SOURCES OF COMPETITIVE ADVANTAGE FOR MOBILE PHONE SERVICE PROVIDERS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

Signed…………………………………… Date…...............

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D61/71265/2008

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

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ABSTRACT

This study is divided into five chapters, each dealing with a specific theme. In Chapter one, the research problem was laid out and the study objectives discussed. The study aimed at determining the sources of competitive advantage for mobile phone service providers in Kenya. The second chapter is devoted to a thorough and systematic analysis of the available literature concerning the key thematic areas of the study.

Chapter three laid out the research methodology, with Chapter four concentrating on the presentation of the research findings. The last chapter dealt with summarizing the various research findings as well giving recommendations and concluding remarks. Broadly the study established that mobile phone service providers in Kenya appreciate the importance of using sources of competitive advantage in order to have a sustainable competitive advantage and they also leverage their strategies on sources of competitive advantage.

The study recommended that all the firms in the mobile phone service providers in Kenya need to urgently develop appropriate policies and strategies for improving competitiveness and ensuring good performance on a long term basis. A policy to develop and harness all their sources of competitive advantage is not a luxury but a necessity for long survival and growth.

Managers of the mobile phone service providers ought to give first priority to the development of organizational capabilities and core competencies in order to build a sustainable competitive advantage.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE: INTRODUCTON

1.1 Background of the Study

Hyper competition is a key feature of the new economy, new customers want it quicker, cheaper and they want it their way. Therefore, a sustainable competitive advantage is the most critical activity for any business to identify and develop. Companies have to be more creative and flexible in their dealings with the objective of reaching out to more clients and new business. This process can be difficult and time consuming especially where competitors exist. Many people however, do not understand the process or the importance of developing a sustainable competitive advantage.

1.1.1 Competitive Advantage

The explicit assertion by Porter (1985) was that competitive advantage comes from the value that firms create for their customers that exceeds the cost of producing that value. Additionally he identified two types of competitive advantage which are cost leadership and differentiation. The source of above average performance of a firm in the long run is as a result of sustainable competitive advantage, and the three generic strategies which he suggested lead to above average performance is cost leadership, differentiation and focus. He also suggests that competitive advantage can also help firms to erect entry barriers through economies of scale, proprietary products, synergistic alliances and expected retaliation. Knowledge is considered to be one of the most significant resources while possession of the relevant knowledge make it easier for firm to win a competitive war (Inken and Zack,1998). In addition, companies create competitive advantage by becoming champions at defining the pattern of successful innovation and executing it.

Though a business does not want competition from other businesses, inevitably most will face a degree of competition. The amount and type of competition depends on the market the business operates in. A business could react to an increase in competition (e.g. a launch of a rival product) by cutting prices (but can reduce profits), improving quality (but increase costs), spend more on promotions (e.g. do more advertising, increase brand loyalty but costs money), and cutting costs (Porter, 1998) for instance by using cheaper materials. Some may opt to product improvement, divestiture, and diversification, entry into new markets or even merging or buying out competitors. A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson and Strickland, 2002). Sustainable competitive advantage is built out of core strengths that yield long term benefits to the company.

Prahalad and Hamel (1990) define a core competence as an area of specialized expertise that is as a result of harmonized complex streams of technology and work activity. They further explain that a core competence has three characteristics. First it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly it's hard for competitors to imitate. Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than its rivals. To succeed in building a competitive advantage, a firm must try to provide what buyers will perceive as superior value. This entails either a good quality product at a low price, or a better quality product that is worthy paying more.

1.1.2 Mobile Phone Service Providers in Kenya

The telecommunication industry has been growing rapidly the world over and the Kenyan market has not been left out. The mobile telephone service in Kenya started in 1992 with the analogue system which was commercially launched in 1993. During this entry period the services were so expensive that it was only a few in the upper class of society could afford them. The cost of owning a handset was as high as ksh250 000. This resulted in a marginal subscription of less than 20 000 for a period of seven years (1993-1999). The enactment of the Kenya Communication Act in 1998, led to the introduction of competition in the cellular mobile industry. The mobile phone service industry consists of four key players namely: Safaricom, Airtel, Telecom orange and YU. The products and services of the mobile phone industry in Kenya can be generically categorized as voice, data and payment solutions (http://www.cck.go.ke).

Safaricom started as a department of Kenya Posts and Telecommunications corporations the former monopoly operator. It launched the operations in 1993 though the license was awarded in 1999. Safaricom limited was incorporated on third April 1997 under the companies Act as a private limited liability company. In 2000, Vodafone group Plc, the world's largest telecommunication company acquired a 40% stake and management responsibility for the company (http://www.vodafone.co.uk). Safaricom aim is to remain the leading mobile network operator in Kenya. Following the offer and sale of 25% of the issued shares in Safaricom held by government of Kenya to the public in March 2008, the government of Kenya ceased to have a controlling effect in Safaricom under the state corporations Act and therefore the provisions of the state corporations Act shall no longer apply to it (http://www.safaricon.co.ke). By means of market share it is the industry leader.

The second mobile phone operator began as Kencell, a Vivendi and Sameer investment consortium in 1999 and was later launched in 2000. Vivendi eventually sold the stake and the operations were acquired by Celtel in 2008. Celtel sold its 60% of its operations worldwide and thereafter rebranded to Zain in 2008 and then became Airtel in 2010 after it was bought by Bharti Airtel. (http://www.airtel.com).

