoed that the company faces challenges of sourcing talented workforce for its competitive strategies, there is loss of competent staffs and low competence levels among the staffs for effective strategy adoption. This confirms the theory by Cummings and Worley (2005) that the task of implementing challenging strategic initiatives must be assigned to executives who have the skills and talent to handle and can be counted on to turn decisions and actions into results to meet established targets.

Financial resources also pose challenges in the heavy competitive pressure. The interviewees indicated that the challenges in how financial resources are deployed within Airtel to ensure successful strategy use include operational costs constraints, product and service costs, information technology costs and market research costs. The costs of developing and deploying mobile technologies are often onerous for organizations, explaining, in part, why projects are small in scale. Installation of the mobile phone service access is constrained by the limited number of fixed telephone lines on the continent, and with the existing mobile phone infrastructure facing many challenges. While benefiting from the cost efficiencies of the companies that specialize on the strategies activity, firms design strategies based on the processes. For example, through intensification where processes are mapped and improved to enhance customer service, or through extension where strong processes enable entry to new markets. This agrees with Axelsson and Easton (2012), who observed that lack of resources is generally a bigger threat to capital-intensive strategies, and observed this in companies that are under heavy competitive pressure, who felt they could not spare resources to drive strategic innovation.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This is the final chapter in this study which gives the summary of the findings, the conclusions and recommendations of the study based on the objective of the study. It comes after identifying the background, problem at hand and the objectives in chapter one, literature review was done in chapter two, chapter three set out the methodology that the study used to collect data and chapter four analyzed the data obtained from the study. The chapter finally presents the suggestions for further studies.

## 5.2 Summary

The study found that Airtel Kenya has applied various competitive strategies in order to apply competitive advantage. There are several competitive strategy approaches in the theory of competitive strategies that can be compares to the practices at Airtel Kenya to build this discussion. Firstly, a low-cost provider strategy that strives to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by underpricing rivals. Secondly, a broad differentiation strategy-seeking to differentiate the company's product offering from rival's in ways that will appeal to a broad spectrum of buyers. Thirdly, a focused (or market niche) strategy based on differentiation-concentrating on a narrow buyer segment and outcompeting by offering niche members customized attributes that meet their tastes and requirements better than rivals products.

The study further found that in the modern world of stiff competition, Airtel has been able to keep pace with the rivalry in the telecommunication scenario by adopting various response strategies. From the study results, the researcher found that the main challenges faced by Airtel due to competition is price wars in the telecommunication industry especially from the main player, sabotage of Airtel network by rivals and distinct technological change.

The study also found that the services given to the clients that face the stiffest competition in the company was voice service, as exhibited by the price wars among the industry players. Airtel has been able to cope with the stiff competition by offering a low calling rate across all networks and a low calling rate internationally. The company does not have a separate department that deals with competition.

The study found that the main strategic responses that the company adopts in a bid overcome the competition included running massive promotional campaigns, lowered its calling rate, product differentiation strategies, marketing as a differentiation strategy. The company integrates the various competitive strategies by enhancing competence in all its departments through investment in innovative strategies and structures of the business enterprise, distinctiveness of technology and adopting a strategic choice perspective.

The study further found that the strategic response integration processes are mainly technology based and the company's preparedness compare with other companies within the telecommunication industry that the company is better prepared of any eventuality. The study found that the response strategies employed by the company to counter competition from other telecommunication industries include vigorous promotion strategies, cost efficiency, product differentiation, continuous research into emerging technologies and their impact on the market, market analysis and information security processes.

The study finally found that Airtel Kenya faces a number of strategy implementation challenges. These factors hinder the success of implementing the competitive strategies and include organizational culture, organizational structure, leadership and management and inadequate resources. The findings were that the organization has adopted a proactive approach in tackling these challenges since the management realizes that for the company to succeed in its strategies, it needs to address the same. The challenges that come about as a result of management and leadership issues has however been addressed in the last five years.

## 5.3 Conclusions

The study concludes that the choice of a company’s competitive strategy is concerned with choosing a favorable industry to operate is concerned with achieving profitability in the long term and which factors determine that, as well as establishing the factors that affect the company’s position in the market. Competition is at the core of the success or failure of firms since it determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture and good implementation. Competitive strategy helps to search for a favourable competitive position in an industry, aims to establish a profitable and sustainable position against the forces that determine industry competition.

The study concludes that the company integrates the various competitive strategies by enhancing competence in all its departments through investment in innovative structures of the business enterprise, distinctiveness of technology and adopting a strategic choice perspective, The study further concluded that the competitive strategy integration processes are mainly technology and infrastructure based and the company’s preparedness for change compared with other companies within the telecommunication industry. The study found that the competitive strategies employed by the company to counter competition from other mobile network operators include vigorous promotion strategies, cost efficiency, product differentiation, continuous research into emerging technologies, market analysis and information security processes.

