STRATEGIC RESPONSES ADOPTED BY MOBILE PHONE COMPANIES TO CHANGES IN THE TELECOMMUNICATION INDUSTRY

BY

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature: ....Date:.........14:11:2011..............

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SUPERVISOR'S DECLARATION

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

Signature...Date......15/11/2011..............

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ACKNOWLEDGEMENTS

DEDICATION

I dedicate this work to my family and all those who supported me in the completion of this project.

ABSTRACT

Organisations are environment serving and thus have to align themselves well so as to cope with the ever changing business environment. This will involve the assessment of a firm's internal capability and how well it is equipped to adapt and survive in the industry within which it operates. The analysis of a firm's strategy involves the interaction between the strategic choice and its environmental context. The environment in which organizations operate is constantly changing with different factors influencing the organizations. The study sought to establish the strategic responses adopted by mobile phone companies in Kenya to the changes in the telecommunication industry.

This research was studied through the use of a survey. All the companies were included in the study because of the small number. The researcher used both primary and secondary data. Primary data was collected using a questionnaire. Content analysis was used to analyze the qualitative data collected while descriptive methods were used to analyze quantitative data.

The study concludes that in response to the changes in the telecommunication industry, the mobile phone companies in Kenya consider human capital as the key differentiation strategy. The companies also adopt research and development/innovation strategies in order to understand customer needs, tastes and preferences. The study further concludes that product differentiation strategies are also employed such as introduction of products for special application, use of customized/flexible product, market segmentation and forming alliances with banks to offer mobile banking products.

The study recommends that the companies should engage in more cost reduction as a response to its competitors' strategies whose products and services are much cheaper. The companies should deliver benefits that exceed those of competing products (differentiation advantage) to gain a competitive advantage over other firms.

Since this was a study on organizations from one industry, the data gathered might differ from strategic responses adopted by other organizations. The study faced both time and financial constraints. The study recommends that further research should be done on the strategic responses adopted by other companies to changes in their industry.

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CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Strategy refers to the machinery of resources and activities of an organization to the environment in which it operates (Johnson and Scholes 2002). Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. According to Ansoff and McDonnell (1990), it is through strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness, and secondly, use of real time response through issue management and thirdly, systematic management of resistance during strategic implementation. Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. It answers the question on where does an organization want to go, where it is now and how to get to where it wants to go (Denis, Lamothe and Langley, 2001).

The survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Grant, 2002). Strategic response is the reaction of a firm or an organization to environmental changes/turbulence. According to Pearce and Robinson (2005) it is through strategic responses that a firm is able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment.

Organizations exist in a complex commercial, economic, legal, demographic, technological, political, cultural and social environment. This environment is not static but is under constant change which affects the organizations that operates within it. Firms have enhanced their organizational performance through restructuring, reengineering, quality programs, building alliances, mergers and acquisitions, strategic redirection, downsizing and culture change. Some of these organizations have undertaken their transformation efforts quite successfully. Others have

experienced disappointing results with new strategies not well implemented, acquisitions that have not achieved expected synergies, reengineering and downsizing that have largely failed and quality programs that have not delivered the hope for results.

The enactment of the Kenya Communications Act, 1998 led to the introduction of competition in the cellular mobile industry. This started in 1999, when a 40% stake in the state owned incumbent operator along with management control was sold to a major international mobile services provider, and two new licenses were tendered in 2000 and 2003. It was only after competition was introduced that penetration increased. In 2007, Kenya's prices were relatively high, as compared with the other countries compared with Sub-Saharan Africa as a whole. However, mobile tariffs fell significantly between 2007 and 2008 to be in line with the Sub-Saharan African average, though still more expensive than the other countries like Zambia (www.cck.go.ke).

1.1.1 Environment Dependence

Pfeffer and Salancik (1978, p. 12) suggested that the organization's environment can be defined as a set of external "events in the world which has any effect on the activities or outcomes of the organization". As a contribution towards understanding the organization's environment, Scott (1998) argued that the environment can be classified either by the levels at which it is composed or by the nature of the relationships linking the organization with its environment. The levels of analysis are: organization sets, organization populations, organization communities and organization fields (Scott, 1998). With regard to the nature of the relationships the emphasis is placed on the relationship between the organization and its environment and this relationship can be explained by technical or institutional issues (Scott, 1998).Scott (1998, p. 23-25) argued that organizations are system with rational, natural and open characteristics. As rational systems, organizations have formalized structures seeking to achieve goals. As natural systems, organizations are seen as entities struggling for survival within their environment. Finally, as open systems, organizations are entities that exist in that they can establish relationships with their environment.

The relationship between the environment and organizational structure is especially important. Organizations are open systems and depend on their environment for support. Generally, more complex environments lead to greater differentiation. The trend in organizations is currently away from stable (mechanistic) structures to more adaptive (organic) structures. The advantage is that organizations become more dynamic and flexible. The disadvantage is that integration and coordination of activities require more time and effort.

The relationship between an organization and its environment is characterized by a two-way flow of information and energy. Most organizations attempt to influence their environment. Advertising campaigns and lobbying efforts are two examples. Some theorists believe that "environments are largely invented by organizations themselves. Organizations select their environments from ranges of alternatives, then they subjectively perceive the environments they inhabit" (Starbuck, 1976, p. 1069). Strategic decisions regarding product lines and distribution channels contribute to the selection of the organizational structure and the environment.