Telkom Orange is the third mobile phone operator. In 2008, Orange became the commercial brand for Telkom Kenya after France Telecom's acquisition of 51% of Telkom Kenya, the monopoly fixed line operator. France Telecom is the number three mobile operator and the number one provider of broadband internet services in Europe and one of world leaders of providing telecommunication to multinational companies (http://www.orange.co.ke).

YU being the forth mobile operator was initially a consortium between Econet wireless and a group of Kenyan investors in the ratio of 70:30 respectively. Econet wireless is a diversified telecommunications company operating in nine countries in Africa, Europe, and Asia Pacific Rim. Although they were awarded the license in 2003, they started their operations in 2000. This was because of numerous delays within the tendering process and numerous court battles putting the partners against each other. In Kenya, Econet operates under the YU brand which aims at the niche market of 18-25 year olds, focusing on entertainment and fun. Its launch has brought the lowest tariff plan within the mobile phone service industry with tariffs as low as 50 cents. Meanwhile, Yu is now wholly-owned by India's Essar Communications, which snapped up the 20% stake that local firms Capital Africa, Crosslink and Startnet held last year(2010), for an undisclosed sum. (http://www.yu.co.ke).

1.2 Research Problem

According to Barney (1991) a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors. The means by which some businesses achieve and sustain a competitive advantage over other firms is the central research focus of strategic management. Thus, creating a competitive advantage is dependent on having the right sources of competitive advantage. These sources of competitive advantage originate from diverse sources. The industry and the characteristics of the national and international economies act as some of major sources of external sources of competitive advantage (Porter, 1985).

An organization that has competitive advantage arising from the industry or the characteristics of a national economy is likely to enjoy a privileged market position. Economies of scale, learning and experience curve and irrevocable commitments which are the main components of a privileged market position have the potential to erect barriers to new entrants or small rivals. Every organization possesses a variety of capabilities that enable that firm to perform the activities necessary to provide its goods or services. While resources are relatively tangible, capabilities are less readily assigned a monetary value and are often deeply embedded in organizational routines and practices, thereby making them less subject to imitation by present or potential competitors . Thus, while some organizations may perform the requisite activities in only an adequate or even sometimes a poor manner, successful organizations presumably possess certain capabilities that allow them to perform key activities exceptionally well. These capabilities have been termed as “distinctive competencies” and generally refer to the unique skills and activities that a firm can do better than competitors. When competition intensifies the possession of these competencies should become increasingly important for the firm’s continued success. It is evident that intense competition from all corners of the world is unlikely to slacken but instead intensify in this and the next century (Kotler and Gary, 1999). Thus corporations and countries must understand and master competition rather than ignore (Porter, 1998) because the 21st century is fittingly described as the age of hostile competition (Mannings, 1998).

The liberalization and privatization in telecommunication industry in Kenya has resulted in rapid growth of mobile phone services as fixed line performed poorly. The intensive rivalry and threat of new entrants into the market is increasing and thus sustaining growth and market leadership is increasingly challenging. Further, this intensive rivalry results in frequent price wars, advertising battles, introduction of new products, improved customer services, highly subsidized phone handsets for low-end market users and locking of handsets to networks in order to retain customers; and competition roaming services intensify as more operators enter into agreement for customers to communicate while traveling (http://www.gsmworld.com). Thus, the changing customer needs and government regulations demand for providing new products and services, improving on the existing products and services to serve the existing markets better and creating new market segments in rural and urban areas has become a very big challenge. This calls for individual firms in this industry to look for better ways of meeting their customers' needs better than competitors by identifying their sources of competitive advantage and then capitalizing on their distinctive capabilities which are difficult for competitors to imitate so as to gain competitive advantage.

Previous researches on competitive advantage on Kenyan firms have been undertaken on various sectors of the economy. For example Kimani (2007) did a study on sources of competitive advantage for transport Saccos in the Public Service Vehicle Industry in Kenya. Dulo (2006) did a study on the sources of competitive advantage and the performance of firms in the Kenya sugar industry. Letting (2003) did a study on the relationship between technology and competitive advantage. While Njimu (2006) did a study on bases of competitive advantage of the school of business in the University of Nairobi. None of these studies have tackled the issue of the sources of competitive advantage in the mobile phone service industry in Kenya which is composed of very few players and where competition is growing in a very high rate. It is in this light that the researcher seeks to feel the existing gap in this area of the study by answering the question: What are the sources of competitive advantage in the mobile phone service providers in Kenya?

1.3 Research Objectives

i. To determine sources of competitive advantage for firms in the mobile phone industry in Kenya.

ii. To establish the extent to which firms in the industry leverage their strategies on sources of competitive advantage.

1.4 Value of the Study

The study will be of much help to the Kenya government through the CCK which is a major player in this sector. Thus by identifying the sources of competitive advantage and the major success factors in this industry, policy formulation will be enhanced to enable the industry record further growth.

The study will provide information to potential and current scholars on sources of competitive advantage in the mobile phone service industry in Kenya. This will expand their knowledge on sources of competitive advantage in all the mobile phone service providers in Kenya and also identify areas of further study.

