

**APPLICATION OF INNOVATION STRATEGIES AT AIRTEL KENYA**

**BY**

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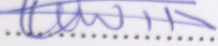
**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**NOVEMBER, 2011**



## DECLARATION

This project is my original work and has not been submitted for a degree in any other University.

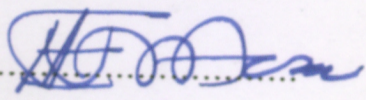
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This study is dedicated to my mother Sarah, my father Ibrahim, brothers and sisters for their continued love and support.

There are many people that I recognize especially for their contribution towards my undertaking the MBA course. My gratitude especially to professor Aosa, lecturer School of Business University of Nairobi, for the invaluable support, guidance and contribution.

To my family brothers and sisters for always encouraging me during this course. Many thanks to all Lecturers of the University of Nairobi school of Business for all the invaluable knowledge and support that they offered me.

Plenty to all those who assisted me in one way or another during the program especially Mrs. Ng'ang'a and Mr. Ndonga and other fellow colleagues where I work I register my profound appreciation to you all.



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## ABSTRACT

It is inevitable that organizations have to adopt speedily changing market conditions in order to sustain their existence. Improving an innovative management manner is also required for this adaptation. Pursuing new technologies, trends, and adopting improvements has become the major rule of the competitiveness. Business entities in the current operating environment are under intense pressure to change on how its products, process, service delivery to customers and generally the way of doing business are done. These changes will at least assure the organization of its sustenance in both short and long term.

The objective of the research project was to determine the application of innovation strategies in Airtel Kenya. The research design used was a case study of the company where an in depth personal interviews with the top and middle level managers in the organization was undertaken. The data collection tool was an interview guide. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews and secondary information from the organization.

The findings of the study were that the company has undertaken innovative strategies in financial, technological, organizational structure, customer care, product and human resource. At the same time, the company has used differentiation, focus and cost leadership strategy in order to gain competitive advantage over its competitors. The company has encountered challenges innovating their strategy which includes technological, political, economical, social and political factors. The company however has succeeded in terms of customer base, profitability, asset base, employee retention and brand image.



The study also made a number of recommendations which Airtel Kenya should adopt to remain competitive in the market. This recommendation included the organization allocating more resources to advertising and business development departments of the organization. In addition, the organization should endeavor to recruit more staff to leverage its competitiveness.

Also there are limitations which were highlighted by the researcher where scope and depth of the study was limited by time factor and financial resource constraints and unwillingness by respondents to give researcher enough time. The researcher came up with suggestions for further research .Future research might seek the views of multiple organization members to reduce the potential for common method variance. It might also consider how innovation as newness is related to performance and other internal and external factors .It should seek to find out if there is a price to pay for being innovative. It is very important to find out if there is relationship between any of the growth innovation strategies and its related outcomes in terms of market share growth and which sets are critical to achieving an efficient and measurable growth of market share.

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## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

Innovation strategy in any business or industry involves aligning your product lifecycle in the company with your various research and development activities. An innovation strategy can be used for both physical products or services, however new ideas should come from all departments and should feed back into the research and development group whether directly or indirectly using whatever type of idea the company uses. It is observed that innovation exist between strategies which are key to the good performance of any business or industry (Johnson and Scholes, 1997).

Business growth strategies can inform idea creation by focusing staff upon certain areas of particular interest. As a result new ideas could be created to look into ways of incorporating the ability to apply the effective innovation strategy. It should be noted that when applying innovation strategies there should be constant stream of information and ideas between the research and development element of the company. This study will take into consideration all innovation strategies applied at Airtel Kenya and some of the internal and external factors affecting its application.

#### 1.1.1 Concept of Innovation

Innovation is considered to be a critical requirement for the growth and profitability of organizations. For private sector organizations operating in increasingly competitive market, innovation is often a condition for simple survival. The capability to innovate is ever more viewed as the single most vital factor in developing and supporting competitive advantage (Tidd, 2001).



Innovation is a more complex than just intervention. It involves the conversion of new knowledge into a product, process or service. One of the ways to achieving growth and sustaining performance is to encourage and foster innovative practices and creativity internally within the institution. In addition the organizational structures and culture must support the innovative practices for them to translate to commercialization (Dodgson 2001). In numerous fields, something new must be majorly different to be innovative, not an insignificant change. The main aim of innovation is positive change, to make something or someone better. Innovation resulting in increased productivity is the basic source of increased wealth in an economy. Innovation is a vague concept, attracting conflicting and often multiple definitions, and transmitting different things to different individuals both in the literature and in institution Luecke et al (2003). Storey (1998) proposes that the conceptualizations about the meaning of innovation, is closely engrossed with what it is for, since, obviously, it is not an end in itself.

(Cooper, Scott and Kleinschmidt, 2003)

A further classification of innovation is as a management or organizational process.