1.1.2 The Mobile Phone Industry in Kenya

The telecoms industry in Kenya, just like the rest of the world, is going through profound changes. In the past decade, technological advancement from cable to wireless technology and regulatory restructuring has transformed the Kenyan telecommunication industry. Since the liberalization of the telecom sector in 1999, the Kenyan mobile sector has been witnessing tremendous development on the back of increasing competition among operators and investments in telecom infrastructure and 3G services. The mobile telephone technology entered the Kenyan market in the year 2000 with the award of GSM license by the government to Safaricom and later to Airtel; former Kencell to Celtel to Zain Kenya. Two other operators namely Orange Kenya and Essar Telecom (trading as YU) have since joined the mobile telephone market. By the end of 2010, the number of mobile subscribers in Kenya had reached almost 22.9 million representing a penetration rate of around 63 percent.

Safaricom is the leading mobile phone operator in Kenya. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone group plc, the world's largest Telecommunication company acquired a 40% stake and management

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responsibility for the company. Safaricom's aim is to remain the leading Mobile Network Operator in Kenya. With the growing subscriber base, the company has employed over 2300 employees and opened 10 retail shops in Nairobi, Mombasa, Nakuru and Kisumu. The firm has a wide dealer network of over 152 dealers countrywide. The company has developed a broad of services to meet the needs of the over 13.3 million subscribers. The increasing number of subscribers has had a positive influence on the company's profitability. The company's turnover rose from US$280 million in 2004-2005 to US$875million in 2008-2009.

In the modern world of globalization, Safaricom has been able to keep pace with the global mobile telecommunications market by having strategic business associations, which help in meeting the dynamic challenges of the modern mobile telecommunications world. Its strategic association with the world leaders in mobile telephony has created a niche in the Kenyan market. Safaricom announced net profits of $220 million in the last financial year 2009/2010. While most analysts agree that mobile telephony, Safaricom's core business, is on an upward growth curve in the region, some skeptics are saying that a convergence of factors could seriously impact on the bottom-line of what is the region's biggest mobile phone company. Top among these in the Kenyan market are Safaricom and Airtel Kenya Limited followed by two additional mobile phone service providers Telkom Kenya's Orange and Yu Essar. Their advent raised to four the number of providers in the Kenyan market, with the forth being Airtel Kenya, which already controls about 25 per cent of the market.

Airtel is the World's fifth largest mobile operator with 180 million customers. Airtel brand replaced Zain in October 2010. Airtel is currently number 1 in 10 countries in Africa, and there are, on average 2-3 telecom operators in a country. In the continent, Airtel is number 2 after MTN, and covers a population of 450 million. Earlier on, a price war had characterized Kenya's mobile communications market in 2008 to date, 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. Subscriber growth is now forecast to slow over the coming years, and rapidly falling ARPU levels had driven one of the incumbents, Airtel, deeper into negative earnings, leaving only the market leader, Safaricom, with a net profit, although reduced.

In August year 2010, Airtel Kenya trail blazed the local mobile phones tariff scene with a pioneering reduction by more than 50% of its call rates to Kshs.3 across all networks for both its prepaid and post-paid customers. The move by Airtel Kenya validated a pledge made by Bharti Airtel CEO (International) and Joint Managing Director Manoj Kohli, promising to provide more affordable services while deepening the firm's network coverage to include the rural population and enhancing the digital experience through 3G across the continent through year 2010. The company is keen to end its early association with the more moneyed corporate class. That history has been its Achilles heel for far too long. But now, with an aggressive owner in charge, the firm is placing all its cards on the table.

1.2 Statement of the Problem

Organisations are environment serving and thus have to align themselves well so as to cope with the ever changing business environment. This will involve the assessment of a firm's internal capability and how well it is equipped to adapt and survive in the industry within which it operates. The analysis of a firm's strategy involves the interaction between the strategic choice and its environmental context. The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. With the increasing competition that companies are facing today, rewards will accrue to those who can read precisely what consumers want by continuously scanning the environment and delivering the greatest value to customers with the view that as the operating environment changes, a more pronounced transformation of the business landscape lies ahead (Ansoff, 1990). Therefore, strategy is vital to the adaptation of the changing business environment.

There has been a great change and advancement in the technology, especially in this industry with the various players coming up with new and advanced products such as mobile money. We have also seen the operators offering more data related services as a supplement to the voice and SMS products. The Communications Commission of Kenya (CCK) has also moved in come up with severe regulations to govern the sector, such as mobile number portability. The industry has also experienced bitter price wars with some of the players lowering their calling rates to as low as 50 cents

per minute. These among other challenges demand that the companies adopt some strategic responses to counter such changes in the environment as and when they come up.

Locally, Wanjohi (2002) conducted a study on strategic response by insurance companies following liberazation and concluded that the companies in the industry consider strategic plans to be important. Kandie (2001) studied the strategic response of Telkom Kenya in a competitive environment and found that financial constraints and lack of managerial empowerment had limited the capability to respond to the environmental changes. Tanui (2008) investigated the strategic responses to increasing competitive challenges in the telecommunications industry in Kenya, a case of Telkom Kenya Limited. Response included a combination of generic strategies and lobbying for a level playing ground. Kombo (1997) found that as a result of the ongoing economic reforms, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment.

It is therefore very clear that organisations need to be responsive to the ever changing business environment and the mobile telephone industry is not an exception. The researcher will therefore seek to answer the question; What are the strategic responses adopted by mobile phone companies to changes in the telecommunication industry?

1.3 Objectives of the Study

The study sought to establish the strategic responses adopted by mobile phone companies in Kenya to the changes in the telecommunication industry.

1.4 Value of the Study

This study would be important to the policy makers in the mobile communication industry as they would be able to know for certain what environmental factors play a bigger role in shaping their operations and how they affect performance and what strategies to use in order to remain competitive. The results will contribute to a better understanding on how effective the strategies employed by mobile phones are in responding to the changes in the operating environment. In particular, the positive interaction between differentiation and cost leadership in predicting quality performance suggests the synergy between the two as well as supporting the cumulative view of competitive strategies.