The study will also be of much help to the mobile phone service providers who are the direct beneficiaries of this study through the awareness of the importance of identifying the sources of competitive advantage as an essential tool of gaining competitive advantage in the mobile phone industry.

CHAPTER TWO: LITERATURE REVIEW

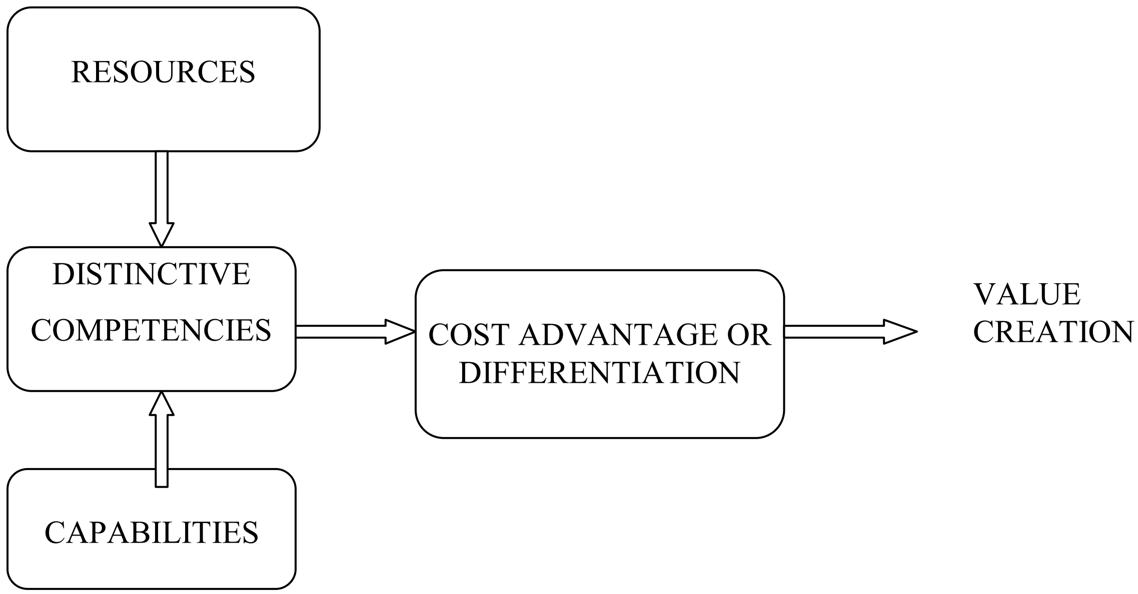
2.1 Introduction

This chapter will analyze the literature which includes the conceptual and contextual framework. The conceptual covers competitive advantage, bases of competitive advantage and challenges in the application of competitive advantage strategies. The contextual covers the mobile phone service provider in Kenya and the rising competition.

2.2 The concept of competitive advantage

Competitive advantage is a multidimensional concept that is hard to be defined in a few authors. Day (1984) discusses how to determine the value of a competitive advantage in the market by relating it to benefits that must be perceived by a customer group that is willing to pay for those benefits and cannot easily obtain those benefits elsewhere. The text also refers to the sources for advantages in the market as superior skills and resources, and links those sources to the ability of a business to either do more of something or do something better than is possible by its competitors. Thus this conception of competitive advantage appears to be linked to a firm's being more competent in the market than its competitors.

Figure 2.1: A model of competitive advantage



(Resource Based View) (Position Based View) (Competitive Advantage)

Source: www.tutor 2u.net/business/strategy.

The above diagram combines the resource based view and the positioning view, distinctive competencies, cost differentiation strategies and value creation to illustrate the concept of competitive advantage. Resources are the firm specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily and they include: patents and trademarks, proprietary know-how, installed customer base, reputation of the firm and brand equity. Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to the market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate. The firm's resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage which in turn will lead to value creation (http://www.tutor2u.net/business/strategy).

This view of competency as being a source of competitive advantage is echoed in the later work of Reed and DeFillippi (1990), who assert that causal ambiguities concerning the source of competencies within a firm can lead to sustainable advantages for a firm. They build their arguments from the foundation laid by Hofer and Schendel (1978), who predate even Spence (1984) and Caves (1984) in using the terminology and relate competitive advantage to a firm's unique position as compared to its competitors, which is arrived at through its patterns of resource deployments. In Reed and DeFillippi's argument the end result of developing an advantage based on competencies, whether its causes are ambiguous or explicit, is superior financial performance.

Coyne (1986) suggested that because the meaning of competitive advantage is superficially self-evident, there is no apparent need to define its exact meaning. However, he went on to say that differentiation based on key buying attributes of a product is the foundation of an advantage. Three conditions that he suggests must be met for competitive advantage to have meaning are: 1) that customers perceive differences between one firm's product/service attributes and those of its competitors, 2) the difference is the result of a capability gap between the firm and its competitors, and 3) that the aforementioned difference in attributes and the capability gap are expected to endure over time. The sustainability of such a competitive advantage is seen by Coyne as being a function of the durability of the attributional difference and the capability gap which created it.

The most explicit attempt to explain competitive advantage and sustainable competitive advantage has come from Barney (1991). He states, "a firm is said to have a sustained competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy" . He additionally asserts that "a competitive advantage is sustained only if it continues to exist after efforts to duplicate that advantage have ceased". It incorporates the idea that creation of value, competition among firms, and the durability of that value are all fundamental to the conceptualization of competitive advantages and their sustainability.