Storey and Easingwood (1998) propose that like many business functions, innovation is a management process that requires rules, exact tools and discipline. Innovation typically involves creativity, but is not identical to it: innovation involves acting on the creative ideas to make some specific and tangible difference in the domain in which the innovation occurs (Davila et al, 2006). All innovation begins with creative ideas. Innovation is defined as the successful implementation of creative ideas within an organization. In this view, creativity by individuals and teams is a starting point for



innovation; the first is necessary but not sufficient condition for the second (Johnson and Scholes, 1997).

Innovation strategy in any business or industry involves aligning the product life cycles of the company with their various research and development activities. Oke (2001) posited that the first stage in formulating an innovation strategy is to describe what innovation means to the institution or the focus areas in terms of innovation. By comprehending the drivers of innovation needs, a company can expand its focus areas for innovation. The significance of having an obviously defined innovation strategy directing the innovation process was documented by Griffin (1997). The innovation strategy should specify how the significance of innovation will be communicated to all the employees to attain their buy-in and must openly reflect the significance that management places on innovation and the alignment to overall business strategy (Cooper, Scott and Kleinschmidt, 2002).

### **1.1.2 Innovation and Strategy Linkage**

If things didn't change, then your company could keep on doing what it's always done and there would be no need for innovation. If markets were stable, if customers were predictable, if competitors didn't come up with new products and services and if technology stayed constant, then we could all just keep going as we did yesterday.

But all the evidence shows that change is racing faster and faster, which means many new types of vulnerabilities. Technology advances relentlessly, altering the rules of business in all markets that it touches, which is of course every market. Markets are not stable,



customers are completely fickle and competitors are aggressively targeting your share of the pie. Therefore there is need to manage with the realities of change in mind.

The decision focus on how best to prepare future markets and the actions relate to transforming the innovation mindset. So there is a need to practice innovation as a vital aspect of corporate or organization strategy. In order to survive and to lead in the market, innovation is essential to company's strategy.

### **1.1.3 Telecommunication industry in Kenya**

Telecommunication is the transmission of information, over significant distances, for the purpose of communication. In earlier times, telecommunications involved the use of visual signals, such as beacons, smoke, semaphore telegraphs, signal flags, and optical heliographs, or audio messages via coded drumbeats, lung-blown horns, or sent by loud whistles, for example. In the modern age of electricity and electronics, telecommunications now also includes the use of electrical devices such as telegraphs, telephones, and teletypes, the use of radio and microwave communications, as well as fiber optics and their associated electronics, plus the use of the orbiting satellites and the Internet.

For the past decade Safaricom has been the most dominate phone service provider with an average of 80% of the market belonging to them. They have managed to maintain this dominance despite the entrance of new service providers such as Airtel which was taken over by Zain. Safaricom's only true competitor has been Airtel which was owned by Verizon since then Airtel was unable to shake their dominance despite having better



services , a wider coverage and better pricing. The only dominance that Celtel has been able to maintain over Safaricom has been over its corporate clients who are more focused on quality than popularity. Orange the new market entrant seems to be making more headway in capturing the Kenyan Market achieving its 1,000,000 millionth customer within eight months by the implementation of a marketing strategy that is appealing as well as provision of quality services to clients. Orange's strategy has worked so well that it has made Safaricom jittery to the point that it is responding to Orange and their advertising campaign and has also led to the latest entrant Yu replicating its penetration strategy.

#### **1.1.4 Airtel Kenya**

Airtel is the World's fifth largest mobile operator with 180 million customers. Airtel brand replaced Zain in October 2010. In terms of network coverage, 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.



Airtel is adopting a low cost model like its Indian parent Bharti and is increasingly opting to outsource non core business but saw it hard over its network functions to Nokia, Siemens network, customers care and information technology. Airtel sparked a price war last year when it slashed its tariffs by fifty percent prompting its rivals to follow suite in what has cut subscribers monthly budgets by half and slowed the industry's profitability.

## 1.2 Research Problem

The significance of having an evidently defined new innovation strategy directing the innovation process was recognized by Cooper (2003). Innovation strategy gives a clear bearing and concentrates the effort of the entire institution on a common innovation goal. According to Shepard and Green (2003) strategic management in the telecommunication sector demand that the institutions should have effective systems in place to offset unpredictable events that can maintain their operations and reduce the risks implicated through innovations. Roehm and Sternthal(2001) study also reports that the management of high performing companies was tangibly and visibly dedicated to new product development and unequivocally formulated and communicated the institution's new product development strategy.

According to Cooper, Scott and Kleinschmidt (2002), innovative organizations are more profitable than their non-innovative counterparts and are less profitable, perhaps due to benefits derived from development of products, process and other aspects of organizations operations. Specifically, organization's low performance is due to the fact that, rather than maximizing profits, they respond to a social mandate. This does not give room for technological or innovative advancements thus low or no profits. Doyle (2004)



observes that systematic evaluation rarely occurs within organizations. Making causal connections between investment in innovation, and future management performance and organization success is extremely difficult.