Further, the study would be important to telecommunication companies' managers as it would help them understand the strategic responses and how their understanding can help different firms enhance their performance. The study would also help other managers know the methods used in gathering and applying the strategic responses, which would help them improve their performance.

The results of this study will also be invaluable to researchers and scholars, as it will form a basis for further research. The scholars will use this study as a basis for discussions on responsive strategies adopted by mobile phone companies in Kenya to the changing operating environment. The study would be a source of reference material for future researchers on other related topics; it would also help other academicians who undertake the same topic in their studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The materials are drawn from several sources which are closely related to the theme and the objectives of the study.

2.2 Concept of Strategy

Strategy is depicted as a set of beliefs on how a firm can achieve success (Woods and Joyce, 2003). Arguably strategy is the main route to attain corporate goals and objectives, leading to enhanced long-term performance. That is to say, strategy is much more than beliefs and encompasses a deliberate search for a plan of action that will develop a business's competitive advantage and compound it (Henderson, 1989).

The iterative process includes predictions and forecasts on challenges and opportunities that an organisation is likely to encounter in the external environment. However, an iterative process assumes a rational process and approaching strategy in the right way (Sauer and Willcocks, 2003). Even if there were strong pointers to a possible right way, it is arguably difficult for strategists to make decisions without reference to their own views on how strategy should be determined (Kotey and Meredith, 1997).

Strategy formulation also involves significant intuition and philosophical thinking (Brockman and Anthony, 1998). In short, there are many competing ideals and multiple perspectives in business. A review of previous findings suggests that the impact of strategy on overall performance is not as clear-cut as one might expect.

2.3 Organisations and the Environment

Business environment comprises of various internal and external forces under which the organization operates. It plays a very crucial role in the business. It shapes the ability of the organization to maintain successful relationships with its customers.

Successful firms know the importance of constantly watching and adapting to the changes in the business environment (Kotler et al 2005).

Dibb et al (2006) categorizes the business environment into macro and micro factors. Macro environmental factors have a universal impact on every organization operating in a particular market e.g. Economic environment, political environment etc. Micro environmental factors, on other hands, have an organization specific impact e.g. suppliers, customers etc. The diagram below elaborates both macro and micro environmental factors.

The change in the business environment brings both opportunities and threats for the organization. To overcome this business dynamism, companies require certain predictability mechanisms which can guard them against the unanticipated threats or overlooked business opportunities. The solution lies in environmental scanning which refers to the process of monitoring and evaluating the business environment. It helps in adjusting the business tactics in case of a change in the business environment (Kotler et al 2005).

2.4 Strategic Responses

Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Strategic responses imply that the entity has the ability to change according to its needs. Survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Grant, 2002). Strategic responses require organizations to change their strategy to match the environment and also to redesign their internal capability to match this strategy. If an organization's strategy is not matched to its environment, then a strategy gap arises. Strategic response is the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 2005). Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1980), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy.

According to Porter (1998) the firm has to learn, adopt and reorient themselves to the changing environment. Most importantly, when a discontinuity begins to affect a firm in a turbulent environment, faced with variety of pressures of new challenges brought about by globalization and trade liberalization, its impact, typically remains hidden within the normal fluctuations in performance. Law firms therefore, should engage themselves in strategies that will enable them to respond to the environmental challenges in order to gain competitive advantage over their competitors besides the firm's success, and, indeed, even for its continued survival in the legal field.

Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (2005) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore, it is a reaction to what is happening in the economic environment of organizations. Porter (1980), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence, operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy. According to Ansoff and McDonnell (1990), it is through Strategic response that a firm will be able to position and relate itself to the environment to ensure its continued success and secure itself from surprises brought about by the changing environment. Three areas of a company strategy are important in identifying the responses of a firm to its environmental challenges. These include: Objective setting which involve long term and short term goals; the vision and mission of the company; Strategic directions which involve what business activities should the company concentrate in and where; Competitive strategy where after considerations of the firm's competitive strengths and weaknesses Vis-a-vis competition and customer needs, the company establishes a position of competitive advantage, (Lowes et al, 1994).

After an analysis of the environment the firm may choose any of the generic competitive strategies in response to opportunities. Cost Leadership can be achieved through efficiencies, cost reductions; overhead reductions etc. differentiation may take the form of design or brand image, technology, quality, durability, after sale services, distribution and market mix etc. Focus involves focusing on a particular

buyer, segment, or geographic markets. A firm failing to develop its strategies in any of the three directions is 'stuck in the middle' and suffers from lack of focus, low motivation, blurred corporate culture and conflicting set of organization arrangements, (Porter-1985).

The strategic response of a firm may choose to include market penetration strategy, market development strategy, product development strategy or diversification strategy. This could also be described as horizontal growth, vertical growth, conglomerate growth or internationalization (Ansoff and Mc Donnell, 1990). In deciding on which direction to grow the firm must also determine to what extent it must expand externally and internally. Internal growth involves expanding a firm's internal capabilities such as production, distribution and marketing facilities. External growth may include mergers and take-over. While a firm may seek to expand its business in one of the various ways it may also choose to rationalize and restructure (Ansoff 1957).

2.4.1 Planned Strategies

Planned strategies roots are in the arena of large-scale business operations and it can be defined as the fit between an organization and its environment. It is about winning (Grant, 1998) and helps by giving coherence and direction to both individuals and organizations by specifying the resources that are required to achieve an objective. Johnson and Scholes (2002) point out that planned strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and to fulfill stakeholders' expectations. Strategic planning is thus the process adopted in identifying a strategy that best matches organizational capability with the environment. Strategic planning will enable an organization to identify the prevailing environmental opportunities and threats, and also to figure out or estimate the organization's resource capabilities taking into account the strengths and weaknesses of its resources so as to align itself accordingly to battle with the environmental challenges.