Hill and Jones (1998) specifically limit their textbook definition of competitive advantage to mean that a firm has gained an above-average return as compared to its competitors in its industry. They further assert that a sustained competitive advantage is simply a competitive advantage that has been maintained for a number of years.

2.3 Bases of Competitive Advantage

Many firms strive for a competitive advantage, but few truly understand what it is or how to achieve and keep it. A competitive advantage can be gained by offering the consumer a greater value than the competitors, such as by offering lower prices or providing quality services or other benefits that justify a higher price. Porter (1985) defines three generic strategies that firm's may use to gain competitive advantage: cost leadership, differentiation, and focus. A firm utilizing a cost leadership strategy seeks to be the low-cost producer relative to its competitors. A differentiation strategy requires that the firm possess a "non-price" attribute that distinguishes the firm as superior to its peers. Firms following a focus approach direct their attention to narrow product lines, buyer segments, or geographic markets. "Focused" firms will use cost or differentiation to gain advantage, but only within a narrow target market.

2.3.1 Cost Advantage Resulting from Efficiency

Efficiency is the ratio of inputs to outputs. Inputs can be any materials, overhead, or labor that is assigned to the product or service. The outputs can be measured as the number of products produced or services performed. The firm that can achieve the highest efficiency for the same service or product can widen the gap between cost and perceived value and may have greater profit margins. There are many ways a company can increase efficiency. Efficiency is enhanced if, holding outputs constant, inputs are reduced; or if holding inputs constant, outputs are increased. Inputs can be reduced in many ways. Labor inputs can be reduced if employees are better trained so that time spent on each individual output is decreased. Decreasing waste can decrease materials needed. If a method can be devised to decrease waste, it would increase efficiency. For instance, a bottling plant might determine that 10 gallons of liquid are spilled every day as a result of the bottling process. If the amount of lost liquid can be reduced, efficiency will increase (Armstrong and Kotler, 1999).

Outputs can be increased by increasing the number of units a machine can produce in given period of time. Decreasing downtime can also increase outputs. For example, if a machine regularly breaks down and is out of order for two hours a day, finding a way to eliminate this downtime would increase the number of outputs. It is often argued that large companies, by definition, are able to be more efficient because they can achieve economies of scale that others are not able to reach. Large companies usually offer more products in each product line, and their products may help to satisfy many different needs. If a consumer is not sure of the exact product he needs, he can go to the larger producer and be confident that the larger producer has something to offer. The consumer might believe that the smaller producer may be too specialized (Armstrong and Kotler,

1999)

2.3.2 Product Differentiation

Product differentiation is achieved by offering a valued variation of the physical product. The ability to differentiate a product varies greatly along a continuum depending on the specific product. There are some products that do not lend themselves too much differentiation, such as beef, lumber, and notebook paper. Some products, on the other hand, can be highly differentiated. Appliances, restaurants, automobiles, and even batteries can all be customized and highly differentiated to meet various consumer needs.

For example, Volvo differentiates their automobiles on the basis of safety features, performance, and style (Armstrong and Kotler, 1999).

Armstrong and Kotler (1999) note that differentiation can occur by manipulating many characteristics, including features, performance, style, design, consistency, durability, reliability, or reparability. Differentiation allows a company to target specific populations. However, Rivalry is stronger when one or more competitors are dissatisfied with its market position and launches moves to bolster its standing at the expense of rivals. Firms that are financially stable often react aggressively by introducing new product, boosting advertisement, discounting prices, acquiring smaller rivals to strengthen their capabilities, such that they can trigger a new round of maneuvering and a more contested battle for market share. Karanja (2002) found out that real estate firms popularly applied differentiation strategies to gain competitive advantage.

According to Armstrong and Kotler (1999), companies can also differentiate the services that accompany the physical product. Two companies can offer a similar physical product, but the company that offers additional services can charge a premium for the product. For example, in the personal computer business, Dell and Gateway claim to provide excellent technical support services to handle any glitches that may occur once a consumer has bought their product. This 24-hour-a-day technical support provides a very important advantage over other PC makers, who may be perceived as less reliable when a customer needs immediate assistance with a problem.

2.3.3 People Differentiation

Hiring and training better people than the competitor can become an immeasurable competitive advantage for a company. A company's employees are often overlooked, but should be given careful consideration. This human resource-based advantage is difficult for a competitor to imitate because the source of the advantage may not be very apparent to an outsider. The culture, attitudes, beliefs, and actions of employees constitute the strongest competitive advantage: This is because the intangibles are more important than the tangibles because you can always imitate the tangibles, in this case the hardest thing for someone to emulate is the spirit of your people. This competitive advantage can encompass many areas. Employers who pay attention to employees, monitoring their performance and commitment, may find themselves with a very strong competitive advantage.

People differentiation is important when consumers deal directly with employees. Employees are the frontline defense against waning customer satisfaction. For example, the associate at Wal-Mart who helps a customer locate a product may result in the customer returning numerous times, generating hundreds of dollars in revenue. The consumer knows that the staff will be helpful and courteous, and this is very important to the consumer who may be trying a new home improvement technique with limited knowledge on the subject (Armstrong and Kotler ,1999).