The study also concludes that Airtel products are relatively successful compared to their time of introduction due to the vigorous marketing strategies and promotion, The company has not employed all of the strategic plans it had formulated towards completion in the mobile network industry as it was focusing on meeting the increased customer needs and putting its operations in line with the changing external environment. Top management goodwill and ownership to drive the process is also critical to effective implementation of strategy. The strategic leader must direct the organization by ensuring that long term objectives and strategies have been determined and are understood and supported by managers within the organizations who will be responsible for implementing them.

## 5.4 Recommendations

The study recommendations are divided into the following parts – (i) implication for theory; (ii) implication for knowledge and (iii) implication for managerial practice. These are discussed further below.

### 5.4.1 Implication for Theory

Previous studies by different researchers demonstrated that different companies employ different strategies to remain competitive, including low cost and differentiation strategy (Kamau 2009). The research findings of this study also demonstrated that the strategy employed indeed impacts the competitiveness of the company. Additionally, the findings further demonstrated that strategy application can be challenging and devoting attention to various factors affected the successful application of the strategies. At Airtel, factors that have posed a challenge in applying of strategy include organizational structure, leadership, organizational culture, motivation and rewards, staff competency and financial resources.

Although Airtel has been successful in responding to competition in the telecommunication industry and applying suitable competitive strategies, it should engage in more cost reduction as a response to its competitors' strategies. Besides providing its services and products at lower cost (cost advantage), Airtel should deliver benefits that exceed those of competing products (differentiation advantage) to gain a competitive advantage over the firms. The company should undertake appropriate, persuasive and sustained advertisement, marketing campaigns on products and services. This would increase its customer base and competitiveness within the industry.

In view of the findings of the study, the following strategies recommended for adoption by Airtel Kenya in order to cope with the competition: Adoption of vigorous pursuit of cost reductions, provision of outstanding customer service, improving operational efficiency, controlling quality of products/services, intense supervision of frontline personnel, development of brand or company name identification, targeting a specific market niche or segment, and providing specialty products/services. The more of the stated strategies the telephone service providers adopt, the more competitive they will be.

### 5.4.2 Implication for Knowledge

Based on the outcome of the study, the previous theories advanced by different scholars on competitive strategies and challenges in application of strategies proved to work the same way at Airtel Kenya, the outcome generated from the case study helped to make sense of the relationship between the formulation of a competitive strategy and the success of the company. Based on the responses received, it was possible to test and prove the theories, and observe the correlation existing between what has been posited by scholars, and the reality on the ground.

The finding of the study was that the company policies, technological change and the strategic objective influence the development of competitive strategy. The proper formulation of the competitive strategy as well as implementation assisted the company in achieving business success, and to compete effectively with other companies and at the same time enhance and exploit its strategic capabilities. Since Airtel views brand identity as a competitive strategy, it should get involved in more community based identity and partnerships as a competitive strategy, in order to gain community support. The findings of this study demonstrate that Airtel is faced with various challenges brought about by competition in the mobile network operator industry. It is therefore recommended that the company engage in more proactive competitive strategies and use its experience in the international marketplace to leverage its presence in the Kenya market.

### 5.4.3 Implication for Managerial Practice

Based on the responses received from the interviewees at Airtel Kenya, this research shows that competitive strategies, and their effective application has practical relevance to organizations in tackling management issues. Emphasis on how to develop the most applicable competitive strategy based on the core or unique competencies of a company and cost efficiencies contribute to the success of the organization, and thus strengthens the contribution of the approach to management practices.

In the case of Airtel, adoption of competitive strategies implies going for better performance in terms of demand and sales of telecommunication products and services. Differentiation, cost leadership and market focus policy would prevent the company from utilizing backorders. This would imply focus on regular and constant output level, implying a level workforce, while overtime and subcontracting are used to meet demand on a period by period basis. This would assist in lowering the cost of implementation of the combine generic strategies

Over and above the company should view the telecommunication market in a perfect competitive way and viewing firms providing substitutes as immediate competitors. This implies removing the notion of monopolistic competition from the mind of the directors. Moreover, it indicates demand-oriented strategies. The firm must listen to customers-cum-executives and should undertake research that points towards thought leadership, and should work with the business world through lifelong learning networks for better performance of its products and services.

## 5.5 Limitations of the Study

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

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

The other limitations faced in during this research were founded on unwillingness to share what interviewees termed trade secrets. Interviewees were reticent to share information they thought if shared with competing firms might jeopardize their competitiveness in the market. The researcher was only provided with information that could not be kept secret due to its availability in other research sources or that which interviewees thought could be easily obtained. The researcher had to rely on deduction and intuition to derive certain conclusions.