The planned strategies are implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm's resources and

motivation of the staff to achieve objectives. The way in which the strategy is implemented can have a significant impact on whether it will be successful. In most cases different people from those who formulated it do implementation of the strategy. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if the affected parties resist its implementation because they do not understand why the particular strategy was selected.

As Ansoff and McDonnell (1990) argued, business firms are in a constant two way interaction with the environment. They receive an assortment of resources from the environment and after a transformation, deliver them back to the environment in the form of goods and services. The connection of the external environment and the organization is that of input – throughout – output process where inputs are received from the environment and released back into the same environment after being processed by the organization. What is released back can only be consumed by the organization if it fits the environment requirements and needs (Porter, 1985).

2.4.2 Decisive Strategic Responses

Organizations may apply decisive strategic responses to changing environment through making dynamic moves to mitigate the consequences of the environmental changes. Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998) views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy. Porter (1998) states that the goals of a competitive strategy for a business in an industry is to find a position in the industry where the company can best defend itself against the five competitive forces – entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors.

As the external environment changes, organizations find themselves in unfamiliar environment and have to respond by integrating change and internalizing the ability to adapt to the new environment for survival and growth. According to Schendel and Hofer (1979), organizations respond to turbulence in the environment by formulating new strategies. These provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. Pearce and Robinson (1991) urge that the organization have to respond to the turbulence by crafting new strategies that they define as a large- scale future – oriented plans for interacting with the environment.

Pearce and Robinson (1997) states knowledge of these underlying sources of competitive pressure provides the grounds work for strategic agenda of action. The highlight of the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas of strategic changes and may yield the greatest payoff. Porter (1998) argues that developing competitive strategies involves development of a broad formula for how a firm is going to compete, what are the goals and policies or tactics necessary for achieving the goals. Competitive strategy includes actions or attempts by a firm to attract customers, retain them withstand competitive pressures and strengthen its market positions and is aimed at gaining competitive advantage. Porter expressed the key aspects of firm's competitive strategies in what he referred to as the "wheel of competitive strategies.

2.4.3 Reactive Strategies

Firms need to develop capabilities to manage threats and exploit emerging opportunities. Pearce and Robison (2000) point out that this calls for a proactive approach to business and the formulation of strategies that constantly match capabilities to the environment. The environment in an industry has great influence on the growth, survival and profitability of firms. According to Grant (2002), to survive and prosper in an industry, a firm must meet two criteria; first, it must supply what customers want and second, it must survive the competition. Porter (1979) is of the view that it is very necessary for firms to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies and respond to competitive forces.

Firms are environment dependent in that they obtain inputs such as capital, raw materials and human resources from it and discharge their outputs in form of products and services into the environment. External factors influence a firm's choice of direction and action. The external environment comprises all conditions that effect a firm's strategic options but are typically beyond its control (Pearce and Robison, 2000). Changes in environmental conditions shape a firm's opportunities and challenges. A new environment necessitates the formulation of new strategy best suited to cope with change. According to Ansoff and McDonnell (1990) turbulent environments are characterized by unfamiliar rapid and unpredictable events.

Diversification makes sense when good opportunities can be found outside the present business. Kotler (2000) states that a good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful. Three types of diversification are possible. The company could seek new products that have technological and/or marketing synergies with existing product lines even though the new products themselves may appeal to a different group of customers.

Differentiation strategy is one of porter's key business strategies. When using this strategy, a company focuses its efforts on providing a unique product or service. Since the product is unique, this strategy provides high customer loyalty (porter, 1998). Pearce and Robinson (2007) contend that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows the organization to capture the market share.

2.4.4 Cost leadership Strategies

When outlining the idea of generic competitive strategies, Porter (1980) holds that cost leadership and differentiation signify two fundamentally different approaches to achieve competitive advantage. Cost leadership strategy seeks to achieve above-average returns over competitors through low prices by driving all components of activities towards reducing costs. To attain such a relative cost advantage, firms will put considerable effort in controlling and production costs, increasing their capacity utilization, controlling materials supply or product distribution, and minimizing other costs, including R&D and advertising.

In contrast, differentiation strategy aims to build up competitive advantage by offering unique products which are characterized by valuable features, such as quality, innovation, and customer service. Differentiation can be based on the product itself, the delivery system, and a broad range of other factors. With these differentiation features, firms provide additional values to customers which will reward them with a premium price.

By adopting a generic competitive strategy, firms will translate the underlying intent of the strategy into various operational performance measures. These include quality, innovation, service, brand, flexibility, and price. This study focused on quality as a strategic performance as a reflection of a competitive strategy of the firms. Over the past two decades, quality has been heralded as the source of competitive advantage (Raghunathan et al., 1997). Quality has gone through an evolution process, from an operational level to a strategic level, and some scholars have given strong support for the view that quality must be adopted as a strategic goal in organizations (Garvin, 1988).

Despite the arguments concerning the importance of quality and its role in determining firms' competitive position, only few papers have provided conceptual understanding and empirical evidence of a link between quality and competitive strategy (Chang et al., 2003).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This identifies the research design, the target population, procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

This was a survey aimed at getting detailed information regarding the strategic responses to the environment by mobile phone companies in Kenya. Research design refers to the method used to carry out a research.

This research was studied through the use of a descriptive research. A descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research was chosen because it enabled the researcher to generalise the findings to a larger population with high level of accuracy.