Another way a company can differentiate itself through people is by having a recognizable person at the top of the company. A recognizable CEO can make a company stand out. Some CEOs are such charismatic public figures that to the consumer, the CEO is the company. If the CEO is considered reputable and is well-liked, it speaks very well for the company, and consumers pay attention (Armstrong and Kotler, 1999).

2.3.4 Image Differentiation

Armstrong and Kotler (1999) pointed out in *Principles of Marketing* that when competing products or services are similar, buyers may perceive a difference based on company or brand image, for example many people trust products from the Coca-Cola company and this is clearly demonstrated on how people prefer to buy the Dasani bottled water simply because it is from the Coca-cola company and thus they feel secure about it. Thus companies should work to establish images that differentiate them from competitors.

Everything that a company does must support their image. A study on the competitive strategies adopted by private primary schools by Kivaluka (2007) recommended that private primary schools should develop aspects of integrated marketing especially branding and positioning in order to differentiate their service offers. Thus companies should work to establish images that differentiate them from competitors.

2.3.5 Quality Differentiation

Quality is the idea that something is reliable in the sense that it does the job it is designed to do. When considering competitive advantage, one cannot just view quality as it relates to the product. The quality of the material going into the product and the quality of production operations should also be scrutinized. Materials quality is very important. The manufacturer that can get the best material at a given price will widen the gap between perceived quality and cost. Greater quality materials decrease the number of returns, reworks, and repairs necessary. Quality labor also reduces the costs associated with returns, reworks and repairs. Thus, people with high level of expertise as pertains the job should be employed and on job, training should be done to enhance quality production. Caterpillar Company is recognized worldwide on its provision of best quality products in construction (Armstrong and Kotler, 1999).

2.3.6 Innovation Differentiation

When people think of innovation, they usually have a narrow view that encompasses only product innovation. Product innovation is very important to remain competitive, but just as important is process innovation. Process innovation is anything new or novel about the way a company operates (Porter, 1985). Process innovations are important because they often reduce costs, and it may take competitors a significant amount of time to discover and imitate them. Some process innovations can completely revolutionize the way a product is produced.

2.4 Challenges in the Application of Competitive Advantage Strategies

2.4.1 Challenges of Using Cost Leadership

Cost leadership strategy's greatest danger is that competitors always have the ability to find ways of providing at low cost and bit the cost leader at his own game. The cost leadership therefore imposes severe burden on the firm to keep up its position through investing in modern equipment and keep out technological improvements. Technological change and low cost leaning may however nullify past investments. Single minded desire to reduce costs is another great risk of the strategy because it may cause loss of sight in customers' tastes. According to Porter (1980), a company thus, while making decisions to reduce costs may drastically affect demand for the products due to the shifts in customer tastes.

2.4.2 Challenges to Using Differentiation Strategies

Major problem with differentiation strategy centers on the firm's long-term ability to maintain perceived uniqueness in customers' eyes. Competitors easily move in to imitate and copy successful differentiators and thus the uniqueness of the product or service is therefore eroded. Another risk of differentiation is when the differentiated firm cost becomes too great for differentiation to hold brand loyalty and buyers sacrifice the differentiated product for large cost savings (Porter, 1980).

2.4.3 Challenges for Using Focus Strategy

A focus niche can suddenly disappear because of technological change or changes in customer tastes. The focusers cannot move easily to new niches given its concentration of resources and competency in only one or a few niches. A focus is also vulnerable to attacks by differentiators who compete for the same niche by offering products and services that can satisfy the demands of the focuser's customer. Differences in desired products and services between the strategic target and the market as a whole may narrow, putting the focus at risk of losing clients. The focuser has thus to constantly defend his niche (Porter, 1980).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes how the study was conducted. It explains the research design, population of the study, data collection method used and how the data was analyzed to produce the required information necessary for this study.

3.2 Research Design

This research adopted a descriptive survey design. A descriptive research portrays a profile of persons, events, or situations (Robinson, 2002). The goal of a descriptive research is to describe relevant aspects of the phenomena of interests to the researcher from the individual, organization, industry, or other perspective (Robinson ,2002). Surveys allow the collection of large amounts of data from a sizeable population in a highly economical way for comparison purposes. A survey thus, allows one to collect quantitative data, which can be analyzed quantitatively using descriptive and inferential statistics (Saunders et al, 2007). Therefore, the descriptive survey was deemed the best strategy to fulfill the objectives of this study.

3.3 Population

The target population for this study was the mobile phone service providers in Kenya. There are four mobile phone service providers currently operating in Kenya which are Safaricom, Airtel-Kenya, Orange and YU. This is a small number and therefore all the four mobile phone service providers were surveyed as census.

3.4 Data Collection

The researcher used primary and secondary data .Primary data was collected from the managers of the mobile phone service providers in Kenya and it was be collected using structured questionnaires with open and closed-ended questions. The respondents were at least five managers from each firm including the CEO, the human resource manager, ICT manager, marketing manager and the finance manager. This is because the managers are the ones involved with strategic management of these firms thus they were deemed to provide the required information for this study.

A sample of the questionnaire is attached in appendix two. The questionnaire is divided into three parts. The first part captured the general information of the mobile phone service provider firm. The second part contains sources of competitive advantage of that particular firm and part three contains information on the extent to which the firm leverages its strategies on sources of competitive advantage. The questionnaire was administered using the drop-and-pick method. This method usually has high response rate. Several visits and reminders were made to individual mobile phone service provider premises to enhance the response rate.