Telecommunication innovation, practice both incremental and radical innovation. In these periods of incremental innovation, are interspersed when necessary with radical and transformational change. Despite the competitive environment that network providers in Kenya are operating in, they have consistently experienced trajectory growth in terms of branch net work, number of customer and asset base. It is therefore expected that for them to thrive in this competitive environment they must have adopted Innovative strategies to respond and adapt to the changes and challenges in their operating environment.

Locally, Gitonga (2003) did a study on innovation processes and the perceived role of the CEO in the telecommunication sector. Odhiambo (2008) carried out a research on the innovation strategies at the Standard Chartered Bank. None of these studies have ever focused on the application of innovation strategies on performance of the telecommunication industry in Kenya. This is despite the fact that the telecommunication industry environment has been affected adversely by the changing operating environment calling for adoption of innovation strategies to enhance a competitive edge in the markets. There is therefore a research gap that needs to be filled by carrying out an investigation into the application of innovation strategies on performance of Airtel. It is



in this light that the researcher seeks to answer the question, what innovation strategies does Airtel Kenya apply to improve its performance?

### 1.3 Research Objectives

This study has got two objectives. These are;

- i. To determine the innovation strategies adopted by Airtel Kenya Ltd
- ii. To determine factors that influence the innovation strategies adopted by Airtel Kenya Ltd

### 1.4 Value of the Study

This study is important to the companies in the mobile phone industry as they will be able to know for certain what environmental factors play a bigger role in shaping their operations. Also it will show how they affect performance in mobile industry and what strategies to use in order to remain competitive. The results of this study will also be invaluable to researchers and scholars, as it will form a basis for further research. The students and academics will use this study as a basis for discussions on the competitive strategies adopted by cellular phone companies in Kenya.

The industry regulator, the Communications Commission of Kenya, will also find the results of this study very invaluable, as it will be able to ascertain the extent of competition in the industry and the innovation strategies that mitigate the effect of such competition to an individual firm and as so determine whether such strategies adopted in the industry conform to the guidelines provided for the industry by the government.



## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

This chapter summarizes the information from the available literature in the same field of study. The specific areas covered here are theoretical review, conceptual framework, product innovation, market innovation, process innovation, technology innovation, critique of the existing literature, chapter summary and research gaps.

### 2.2 Innovation strategy

Innovation has been conceptualized in a variety of ways in the literature (Kim and Mauborgne, 1999). It has been considered as a process, a result, or both, and different types of innovation have been distinguished. Damanpour (1996) definition broaches these different issues. According to this author innovation is the adoption of an idea or behavior, which could be a system, policy, program, device, process, product or service that is new to the adopting organization. Wheelwright and Clark (1992) suggests that effective innovation must involve all areas of an organization with the potential to affect every discipline and process . Innovation can be transformational, radical or incremental depending on the effect and nature of the change. Afuah (1998) suggests that innovations do not have to be breakthroughs or paradigm shifting however Kim and Mauborgne (1998) maintain that organizations should strive for the larger innovations.

Referring to the "process of innovation" helps to focus the study of innovation strategies by organizations. Raymond et al. (1998) shows that procession approaches to change implementation can be used with equal validity in organizations. Leonard-Barton (1995) states that the process of innovation requires ongoing maintenance and renewal because



the capability to innovate is much easier lost than it is to acquire. Furthermore, the implementation of innovation strategies requires a supportive organizational structure. According to Meyer (1996) and Tidd, Bessant and Pavitt (2001) an organization structure must be designed to support innovation strategies. This structural issue is important in organizations where a manager may have an all pervasive influence (Choueke and Armstrong, 1998). Tidd (2001) suggests that the most innovative organizations tend to be those that develop the most suitable fit between structure, operating contingencies and flexibility.

### **2.2.1 Innovation Strategies and Performance**

Innovations can be characterized as incremental/radical, first mover/late mover and imitative/inventive. The three categories are not mutually exclusive. However, each point to a different feature of innovation and reveals insights not found as readily in the other two (Berry, 2000). Business is not about looking at historical figures, nor about taking comfort from an attractive financial statement. It is about identifying the sustainability of the revenue streams, the long-term competitiveness of the company's products and understanding where every penny goes and making sure that it is adding value (Carrie, 2008).

According to Christensen (1996) and Raynor (2008) corporate leaders should put up a wall between the innovation and the existing hierarchy. Leadership should create an independent business unit, which will provide a safe and protected environment for innovation. There the innovation can flourish without having to fight off the interferences and intrusions and anti-innovation attitudes of the hierarchy. Allowing a different culture



to flourish in a separate organization eventually leads to repeated power struggles and culture clashes, which members of the mainstream organization invariably win. Interest in the new ventures tends to be cyclical.