## 5.6 Recommendations for Further Research

This study came up with three recommendations, and each of the recommendations is discussed further below.

The study recommends that further research should be done on the other companies in the telecommunication industry so as to get comprehensive information on how the other players in the industry have responded to the challenges posed by competitive environment. It would be good to establish what the market leader in the telecommunications industry has done to maintain that positon over the years.

More research needs to be done to determine what effect the increased promotional campaigns have had on the performance of the company. Whereas the current study focused on competitive business strategies used to survive the mobile telephone service industry in Kenya, future studies should seek to establish whether the same strategies are applicable to other sectors of the economy.

Further studies should also focus on the challenges faced in implementation of the competitive strategies and the possible mechanisms that could be employed to overcome the challenges.

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# APPENDICES

## Appendix I: Letter of Introduction

**UNIVERSITY OF NAIROBI**
**SCHOOL OF BUSINESS**
**MBA PROGRAMME**

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

DATE...OCTOBER 2, 2015

**<u>TO WHOM IT MAY CONCERN</u>**

The bearer of this letter ....ONGACHE EDITH JOAN..........

Registration No..........D61/75252/2012.....

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.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
02 OCT 2015
P.O. BOX 30197 - 00100, NAIROBI

**PATRICK NYABUTO**
**MBA ADMINISTRATOR**
**SCHOOL OF BUSINESS**

**Appendix II: Interview Guide**

The goals of the interview process are (i) to establish the competitive strategies adopted by Airtel Kenya Limited to succeed in the telecommunications industry in Kenya; and, (ii) to determine the challenges faced when adopting the competitive strategies.

**SECTION A: GENERAL DETAILS (please check all that apply)**

| PARTICIPANT DETAILS | DESCRIPTION |
|---|---|
| Name (optional) | ________________________________ |
| Job Title and Department | ________________________________ |
| Education Level | ◻ Secondary<br>◻ College<br>◻ University<br>◻ Post Graduate<br>◻ Other ________________ |
| Years of Work Experience in your area of expertise | ◻ Under 5 years<br>◻ 5 – 10 years<br>◻ Over 10 years |

**SECTION B: TELECOMMUNICATION INDUSTRY GROWTH IN KENYA**

1. What is your impression of the telecommunications industry growth in Kenya presently compared to some years ago?

2. The industry growth has presented some opportunities and some threats (challenges) to Airtel as a company. What has the company experienced in terms of opportunities and threats (challenges)?

## SECTION C: COMPETITION IN KENYA'S TELECOMMUNICATION INDUSTRY

3. How would you consider the state of competition in the telecommunications industry in Kenya?

4. How has Airtel as a company, fared in this competitive environment compared to other industry players in terms of performance?

5. How has revenue and company expenditure been affected in order to survive competition?

6. Which area or department does the company allocate the most resources in order to ensure highest returns?

7. What interventions has the company taken in order to reduce running costs, for example, outsourcing, discontinuation of some services, etc.?

## SECTION D: STRATEGIES ADOPTED FOR SUCCESS IN KENYA'S TELECOMMUNICATION INDUSTRY

8. It is important to develop strategies to help counter competition. To what extent has Airtel as a company applied each of the following strategies to survive competition in the telecommunications industry in Kenya?

   a. Cost leadership

   b. Pricing

   c. Differentiation

   d. Focus or market niche

   e. Diversification

   f. Market penetration

g. Product development

h. Market development

9. Which strategy pattern has the company adopted more – Offensive, defensive or guerrilla? Please explain why the chosen pattern was more effective.

10. Which of the strategies would you consider most effective and why?

11. What is the underlying factor in Airtel's choice of strategy?

**SECTION E: CHALLENGES FACING STRATEGY IMPLEMENTATION**

12. Applying strategy effectively can be challenging. To what extent has Airtel experienced challenges in the use of strategy based on the factors below?

a. Leadership. What challenges do managers, through their actions, ownership and goodwill, face in influencing other staff members on commitment to strategy use?

b. Organization culture. What challenges are experienced in influencing staff on their general behaviors, shared beliefs and common values in use of strategy?

c. Organization structure. Airtel is a large organization. What challenges are experienced by management in designing the organization structure, in order to breakdown how work is to be carried out within divisions and unit, to effectively achieve strategy objectives?

d. Motivation and rewards. What challenges are experienced in motivating and rewarding staff who have contributed to ensuring successful use of strategy?

e. Staff competency. What challenges are experienced by Airtel in deploying human resource skill and intellectual capital to successfully use strategy?

f. Financial resources. Given the heavy competitive pressure, what are the challenges in how financial resources are deployed within Airtel to ensure successful strategy use?

**Thank you for your time and your responses!**