3.5 Data Analysis

Completed questionnaires from the mobile phone service providers in Kenya were coded using a standard code sheet and then be entered for SPSS (Statistical Package for Social Sciences) analysis. Descriptive statistics such as frequency distributions and percentages were used in the analysis of the data. The results were presented using tables and figures for ease of understanding. This also allowed for interpretation of findings generated and recommendation from the findings.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results obtained from the study on sources of competitive advantage for mobile phone service providers in Kenya. Questionnaires were circulated to four managers and the CEO of each four firms. The chapter is presented in three parts, that is Part A, Part B, and Part C. Part A is fact finding sheet which looks at the demographic information of the mobile phone service providers in Kenya. Part B of the chapter looks at sources of competitive advantage in the mobile phone service providers in Kenya while Part C looks on how these firms leverage their strategies on sources of competitive advantage. Out of 20 questionnaires that had been administered to the respondents, 14 of them were returned for data analysis. This translates to 70% return rate of the respondents. Overall the return rate can be considered to have been high and this lends credence to the findings of the study as true reflection of the population.

4.2 Demographic information

Since the study focused on mobile phone service providers in Kenya, the researcher found it necessary to analyze the background information of the firms since they are diverse. Specific information that was sought included the age of the firm and its ownership.

4.2.1 Age of the firms

The researcher sought to find out the age of the four mobile phone service providers in Kenya and the respondents were asked to state the age of their firm. These findings are presented in the table below.

Table 4.2.1: age of the firm

	frequency	percent
Less than 10 years	**1**	**25**
11-20 years	**3**	**75**
21-30 years	**0**	**0.0**
Over 31 years	**0**	**0.0**
Total	**4**	**100**

Source: Researcher

From table 4.2.1, it is evident that majority (75%) of the mobile phone service providers have been in existence for 11years and above. The table further depicts that 25% have been in existence for a period of less than 10years. This could imply that majority of the mobile phone service providers in Kenya have been around for a long period thus they have been well exposed overtime to know the industry well.

Safaricom Ltd is a leading mobile network operator in Kenya. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. Airtel was launched in Kenya in 2000 as Kencell and rebranded to Zain in 2008 and finally Airtel in 2010. Telkom Kenya is the sole provider of landline phone services in Kenya. It was previously a part of the Kenya Posts and Telecommunications Corporation (KPTC) which was the sole provider of both postal and telecommunication services. In 1999 KPTC was split into the Communication Commission of Kenya (CCK), the Postal Corporation of Kenya (CCK) and Telkom Kenya. Essar Telecom Kenya Limited (ETKL) on the other hand is a unit of India based

Essar Group. ETKL launched a mobile service network under the brand "YU" in November 2008 in Kenya.

Established firms are likely to enjoy prevailing strength unlike new entrants as it is done by Safaricom, Airtel, and Orange Telkom which have been in existence for the past 11 years and above unlike Essar Telkom which has just been around for less than three years. Economies of scale, absolute cost advantage, network externalities, customer base, government policies, and synergistic alliances, brand identity, switching costs, access to distribution, expected retaliation and proprietary products are major external sources of competitive advantage for leading firms.

4.2.2 Ownership of the firms.

The researcher sought to find the ownership of the mobile phone service providers in Kenya and the respondents were asked to state the ownership of their firm. The findings are presented in the table below.

Table 4.2.2: ownership of the firms

Ownership	Frequency	Percentage
Foreign owned.	1	25
Locally owned.	0	0.0
Hybrid of local and foreign ownership.	3	75
TOTAL	4	100

Source: Researcher

Table 4.2.2 above reveals that majorities (75%) of the firms are hybrid of local and foreign ownership while 25% is foreign owned. This could imply that majority of the firms have combination of local and foreign ownership. Just 5% of Airtel is now locally owned, after businessman Naushad Merali sold 15% of his stake in the firm to Bharti last year. Meanwhile, Yu is now wholly-owned by India's Essar Communications, which snapped up the 20% stake that local firms Capital Africa, Crosslink and Startnet held last year, for an undisclosed sum.

Those firms having a big percentage of foreign ownership have been disadvantaged in the recent long term evolution (LTE) licensing process. The government declared that any participants wishing to enter into the open access LTE scheme must be at least 20% Kenyan owned which instantly rules out Indian- owned cellcos. Airtel Kenya and Essar Telkom Kenya (YU) are currently majorly owned by Bharti Airtel and Essar group respectively. Essar Telkom Kenya and Airtel Kenya both diluted their local ownership stake below 20% in 2010 but the government of Kenya has given them a grace period of three years to reach the requirements (www.cck.co.ke).

Elsewhere, the Kenyan government currently holds a 49% stake in Telkom Kenya, after disposing of a 51% stake to France Telecom (FT) in November 2007. Meanwhile, Safaricom is owned by the state (35%) and UK-based Vodafone (40%), with 25% distributed through an initial public offer (IPO) in May 2008.