### 2.2.2 Technological Innovations

For many firms in Kenya, information and communication technology is viewed as potentially capable of helping achieve innovative strategy. The high rate at which organizations are buying mobile phones, computer hardware and software as well as using the Internet for information and communication is evidence of the increasing awareness of information and communication technology in the Kenyan market. The business benefits of using information and communication technology include efficiency and attainment of increased returns.

Porter (1990) emphasized the use of technology to empower the firm's capabilities. He argued that technology would enable the firm to excel in the competition. Firms are regarded as a vanguard in the use of information and communication technology (ICT) (Bobáková, 2003). In the context of network providers, the advancement in technology presents a new opportunity to improve service quality in response to volatile economic environment and changing competitive conditions. At the firm level, apart from adopting technology to integrate delivery channels to develop a close relationship with customers, the firms also adopt technology to enable the analysis of information about customer segmentation, demographics, product usage, transaction behaviour that thereby help them to improve the profitability and increase market share.



### 2.2.3 Product Innovations

It is not enough to avidly engage in product innovation for its own sake - what some managers refer to as "innoflation" (Meyer 1996). It is important to delineate just what product features are to be improved or radically changed. For this purpose, analysts have differentiated between "core" product features and help provided in evaluating, buying and using the core product. The amount of help or support provided will depend on the needs of particular customers. An appropriate premium price can normally be charged for support. Support provides a potentially profitable lever for gaining competitive advantage. It enables a supplier to sell the same core product to different customer groups as different offerings (Storey 1998). Different terminologies have been used to categorize and describe product development. Cooper et al (2002) for example, embraces two distinct activities: old product development, which involves updating and improving existing products, and new product development, which involves a greater degree of innovational challenge.

According to Odhiambo (2008) a product can be differentiated in various ways. Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation (Porter, 1990). Rather than cost reduction, a firm using the differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive. The desired features are then incorporated into the product to encourage buyer preference for the product. The basis for competitive advantage is a product whose attributes differ significantly from rivals' products. Competitive advantage results when buyers become



strongly attached to these incorporated attributes and this allows the firm to: charge a premium price for its product, benefit from more sales as more buyers choosing the product and more buyers become attached to the differentiating features resulting in greater loyalty to its brand.

#### 2.2.4 Market Innovations

Market innovation is concerned with improving the mix of target markets and how chosen markets are best served (Kim and Mauborgne, 1999). Its purpose is to identify better (new) potential markets; and better (new) ways to serve target markets. Market segmentation, which involves dividing a total potential market into smaller more manageable parts, is critically important if the aim is to develop the profitability of a business to the full. Incomplete market segmentation will result in a less than optimal mix of target markets, meaning that revenues, which might have been earned, are misread .

The market in which an enterprise offers its products can be a predictor of the effects of innovative activities. Strengths and weaknesses of competitors, demands raised by consumers, legal regulations, as well as ecological, health and other standards, motivate enterprises to develop products taking into account the situation in a particular market. Enterprises often find themselves having to modify their products sold on the international market, not only to achieve outstanding business performance and competitive advantage, but also to enter the market in the first place and to remain in it. Accordingly, the market range can have an impact on the effects of innovative activities. It is to be expected that the more present an enterprise is in the international market, the more oriented its innovation activities are towards improving product quality, ecological



and health aspects, as well as towards complying with legal standards and various regulations.

### 2.2.5 Process Innovations

Process innovation embraces quality function deployment and business process reengineering (Cumming, 1998). It is a type of innovation, which is not easy, but its purpose is now well understood. An efficient supplier who keeps working on productivity gains can expect, over time, to develop products that offer the same performance at a lower cost. Such cost reductions may, or may not, be passed on to customers in the form of lower prices. Process innovation is important in both the supply of the core product as well as in the support part of any offer. Both components of an offer require quality standards to be met and maintained.

### 3.2 Research Design

In the case of services, which by their very nature rely on personal interactions to achieve results, the management of process innovation is a particularly challenging activity (Storey, 1998). Implementing and developing the innovation process requires energy to overcome the resistance to change. Therefore, it is essential that visionary and committed leadership provide the energy to overcome this resistance. Moreover, existing managers in organizations are less likely to spend time benchmarking other organizations in regard to leadership and innovation (Raymond, Bergeron and Rivard, 1998).



## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 Introduction

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

### 3.2 Research Design

A research design is a program that guides the investigator in the process of collecting, analyzing and interpreting observations (Chava and Nathmias, 2005). It allows inferences concerning causal relations and defines the domain of generalisability. This research utilized a case study design, which is one of the several ways of doing research whether social science related or even socially related. It is an intensive study of a single group incident, or community (Shepard and Greene, 2003).

Case study as a research design involves an in-depth, longitudinal examination of a single instance or event; a case. Another suggestion is that case study should be defined as a research strategy, an empirical inquiry that investigates a phenomenon within its real-life context. It gives a systematic way of looking at events, collecting data, analyzing



information and reporting the results. This study involved qualitative evidence. As a result the researcher gained a sharpened understanding of innovation strategies applied by Airtel Kenya and factors that influence those innovation strategies. According to Cooper and Schindler(2003),the case study places more emphasis on full contextual analysis of fewer conditions or events thus enabling intensive study of the social units. Case study was very appropriate for this study as it allowed a detailed investigation of a single subject.