3.3 Population of the Study

The population of this study are all the mobile phone service providers operating in Kenya. As at August 2011, there were four players in the industry. All the companies were included in the study because of the small number and due to the fact that one questionnaire was administered to each company.

This is because this being a research on the strategic direction adopted by the companies, senior management staff was well placed to respond to the questions. The reason for one questionnaire per company was that we expected the same outcome per company even if we were to interview more than one manager.

3.4 Data Collection

The researcher used both primary and secondary data. Primary data was collected using a questionnaire. Secondary data sources on the response strategies to external

environment included the company's publications and information obtained from the internet.

The questionnaire that used to collect primary data consisted of open and closed ended questions. The open-ended questions enabled the researcher to collect qualitative data which was used in order to gain a better understanding and enable a better and more insightful interpretation of the results from the study. The questionnaire comprised of two sections. The first part included the demographic and operational characteristics designed to determine fundamental issues including the demographic characteristics of the respondents. The second part was devoted to the identification of the strategic responses to changing environment where the main issues of the study were put into focus. The interviewees of this study were the heads of corporate communications since they are well versed with the response strategies adopted by their respective companies to counter the changes in the operating environment.

3.5 Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Data for this study was both quantitative and qualitative hence both descriptive and content analysis techniques were employed. Content analysis was used to analyze the qualitative data collected while descriptive methods were used to analyze quantitative data.

The descriptive statistical tools helped the researcher to describe the data and determine the extent to be used. The Likert scale was used to analyze the mean score and standard deviation, this helped in determining the strategic responses to the changing environment by mobile service providers in Kenya. Tables were used to summarize responses for further analysis and facilitate comparison. This generated quantitative reports through tabulations, percentages, and measure of central tendency. The data generated a quantitative report on the strategic responses to the changing environment by mobile service providers in Kenya.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on to establish the strategic responses adopted by mobile phone companies to changes in the telecommunication industry. The data was gathered exclusively from the interview guides as the research instrument. The interview guide was designed in line with the objectives of the study.

4.1.1 Response Rate

The study targeted four interviewees in collecting data with regard to the strategic responses adopted by mobile phone companies to changes in the telecommunication industry. From the study, all the interviewees were reached making a response rate of 100%. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the interviewees of the interview.

4.2 Demographic Information

The research sought to find out the ownership of the organization. According to the findings, the interviewees said that their organization is both privately and publicly owned. The interviewees were required to indicate the number of employees in the firm. According to the findings, most of the firms had between 100,000- 499,999 employees. Regarding whether the firms have strategies to direct its activities, the interviewees said their firms have strategies to direct its activities. They added that the validity period of the strategic plan is an average of five years.

4.3 Strategic Responses Adopted By Mobile Phone Companies

This section looked the strategic responses which included a differentiation strategy, research and development, price differentiation strategies, product differentiation strategies, product differentiation strategies, promotional differentiation, location strategies and technological strategies.

4.3.1 Training and Skills Development

Human capital can be used as the key differentiation strategy in response to the changing environment. Human capital defines the company's culture and helps in the

execution of the developed strategies. In regard to this, the respondents intimated that the training and skill development strategies that have been adopted include a compulsory induction training, voluntary on the job training, scholarships on technical issues and mentorship.

The research sought to find out the extent that training and skills development strategies are effective. The interviewees felt that the training and skills development strategies are effective saying that the employees are given continous and up to date training in order to adapt to the changes in the operating environment.

4.3.2 Research and Development

In order to satisfy its customers, an organization has to understand customer needs, tastes and preferences; to achieve this organization has to research. According to the respondents the research and development/innovation strategies that their company adopted include conducting baseline surveys on the level of customer satisfaction and their preferences, carrying out market research and coming up with new and innovative products.

The respondents were required to indicate the extent that research and development/innovative strategies are effective. The interviewees reported that research and development/innovative strategies are effective saying that they have been able to come up with inovative and state of the are art goods and services which help them serve their customers better.

4.3.3 Price Differentiation Strategies

The research sought to find out whether the firm employ price differentiation strategies. According to the findings, the interviewees felt that the firm employ price differentiation strategies which has helped them differentiate from each other. they said that pricing is an important strategic issue because it is related to product positioning. Furthermore, pricing affects other marketing mix elements such as product features, channel decisions, and promotion.

The price differentiation strategies employed by the firm include offering tariffs with long off peak hours, offering competitive prices for voice calls and messages. Others include reducing transaction costs and offering competitive prices and discounts for

internet serviced. They added that the price differentiation strategies are effective to a great extent.

4.3.4 Product Differentiation Strategies

The research sought to find out whether the firms employ product differentiation strategies. The interviewees intimated that their firms employ product differentiation strategies which help them remain relevant in the highly competitive environment. They added that the major sources of product differentiation include differences in quality which are usually accompanied by differences in price, differences in functional features or design, ignorance of buyers regarding the essential characteristics and qualities of goods they are purchasing, sales promotion activities of sellers and, in particular, advertising and differences in availability (e.g. timing and location).

They added that the product differentiation strategies employed by the firm include introduction of products for special application, use of customized/flexible product, offering a wide range of products, use market segmentation, forming alliances with banks to offer mobile banking products, use of unique packaging and introduction of innovative products such as the money transfer. They added that the product differentiation strategies are effective to a great extent in responding to the changes in the operating environment.

4.3.5 Promotional Differentiation Strategies

The research sought to find out whether the firm employ promotional differentiation strategies. The interviewees unanimously agreed that their firms employ promotional differentiation strategies in order to enhance customer acqusation. The respondents reported that the promotional differentiation strategies employed by their firms include use of free calls in certain occasions, price discounts, free SMSs, and vigorous advertising.