4.3 Sources of competitive advantage in the mobile phone service providers in Kenya

In this section, the researcher was interested in uncovering some of the sources of competitive advantage in the mobile phone service providers in Kenya. This was with the view of seeking to answer the first objective of this study. The respondents were presented with factors necessary for successful operation of mobile phone service providers in Kenya and then asked to indicate using a tick the extent to which a factor enabled a firm to have an edge over competitors using a 5-point scale. . Specifically this involved people differentiation, product differentiation, cost advantage, advertising, research and development, innovation differentiation, product accessibility, quality differentiation, Image differentiation and focus.

Table 4.3.5: sources of competitive advantage for mobile phone service providers

Sources of competitive advantage	**Mean**	**Standard deviation**
People differentiation	4.93	0.267
marketing	4.60	0.499
Product differentiation	4.50	0.519
Innovation differentiation	4.50	0.519
Cost advantage	4.43	0.508
R &D	4.43	0.508
Focus	4.21	0.648
Product accessibility	4.21	0.648
Image differentiation	4.00	0.784
Grand Mean	4.42	

Source; Researcher

From the findings presented in the table 4.3.5 above, it can be deduced that almost all the firms in mobile phone service providers in Kenya appreciate the importance of people differentiation as a source of competitive advantage. This is shown by a mean score of 4.93 of respondents indicating people differentiation as a worthwhile project followed by marketing and product differentiation respectively. The findings also show image differentiation, product accessibility and focus scoring the least with mean scores of 4, 4.2, and 4.2 respectively.

4.4 Leveraging strategies on sources of competitive advantage

The second objective of the study was to establish how mobile phone service providers in Kenya leverage their strategies on sources of competitive advantage. The respondents were asked to state the factor they had a strategy on from the factors in part two of the questionnaire. Five managers including the CEO respodended to the question whereby fourteen questionnaires out of twenty were filled and used in analyzing the findings. The findings are presented using the table below.

Table 4.4.1: Leveraging Strategies on Sources of Competitive Advantage.

Sources of competitive advantage	**Number of strategies**	**percentage**
People differentiation	13	92.86
Marketing	9	64.28
Product differentiation	8	57.14
Cost advantage	8	57.14
Quality differentiation	8	57.14
Focusing on key niche market	8	57.14
Innovation differentiation	7	50.00
Product accessibility	7	50.00
Image differentiation	7	50.00
Research and development	6	42.86

Source:researcher

From Table 4.4.1 above, it can be deduced that most of the mobile phone service providers in Kenya leverage their strategies more on people differentiation as a source of competitive advantage .This is because people differentiation is an internal source of competitive advantage comprising of human resources, managerial capabilities and knowledge of individuals and these are very hard for a competitor to imitate because they are embedded on employee competencies to their present and future needs . The four mobile phone service providers in Kenya have mechanisms that match employee competencies to their present and future needs. The firms attracts qualified candidates by giving a realistic job preview to the applicants , and then selects highly qualified personnel by conducting rigorous interview sessions. These include aptitude tests, oral interviews and a team building elimination interview which not only tests the person's ability to perform, but also work as part of a team. . Employees also go through intensive training before they start working fully. The firms use their human resource to gain competitive advantage by evaluating each individual's talents and skills. This is shown by a bigger score of 92.86 percent.

Marketing follows with 64.28%. The market has undergone serious realignments as operators engage in vicious price wars for the scramble of subscribers. Marketing has played a major role here because it helps customers to know the existence of the products and services and also their prices. This helps subscribers to know which mobile phone service provider to switch to as per the tariff charges and quality of service. For example when Airtel first cut call charges by 50% to sh 3 a minute, Essar Telkom Kenya ltd (YU) whose main shareholder is from India responded by matching Airtel. Safaricom countered with a new promotion. The one month promotion was seen to favour Safaricom subscribers able to top up higher denominations. Telkom Kenya also cut rates to Ksh 2 for calls within its network and Ksh 4 across the network. All these were made known to the subscribers through advertisements which are done through the media and websites.

The firms also market themselves through cooperate responsibility for example the "Kenya for Kenyan initiative which Safaricom was the initiator and which was a big success. The least score is research and development with 42.86%. This is mainly because many of the firms don't have enough resources and also it is time consuming.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMEDATIONS

5.1 Introduction

This chapter summarizes the findings, makes conclusions on the study and also gives study recommendations for improvement and for further research. . The data collected has been analyzed and interpreted in line with the objective of the study namely: to determine sources of competitive advantage in the mobile phone service providers in Kenya and secondly to establish the extent to which the firms in the industry leverage their strategies on sources of competitive advantage. Data was collected from all the four mobile phone service providers in Kenya and this gave a response rate of seventy percent.

5.2 Summary of findings

The number of years an organization has been into existence has influenced the likelihood of the firm to enjoy prevailing strength unlike new entrants as it is done by Safaricom, Airtel, and Orange Telkom which have been in existence for past eleven years. This is unlike Essar Telkom which has just been around for less than three years.

Majority of the firms have combination of local and foreign ownership (75%) though some like Airtel have diluted local ownership to less than 20% while Yu Telkom is now wholly owned by India's Essar Communications. This has disadvantaged the two especially on offers which come with local ownership as was seen in the recent long term evolution (LTE) licensing process.

The study established that firms in the mobile phone service industry appreciate the importance of applying sources of competitive advantage so as to remain competitive in the industry as shown by a mean of four and above on how the firms apply various factors of sources of competitive advantage. People differentiation was the highest while image differentiation was the lowest.