### 3.3 Data Collection

The researcher used primary data obtained through in depth personal interviews with six top management team. A questionnaire personally administered by the researcher was used as interview guide during data collection. The interviews involved the interviewer asking questions to one respondent in a face to face situation. Primary data was collected using self-administered interview guides. The researcher helped the respondents to understand questions whenever difficulties arose .Top and middle staff involved in the process of planning, development, management and implementation of strategies gave information.

The interview guide was divided into two sections according to research objectives. The first section was aimed at obtaining information on the company innovation strategies aimed at increasing its competitive advantage. These were well explained by respondents according to the way they were asked by the interviewer .Second section was dealing with factors influencing innovation strategies. All the issues raised by the interviewer were addressed well. The researcher had chosen this method of data collection since



personal interviews are likely to provide the best means for gaining greater insight and closer sense of the actual problem pertinent to objective of research.

### 3.4 Data Analysis

Data collected was analyzed by use of content analysis. The information was analyzed and evaluated to determine their usefulness, consistency, credibility and adequacy. The content analysis technique was used because it assists in making inferences by systematically and objectively identifying specific messages and then relating them with their occurrence trends. The analyzed data sought to establish the extent of the impact of innovation on the performance of the Airtel Kenya, identified if the company has attained the goals of innovation. The content analysis was used to analyze the respondents' views about the application of innovation strategy at Airtel Kenya. Similar studies in the past like those done by Kandie (2001) in his study, strategic responses by Telkom Kenya Ltd in a competitive environment used this technique of content analysis to analyse data collected from their case study.

Data was organized for analysis through reading the answers given by respondents in an effort to spot any inconsistencies or errors which may have occurred during data collection stage. Any problem identified was corrected as appropriate. The researcher also undertook inspection, correction and modification of the information given in each questionnaire so as to guarantee the correctness and adequacy of data on a common basis.



## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

The objectives of the study were to determine the innovation strategies and factors that influence the innovation strategies adopted by Airtel Kenya limited. This chapter presents the data analysis, results and discussion of the same. The interviewees comprised the top and middle level managers of Airtel ltd with a bias in those staff engaged in the development of new products and recruitment of the staff engaged in the process. In total, the researcher interviewed six respondents, all of whom had been earmarked to be interviewed.

### **4.2 Innovation strategies Adopted by Airtel Kenya**

An innovative firm is generally distinguished in its ability to innovate, initiate change, and rapidly react to change flexibly and adroitly. A firm pursuing an innovation-based strategy accumulates specific capabilities, which distinguish the firm from its competitors and enable it to face the variability of the environment. Hence, it is imperative that for a firm to be sustainable in the current Kenyan competitive market, and more so a technologically based one, it must put in place a mechanism to innovate products that will keep its customers to the firm. The global and local competition in the mobile telephony has been stiff in the recent past and one important factor that will guarantee sustainability and assure the going concern of firms in this sector is their ability to introduce innovative products and services in the market. Breakthrough innovation is the single best way to leapfrog competition, move ahead of the industry pack and, most important, and create new ways to bolster profit margins and fuel future earnings streams.



In addition, the needs of customers have been changing at the same time and to meet these expectations, mobile providers are reinventing themselves into a flexible dynamic sales organization at front end and efficient, low cost processor at the back.

The respondents indicated that the financial resources was crucial for any organization to be competitive and they highlighted the financial position of the company as the most important factor for adoption of an innovation strategy. They highlighted that failure by the company to compete effectively previously with the other mobile companies was brought by resource constraint which hinders its innovations, however currently a large part of the company's budget has been assigned to innovation planned in the strategic goal plans and some to the unpredictable environmental changes. Although the company innovated the mobile money transfer service, it comes late when other companies had launched theirs until the roll out had been done.

In turbulent environments where change can happen at any level in any dimension, a rigid structure can represent a major handicap in the quest for survival. Survival can take place only with the environment rarely against it. The survival requires that structure co-evolves with the environment. In Airtel Kenya, the respondents indicated that it supports innovation strategies as it fosters exploration as well as exploitation. The most important facilitator or impediment for the innovations is the place where decisions are made by the organization. The structure of the company is designed to breakdown how work is to be carried out in business units and functional departments and not to be an impediment in the developing or implementing the organizations strategies. It was observed that the vertical structure that has been adopted by the organization was good for controlling the



activities of the organization as it allowed the participation of all employees and training in order to be innovative and ensuring that there was a clear structure of the roles to be performed by each employee. The respondents highlighted that their company develops a suitable fit between structure, operating contingencies and flexibility thus being innovative.