Other strategies included trade show promotions to encourage retailer demand, direct selling to customers in showrooms or face to face, negotiation with retailers to stock your product, efficient supply chain allowing retailers an efficient supply,

packaging design to encourage purchase and point of sale displays. The interviewees further confided that promotional differentiation strategies are effective.

4.3.6 Location Strategies

The research sought to find out whether the firm employ location strategies to respond to changes in the environment. The location strategies employed by the firm include having distribution offices/customer care in most of the major towns. They also added that location strategies are effective to a moderate extent.

The world has been reduced into a global village. The respondents described globalisation as 'a growing integration of economies and societies around the world' and an opportunity to grow or a threat that can lead to its exit from the industry depending on its strategic response to it for example globalization makes it possible for them to adopt new technologies and learn from other global companies' strategies, their successes and failures.

The respondents intimated that the main challenges faced by the organization as a result of globalization include increased competition including other competitors from east African region, obsolesce of certain technology due to the company facing new technology like 3G speed, Wimax and fibre for data services, increasing demand from customers for quality, increased need for funds for expansion/diversification into other countries, shift in customer loyalty and cultural influences on customer needs and having the organization adopt to foreign culture, regulation and policies.

On how the companies measure the challenges brought by globalization, the findings showed that the management of the company consider variance in profitability and sales revenue, change in consumers' perception and demand, difficulty in formulating and implementing operation strategy, obsolesce and change in technology, size and diversity of competing companies, overall adjustment and industry standard deviation assessed through its business risk report.

On the companies policies in regards to the challenges brought about by globalization, the study's findings indicated that they have policy to strategically respond quickly and carefully to such challenges; in the light of globalization the companies seek to attract, develop, reward and retain outstanding individuals who we are committed to offering challenging responsibilities and development opportunities that can eliminate

such threats\ and to highly differentiate its products and services in the competitive environment and be one-stop shop for all users' data and voice needs like in prepaid services the companies have data and messaging services, such as SMS, SMS2Email, WAP, GPRS, multi-media messaging and automated phone settings while in information services, services provided include voice services.

4.3.7 Technological Strategies

The research sought to find out whether the company is using technology to respond to the changes in the environment. The interviewees were in accord that their company is using technology to respond to the changes in the environment which were very effective. They said that integrating business insight with technological possibilities is essential to innovation.

The strategies primarily focus on the technologies themselves and in some cases the people who directly manage those technologies. The technological strategies employed by the firms include mainly provision of internet services and adoption of up to date technology to ensure efficient service delivery. They added that the linkage of corporate business strategy and technology strategy plays an important role in firms' success saying that technology forecasting, technology assessment and product planning are integrated by road-mapping.

4.4   Discussion

The telecommunication industry in Kenya is controlled by four major service providers in the mobile telephone industry. These included Safaricom Limited, Airtel Kenya Limited, Orange Telekom and Yu (Esser group). In establishing a niche for themselves, the companies used different response strategies to the changes in the operating environment. First, human capital was used as the key differentiation strategy in response to the changing environment especially in creating organization culture which may not be easily copied by a competitor. Training and skill development strategies were also used. The training and skills development included a compulsory induction training whenever a new staff was joining the organization, voluntary on the job training to develop employee skill and improve customer satisfaction, scholarships on technical issues and mentorship. The training and skills

development strategies were effective as it provided employees with a continous and up to date training in order to adapt to the changes in the operating environment.

The research and development/innovation strategies that their company adopted include conducting baseline surveys on the level of customer satisfaction and their preferences, carrying out market research and coming up with new and innovative products

Mobile phone companies in Kenya employed price differentiation strategies. According to the findings, the interviewees felt that the firm employ price differentiation strategies which had helped them differentiate from each other. Some of the price differentiation strategies employed by the firm included offering tariffs with long off peak hours, offering competitive prices for voice calls and messages, reducing transaction costs and offering competitive prices and discounts for internet serviced. Price differentiation strategies were used to a limited extent though.

The mobile phone companies also applied product differentiation strategies like offering a wide range of products, market segmentation into prepaid and post-paid, money transfer service, credit facilities to customers which had names like Okoa Jahazi, kopa credo among others. They also employed product differentiation by denominating their airtime into several amounts that their target markets could afford.

In reaching out to their customers either to inform them of the services of the company or constantly reminding the customers to continue using their services, the mobile phone companies used different promotional strategies. Some of the promotional strategies used by the mobile phone companies in Kenya included offering free calls within certain times, offering airtime bonus to customer loading with amounts ranging from certain limits, offering price discounts, offering free SMSs and vigorous advertising.

The companies also used location strategies to respond to the changes in the business environment. This involved careful selection of distributors and location of customer care centres around the country. This involved where to set up a branch and a main distributor.

The study that the firms employ price differentiation strategies. The price differentiation strategies employed by the firm include offering tariffs with long off peak hours, offering competitive prices for voice calls and messages, reducing transaction costs and offering competitive prices and discounts for internet serviced. These price differentiation strategies are effective to a great extent. This is in line with Lowes et al, (1994) who observed that cost leadership can be achieved through efficiencies, cost reductions; overhead reductions etc.

The study further found that the firms employ product differentiation strategies. The product differentiation strategies employed by the firm include introduction of products for special application, use of customized/flexible product, offering a wide range of products, use market segmentation, forming alliances with banks to offer mobile banking products, use of unique packaging and introduction of innovative products such as the money transfer. The study further established that product differentiation strategies are effective and that the firms employ promotional differentiation strategies. This concur with Pearce and Robinson (2007) findings that product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows the organization to capture the market share. Porter (1980) also said that differentiation strategy aims to build up competitive advantage by offering unique products which are characterized by valuable features, such as quality, innovation, and customer service.