When it comes to leveraging strategies on sources of competitive advantage, the study shows that most of the mobile phone service providers in Kenya leverage their strategies more on people differentiation as a source of competitive advantage. This is because people differentiation is an internal source of competitive advantage comprising of human resources, managerial capabilities and knowledge of individuals and these are very hard for a competitor to imitate because they are embedded on organization.

Marketing follows second. The market has undergone serious realignments as operators engage in vicious price wars for the scramble of subscribers. Marketing has a major role here because it is through this customers are able to know the existence of a service or product and their price. The least leveraged source of competitive advantage was research and development. Most of the firms don’t have strategies on research and development because of lack of funds and it’s also time consuming.

5.3 Conclusions of the study

It can be concluded that the most used sources of competitive advantage are people differentiation and marketing. It can also be concluded that those firms who have been in existence for a long period are better placed than those who have been in existence for a shorter period when it comes to competitiveness due to their learning experience and economies of scale.

It can also be concluded that those firms who are majorly owned locally enjoy some privileges which come with the same unlike those who are wholly foreign owned and those who have diluted their local ownership below twenty percent.

5.4 Limitations of the study

The following factors were the greatest huddles while conducting the research: there was a challenge on the information available for the study. This was because the information was confidential and proprietary and the respondents disclosed information at their discretion and therefore the information available was not conclusive. The researcher had to sign a non-disclosure agreement with the legal department to be allowed to proceed with the study to ensure the information availed was safeguarded in this era of stiff competition in the telecommunication industry.

It also took time when collecting the questionnaires because some of respondents kept them and never bothered to answer. Lastly, the study was conducted as a quantitative study that was at generating universalities about the subject matter. However, a qualitative study may have exposed more issues in a deeper and richer sense.

5.5 Recommendation for further study

It is recommended that a similar study is undertaken on sources of competitive advantage in the mobile phone service providers in Kenya but this time linking the same with their performance so as to determine the relationship of the two.

It is also recommended that a study on sources of competitive advantage is undertaken as a case study of one of the mobile phone service providers in Kenya so as to give a deeper and a richer sense.

5.6 Recommendations for policy and practice

All the firms in the mobile phone service providers in Kenya need to urgently develop appropriate policies and strategies for improving competitiveness and ensuring good performance on a long term basis. A policy to develop and harness all their sources of competitive advantage is not a luxury but a necessity for long survival and growth.

Managers of the mobile phone service providers ought to give first priority to the development of organizational capabilities and core competencies in order to build a sustainable competitive advantage.

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APPENDICES

Appendix 1: Introduction Letter

Judith M.Mutuku, **Date……………………**

P.0 Box 55879-00200,

NAIROBI.

Dear sir/ madam,

RE: QUESTIONNAIRE

My name is Judith M. Mutuku, a student at the University of Nairobi undertaking a Master of Business Administration (MBA) degree, School of Business. As a partial fulfillment of the requirements for the award of the MBA degree, am currently conducting a study on "**Sources of Competitive Advantage for Mobile Phone Service Providers in Kenya"**

Your company has been selected to participate in this study. I kindly request you to fill the questionnaire attached in order to provide better understanding of sources of competitive advantage in your company. I will greatly appreciate any additional information you may want to provide for a better study. The information you provide will be confidential and will only be used for this academic purpose.

Thank you in advance for your valuable time.

Yours faithfully,

JUDITH M. MUTUKU.

Appendix 2: Questionnaire

A SURVEY OF THE SOURCES OF COMPETITIVE ADVANTAGE IN THE MOBILE PHONE SERVICE PROVIDERS IN KENYA.

Please fill in all parts as sincerely as possible by putting a tick on one of the options given where applicable. For those that require your opinion, please use the space provided**.**

PART ONE.

General information.

1. Your job title…………………………………………………………………………
2. Name of your company……………………………………………………………
3. Using the categories below, please indicate the age bracket of your company.

   (please tick one)

Less than 10years [ ]

11-20years [ ]

21-30years [ ]

Over 30 years [ ]

4. Using the categories below please indicate the ownership of your company.

Foreign owned [ ]

Locally owned [ ]

Hybrid of local and foreign ownership [ ]

PART TWO

Sources of Competitive Advantage

There are certain factors necessary for successful operation of mobile phone service operators in Kenya. Please indicate using a tick the extent to which the factor enables you to have an edge over other competitors. Use a 5-point scale where:

5= to a very great extent.

4= to a great extent.

3= to moderate.

2= to a little extent.

1= not at all

Sources of competitive advantage	**very great extent**	**great extent**	**moderate**	**little extent**	**not at all**
1. People differentiation					
2. Product differentiation					
3. Cost advantage resulting from efficiency					
4. Marketing of products and services.					
5. Research and development					
6. Innovation differentiation					
7. Products accessibility.					
8. Quality differentiation.					
9. Image differentiation.					
10. Focusing on key niche markets.					

PART THREE

Leveraging strategies on sources of competitive advantage

From part two above, which factors do you have a strategy on? Please indicate the factor and the corresponding strategy on the spaces provided.

Factor	**Name of strategy**
……………………………………..	………………………………………
……………………………………..	……………………………………..
…………………………………	………………………………………
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THANK YOU FOR YOUR COOPERATION.