The respondents indicated that Airtel Kenya has realized that innovation is an essential condition of the organizations progress and a critical element in the competitive struggle of the enterprises. The respondents did indicate that the company's management has always tried to continuously foster and maintain an innovation culture as a top strategic priority, where all the employees are provided with incentives to be innovative in the work process. The business developments manager observed that 'with the benefits that accompany true innovation, there simply is not a time when innovation should not be at the top of senior management's "to-do" list'. This therefore reinforced the seriousness in which the company management takes the innovation process. The researcher identified four main types of innovations that take place at Airtel Kenya as Product innovation, process innovation, marketing innovation and organizational innovation.

With the high level of competition in the phone industry, the organization has realized the importance of IT to develop new products, services, processes and capabilities that give a business a strategic advantage over the competitive forces it faces in its industry. It has come to the realization of the organization that its competitive advantage rests in its adoption of the IT infrastructure that will improve its rate of responding to market demands as well as customer expectation.



A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. The respondents observed that these improvements can take the form of technical specifications, new components and materials, incorporated software, user friendliness or other functional characteristics. Product innovations can utilize new knowledge or technologies, or can be based on new uses or combinations of existing knowledge or technologies. The company has undertaken a deliberate step to reshape its product innovation to suit the needs and suitability of the market. The business development team develops all the products after market research which helps in identifying the opportunities existing in the market and how the same can be exploited to meet the requirement of the market and also boost the income of the organization. According to the respondents, the above process has enabled the organization to build a current product range of over eighteen products. The product mix developed so far has helped the organization to remain the second with a current market share of 16% of the total subscribers in Kenya. With this support, the firm has developed a range of products and services which include roaming services, top-up services, data messaging, Airtel money, voice services, yu to me, koba kredo and information and security services.

With the evolving of the mobile industry in Kenya, so do the needs and demands of the users. The respondents observed that more recently the company has come up with more products with the latest being the launch the lowest calling rate in the country based on the increased market and the need to ensure that their customers get value for their money. The drive to come up with more products was necessitated by the need of the company to assist its subscribers when they need to make urgent calls and they do not



have enough credit for the same. With the yu to me service, one subscriber can send airtime from one phone to another's phone for free. On the other hand Koba kredo product enables a subscriber to be advanced credits to be paid when the person loads his/her phone next time. These products have been received positively in the market as is evidenced by the customers.

For an organization to have a successful business strategy, human resource function must be a key component. Employee's performance in an organization is directly related with the level of support and generally welfare activities the organization has put in place. The respondents pointed out that in the case of Airtel Kenya, several measures have been made by the organization to improve the welfare of the staff including maternity and paternity leave that has been initiated to give the parents a humble time with the new born. It was pointed out that for the last five years; Airtel Kenya has been able to run the wellness program for employees to ensure that they improve on the work life balances. The respondents also pointed out that the organization has put in place discussion and training programs on issues affecting their life such as healthy eating habits, exercises and diseases like HIV Aids epidemic.

The cost leadership strategy focuses on gaining competitive advantage by having the lowest cost in the industry. Lower costs and cost advantages result from process innovations, economics of scale, product designs and reengineering activities. A process innovation is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. Process innovations can be intended to decrease unit costs of production or



delivery, to increase quality, or to produce or deliver new or significantly improved products. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs. The respondents concurred that in the case of Airtel, its ability to increase and maintain its market share has been from the effort it has put in updating and modifying its processes of offering the services. The organization being a technologically based company and relying majorly on IT is forced by the change in technology to also change. The company has been able to achieve the strategy by charging the lowest rate across the networks and at the same time its charges for the short message service are among the cheapest. The company at the same time has outsourced some of its services like customer care, mast installation and maintenance, security and cleaning services since they do not have a cost advantage. While striving to stay cost-competitive is a sound and prudent business practice, breakthrough innovation is the single best way to leapfrog competition, move ahead of the industry pack, and, most important, create new ways to bolster profit margins and fuel future earnings streams. If it is done right, innovation can be an organizations most powerful competitive weapon.

The Kenyan mobile sector has witnessed stiff competition in form of the number of mobile operators and also the types of products and services being offered by the players. From the single fixed line operator in late nineties, in a period of just fifteen years, the number of operators has increased to the current four mobile companies and one fixed line operator. With this growth in the players, the option that has been available to the firms is to be innovative enough by introducing products that can be differentiated in the



market by the consumers. In the case of Airtel Kenya, it has been able to increase its market share recently through innovativeness through which the firm has received full support from the top management of the organization.