From the study, it was clear that the promotional differentiation strategies employed by their firms include use of free calls in certain occasions, price discounts, free SMSs, and vigorous advertising. It was clear that promotional differentiation strategies are effective to a very great extent. This is in line with Pearce and Robinson (2007) that companies are encouraged to improve their competitive position in the marketplace through a variety of strategic actions, both offensive and defensive. Among these are introducing new products, reducing the price of existing products, developing sales promotions or even setting higher marketing budgets.

According to Chang et al., (2003), as an alternative component of the cost leadership strategy, a relocation strategy complements the domestic cost efficiency strategy by shifting activities within the firm to low-cost foreign countries. The location strategies

employed by the firm include having distribution offices/customer care in most of the major towns. It was deduced that location strategies are effective to a moderate extent.

The main challenges faced by the organization as a result of globalization include increased competition including other competitors from east African region, obsolesce of certain technology due to the company facing new technology like 3G speed, Wimax and fibre for data services, increasing demand from customers for quality, increased need for funds for expansion/diversification into other countries, shift in customer loyalty and cultural influences on customer needs and having the organization adopt to foreign culture, regulation and policies.

The study deduced that the management of the company consider variance in profitability and sales revenue, change in consumers' perception and demand, difficulty in formulating and implementing operation strategy, obsolesce and change in technology, size and diversity of competing companies, overall adjustment and industry standard deviation assessed through its business risk report. This is consistent with what Grant (2003) established that the environment in an industry has great influence on the growth, survival and profitability of firms.

Moreover, the study found that the companies are using technology to respond to the changes in the environment. The technological strategies employed by the firms include mainly provision of internet services and adoption of up to date technology to ensure efficient service delivery. It was clear that technological strategies are effective to a very great extent.

Response studies in the various industries have been done extensively by various scholars locally, for example, Migunde (2008) studied the Response Strategies by Equity Bank to competition in the Kenyan Banking Industry and found out that technological advancement and additional investment in technology was a key factor to gaining a competitive edge. Jebiwott (2008) studied the strategic responses by the Barclays Bank of Kenya to changes in the Environment, Muhoro (2009) and Limugi (2010) studied the strategic responses adopted by the Commercial Bank of Africa while Machai (2009) looked at all the strategic responses by commercial banks in Kenya to the environment. Most studies have been directed towards understanding the environment and the different operational facets surrounding the various organizations in the financial industry. In line with vision 2030 objectives, Muli

(2010) looked at the strategic responses by the Ministry of Public Works to the challenges of Vision 2030. This study found out that the key contributor to the success of the Vision 2030 is the government's increased investments in infrastructure.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The conclusions and recommendations drawn were focused on addressing the objective of this study. The objective of this study was to investigate the strategic responses adopted by mobile phone companies to changes in the telecommunication industry.

5.2 Summary of the Findings

The research established that Human capital can be used as the key differentiation strategy in response to the varying environment. Human capital defines the company's culture and aids in the implementation of the developed strategies. The study further found out that the training and skills development strategies are efficient to a very great extent. The training and skill development strategies adopted comprised of necessary induction training, voluntary on the job training, scholarships on technical issues and mentorship.

In order to satisfy its customers, an organization should know customer needs, tastes and preferences and to achieve this, the organization has to carry out research. It was evident that research and development/innovative strategies are valuable to a great extent.The research and development/innovation strategies adopted by the company consist of introduction of new and innovative products, conducting baseline surveys on the level of customer satisfaction and their preferences, carrying out market research.

On whether the firms utilize price differentiation strategies, it was clear that price differentiation strategies are effective to a great extent.The price differentiation strategies used by the firm include offering tariffs with long off peak hours, offering competitive prices for voice calls and messages, plummeting transaction costs and offering competitive prices and discounts for internet serviced.

The study found that the firms utilize product differentiation strategies which are effective.The product differentiation strategies employed by the firm include

introduction of products for special application, use of tailored/flexible product, offering a wide range of products, use market segmentation, forming alliances with banks to offer mobile banking products, use of unique packaging and introduction of innovative products such as the money transfer.

It was established that the firms make use of promotional differentiation strategies which are effective to a moderate extent. The promotional differentiation strategies employed by their firms comprised of use of free calls in certain occasions, price discounts, free SMSs, and vigorous advertising. The location strategies employed by the firm include having distribution offices/customer care in most of the major towns. It was deduced that location strategies are effective to a moderate extent.

The main challenges faced by the companies in the telecommunication industry as a result of globalization include increased competition as well as other competitors from East African region, obsolesce of certain technology due to the companies facing new technology like 3G speed, Wimax and fibre for data services, mounting demand from customers for quality, augmented need for funds for spreading out/diversification into other countries, shift in customer loyalty and cultural influences on customer needs and having the organization adopt to foreign culture, regulation and policies. The management of the company also consider variation in profitability and sales revenue, change in consumers' view and demand, difficulty in formulating and implementing operation strategy, obsolesce and change in technology, size and diversity of competing companies, overall adjustment and industry standard deviation assessed through its business risk report.

It was also clear that the companies have policy to strategically respond quickly and carefully to such challenges by attracting, developing, rewarding and retaining outstanding individuals who we are committed to offering challenging responsibilities and development opportunities that can eliminate such threats and to highly differentiate its products and services in the competitive environment and be one-stop shop for all users' data and voice needs like in prepaid services the companies have data and messaging services, such as SMS, SMS2Email, WAP, GPRS, multi-media messaging and automated phone settings while in information services, services provided include voice services.

In addition, the study found that the companies are using technology to react to the changes in the environment. The technological strategies used by the firms were mainly provision of internet services and adoption of state of the art technology to ensure proficient service delivery.