Airtel Kenya is Kenya's second largest mobile telephone operator and it prides itself at being a total communication solution provider. Its aim is to become the best company in Africa. In order to achieve this, a strong focus has been placed on quality of service to its customers as well as developing products that meet customer's requirements. The firm will continue implementing best practices based on the parent company of Airtel Kenya vast international experience. In terms of its business operations, the firm has been able to keep pace with the global mobile telecommunication scenario by having strategic business association; associations which add value to the global mobile telecommunication initiative and which help in meeting dynamic challenges of the modern mobile telecommunication world. This strategic association with the leaders in mobile telephony has created a niche in the Kenyan market today. There are many reasons that are quoted explaining the growth of Airtel but the one most highlighted is the commitment and motivation of key individuals, including the centrality and determination of some key entrepreneurs responsible for initiating the innovation. Attention to key managerial activities and attitudes, such as the development of a strong market orientation, good internal communications, a sound and innovative strategy, good stakeholder management and the ability to predict and respond to environmental and industry changes have equally lend a hand in the organizations' growth. The respondents indicated that other firms have implemented these strategies to suit the innovations which



they are pursuing. The strategies have helped them also to achieve the objectives which they also desired to achieve.

#### **4.3 Factors influencing innovation strategies adopted by Airtel Kenya**

Despite the great steps that has been taken by Airtel in developing new products, processes, organizational structure as well as in its human resource facet, the respondents identified a number of challenges that faces the organization in implementing these innovations.

##### **4.3.1 Technological factors**

The respondents pointed out that the rate at which technological change is taking place worldwide, Airtel Kenya has to change its level of technology in conformity with the changes in technology that is introduced into the market. They recognized that with the number of mobile subscribers increasing every year, it has become challenging to keep pace and provide a system that is free of problem. In some cases, the customers have witnessed system failure, congestion due to high number of customers who moved to the company's network after introducing new products or sabotage by other mobile companies. This problem has arisen because inability of the system to cope with the high traffic at one point in time. The respondents noted that at one point in time, the company received numerous complaints from its customers and their rivals in the industry captured the same to lure its customers.

The respondents agreed that, the current global trend is leaning towards a continued introduction of modern and up to date technology that is more efficient and effective. Further, the customers' expectation has been changing over time. With this, the landscape



of business operation at Airtel has been changing quite fast and in some cases brought challenges in trying to come with the needs. The respondents did observe that though the company has tried to replace the aging equipment with new ones, the replacement cost to the organization has been high almost every year. When new technological innovation is introduced, the old machines and equipment are rendered redundant and hence the need to dispose them off.

#### **4.3.2 Political factors**

The respondents highlighted that the competition in the industry have recently narrowed down to Airtel and Safaricom which the government have stake on it. This has lead to favouritism from the government towards the company which was quoted in the stock market recently and its shares have performed poorly and in order to protect investors, the government has resulted to initiating policies which will give the company an edge over other competitors.

The suggestions of the new regulations by the government on the need to inform the telecommunications industry regulator (Communications Commission of Kenya) of the need to introduce a change in the tariffs or an intention to introduce an innovated strategy was purely to curtail the other mobile service providers who were eating into the Safaricom market share as this would have lead to a situation where the competitor knows what the other company intends to introduce into the market thus work on a counter strategy even before the launch of introduction of a new product.



### 4.3.3 Economic Factors

The slow growth rate of the Kenyan economy for the last several years has had an impact on the rate of Airtel introducing new products. The respondents did indicate that despite Airtel changing hands several times over the years, the new owners have taken steps to revamp the company by injecting more resources to the company in order to increase its market share which they have been able to achieve despite many economic challenges which is affecting the customers thus having an impact also on the company's profits.

The Kenyan inflation rate has equally changed over the last few years especially in the early 2008-2011. As a result the customers have been impacted negatively due to the erosion of their purchasing power which leads to a slow level of purchases of the company's products. In addition, with most of the company's equipment being purchased from outside the country the fluctuating high exchange rate which has been witnessed recently and inflation rate has lead changing cost of purchasing this equipment. In addition, with the company being affected by the prevailing exchange and inflation rate condition, it was not able to recruit and retain skilled employees after not being offered competitive remuneration.

### 4.3.4 Legal Factors

Another change that the interviewees identified as affecting their operations concerns the legal environment. The entry of new competitors in the market in the country has brought about new regulatory framework and prudential guidelines being introduced by the regulating authority, CCK as well as the parent ministry. Some of these rules for example the need to notify competitors and regulating authority on the need of changing a tariff or



prices one month before will have affected the innovation process of the firm to the competitors. These requirements have dealt a blow to the speed and timing of implementation hence making the organization lose some of the market to competitors.

The competitors have also argued forcefully on the need of the regulator and government to check on the practice of abuse by some companies which have huge capital base due to unfair market practices which saw the calling rates slashed by up to 50%. The respondents argued that the rates were unsustainable to them but in order to be relevant in the market they had to reduce their rates also and these has lead again to the increase of calling rates by some companies recently. Hence it is for these competitors to tailor their products to the needs of the customers and not just sit in waiting for the regulators intervention to capture this market. The company has at the same time responded to the high level of competition by employing different strategies such as offerings a wide range of services to be able to capture more customers, intensive staff training has also been adopted to equip the employees with the much needed skills on new development in the market and to improve on service delivery to the customers.