5.3 Conclusion

In response to the changes in the telecommunication industry, the study concludes that the mobile phone companies in Kenya should reflect on human capital as the key differentiation strategy. The companies should adopt research and development/innovation strategies in order to appreciate customer needs, tastes and preferences such as conducting baseline surveys on the level of customer satisfaction and carrying out market research. In addition, the companies need to take up price differentiation strategies such as offering tariffs with long off peak hours, offering reasonable prices for voice calls and messages, plummeting transaction costs and offering competitive prices and discounts for internet services.

On product differentiation strategies, the study concludes that the firm should launch products for unique application, use tailored/flexible product, segment their market and form alliances with banks in order to offer mobile banking products. The firm should apply promotional differentiation strategies such as the use of free calls in certain occasions, offer price discounts and free SMSs. Furthermore, the study concludes that the companies ought to use technology to counter the changes in the environment by providing internet services and adopting state of the art technology to ensure proficient service delivery.

5.4 Recommendations

From the discussions and conclusions in this chapter, the study recommends that although the companies have been successful in neutralizing the challenges brought about by changes in the environment, they should engage in more cost reduction as a response to its competitors' strategies whose products and services are much cheaper

Besides providing their services and products at lower cost (cost advantage), the companies should deliver benefits that exceed those of competing products (differentiation advantage) to gain a competitive advantage over other firms. The study further recommends that the companies should heavily advertise themselves in

other countries and diversify in other countries that are not in East Africa in order to take advantage of economic liberations in many countries as a result of globalization. This would increase its customer base and compete even more with other companies which are currently in most African countries.

5.5 Limitations of the Study

Since this was a study on organizations from one industry, the data gathered might differ from strategic responses adopted by other organizations. This is because different organizations adopt different strategies that differentiate them from their counterparts. The study however, constructed an effective research instrument that sought to elicit general and specific information on the strategic responses adopted.

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

5.6 Suggestions for Further Studies

The study has investigated the strategic responses adopted by mobile phone companies to changes in the telecommunication industry. The study therefore recommends that further research should be done on the strategic responses adopted by other companies to changes in their industry to allow for generalization of the strategic responses adopted by companies in Kenya to changes in the environment.

This is because different industries have different strategic approaches and thus allowing for comparison. There has been so many changes in the business environment in general across all the industries and this will therefore necessitate the organizations to align themselves well so as to survive in the respective industries.

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Appendix 1: Questionnaire

Section A: Background Information

1. Name of the Organization (optional) _____

2. How can you describe the ownership of your organization?

   (a) Government [ ]   (b) Private [ ]   Both   [ ]

3. What is the number of employees in your firm?

   a) Less than 100,000   [ ]

   b) Between 100,000- 499,999   [ ]

   c) Over 500   [ ]

4. Do your firm have strategies to direct its activities?

   YES [ ]   NO   [ ]

5. If yes, what is the validity period of the strategic plan? _____

Section B: Strategic Responses

6. Human capital can be used as the key differentiation strategy in response to the changing environment. Human capital defines the company's culture and helps in the execution of the developed strategies. In your company, what training and skill development strategies have been adopted?

   _____

   (ii) To what extents are these training and skills development strategies effective?

Very great extent	[ ]
Great extent	[ ]
Moderate extent	[ ]
Little extent	[ ]
No extent	[ ]

7. In order to satisfy its customers, an organization has to understand customer needs, tastes and preferences, to achieve this an organization has to research. What research and development/innovation strategies has your company adopted?

   _____

   (ii) To what extents are these research and development/innovative strategies effective?

Very great extent	[ ]	
Great extent	[ ]	
Moderate extent	[ ]	
Little extent	[ ]	
No extent	[ ]	

8. (i) Does your firm employee price differentiation strategies?

YES [ ]   NO   [ ]

If yes, please list the price differentiation strategies employed by your firm

_____

(ii) To what extents are these price differentiation strategies effective?

Very great extent	[ ]	Great extent	[ ]
Moderate extent	[ ]	Little extent	[ ]
No extent	[ ]		

9. (i) Does your firm employee product differentiation strategies?

YES [ ]   NO   [ ]

If yes, please list the product differentiation strategies employed by your firm

_____

(ii) To what extents are these product differentiation strategies effective?

Very great extent	[ ]
Great extent	[ ]
Moderate extent	[ ]
Little extent	[ ]
No extent	[ ]

10. (i) Does your firm employee promotional differentiation strategies?

YES [ ]   NO   [ ]

If yes, please list the promotional differentiation strategies employed by your firm

_____

(ii) To what extents are these promotional differentiation strategies effective?

Very great extent	[ ]
Great extent	[ ]
Moderate extent	[ ]
Little extent	[ ]
No extent	[ ]

11. (i) Does your firm employee location strategies to respond to changes in the environment?

    YES   [ ]   NO   [ ]

    If yes, please list the location strategies employed by your firm _____

(ii) To what extents are these location strategies effective?

    Very great extent   [ ]
    Great extent   [ ]
    Moderate extent   [ ]
    Little extent   [ ]
    No extent   [ ]

12. (i) The world has been reduced into a global village. How would you describe globalisation?

(ii) What are the main challenges faced by the organization as a result of globalization?

(iii) How does the Company measure the challenges brought about by globalization?

(iii) What policies/strategies are used by your company in response to the challenges brought about by globalization?

13. (i) The world has been turned into a borderless market with the use of technology, is your company using technology to respond to the changes in the environment?

    YES   [ ]   NO   [ ]

    If yes, please list the technological strategies employed by your firm

    _____

(ii) To what extents are these technological strategies effective?

    Very great extent   [ ]
    Great extent   [ ]
    Moderate extent   [ ]
    Little extent   [ ]
    No extent   [ ]

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