The customer base of the company since the adoption of the innovative strategies has increased in the recent past from 12% when Airtel bought the company from Zain in 2009 to the current market share of 17%. The growth has been largely contributed by the lowering of calling rates, internet services and aggressive marketing which has been undertaken by the company. The increase in customer base has also led to a slight increase in the profitability of the company although profitability was not the first priority of the company when it launched operations as it intended first to build the customer base which had been eroded due to poor service delivery by the previous owners and therefore



the new management had to reassure the customers that the company is still the choice by introduction of competitive products. A firm's strategic pursuit of growth through the development of new products and services brings a wealth of rewards to companies – greater profit margins, increased earnings streams, higher stock prices, etc. Unfortunately, a level of uncertainty accompanies innovation, and the degree of risk is often such that top management talk about innovation but do not actually adopt it as a critical component of their culture or make it a top priority and inevitably organizations fail to allocate adequate resources – human and financial – to support innovation.

The asset base of the company has increased over the years especially since the acquisition of the company and these has led to total overhaul of the company with the latest being the acquisition of a piece of land in which the parent company intends to build an ultra modern building in which it will act as the head office of the company's operations on Africa.

The increase in the number of mobile and data providers in the country with the level of competition that has come with it, has made the retention of employees a key organizational objective. The retention of employees in Safaricom is given a major priority in the sense that over time the company has invested a lot of resource in the training and development of this group of staff. The respondents pointed out that the company has in the last few years lost several key staff members to rival companies especially the new entrants to the Kenyan market. One way in which this trend was being reversed was through making Airtel Kenya the employer of choice through offering competitive remuneration and better working conditions.



The respondents pointed out that Airtel Kenya has introduced various innovative strategies aimed at attracting and retaining employees. One such initiative is the employee engagement survey. This survey is carried out every year by a group of HR consulting group to gauge the level of engagement of employees as they argue that effective engagement of employees leads to increased productivity and revenue and lower employee turnover. The results of the survey are normally deliberated exhaustively by the management and any recommendation made implemented to improve the results.

#### **4.4 Discussion**

The study established that the structure which has been adopted by the company supports innovativeness as it links operating contingencies and flexibility and these was in tandem with what Storey (1998) had suggested that effective innovation must involve all areas of an organization with the potential to affect every discipline and process. This therefore indicates that for effective innovation in the organization, the whole organization has to be involved. Innovation in an organization occurs as a result of employee training in order to build their capacity, the results indicates that the same was achieved in the company.

The results indicates that the company has undertaken various innovations in to remain competitive in the industry which has been characterized by intense competition brought about by competition. These was in agreement with previous studies which indicated that business is not about looking at historical figures, nor about taking comfort from attractive financial statement rather it is about identifying the sustainability of the revenue streams, the long-term competitiveness of the company's products and understanding where every penny goes and making sure that it is adding value(Odhiambo,2008).



## CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Introduction

From the analysis made from data collected summary, conclusion, recommendations, limitations of the study and suggestions for further research was reached. Summary was organized according to the study objectives.

### 5.2 Summary

Under research objective one, study shows that the innovation strategies which the company has adopted was the benefits of having sufficient financial resources as these was the greatest challenge which the previous company (Zain) faced when they were competing with the market leader Safaricom which had the backing of the government and the other shareholder, Vodafone. The lessons learnt meant that the company needs to have the resources in order to be innovative which will then lead to customer attraction. The analysis indicates that the company develops a suitable fit between structure, operating contingencies and flexibility thus supporting innovativeness. The structure which the company has adopted was highlighted as being good as it controls the activities of the organization and by allowing the participation of all the employees and also stresses on the need to train the employees in order to be innovative.

The technological sector has witnessed changes in daily basis and these have to be replicated in the telecommunication industry in order for the company to remain relevant in the market. This has made Airtel Kenya to be at the forefront in upgrading its technological facilities in order to offer improved services to the customers. The organization has undertaken a deliberate step to reshape its product innovation to suit the



needs and suitability of the market. The business development team develops all the products after market research which helps in identifying the opportunities existing in the market and how the same can be exploited to meet the requirement of the market and also boast the income of the organization. The organization has come up with products and services that meet the needs of specific market and has been differentiated and tailored to these markets. In addition, the organization has recognized the importance of availing enough resources to the implementation process especially the human resource. Continuous training and development programs have been initiated to help in building capacity of these employees to face the different challenges coming from the business environment.

The findings established that the company has used the competitive strategies in order to be able to compete with other companies in the industry. The company has used the cost leadership strategy by ensuring that they maintain all their costs at lower levels as possible by charging the lowest rate across the networks and at the same time its charges for the short message service are among the cheapest. The company at the same time has outsourced some of its services which they do not have cost advantage. Although the industry's products are almost the same, the company has managed to differentiate themselves by through product quality, technology and innovativeness, reliability, brand image, firm reputation, durability, and customer service. To be effective, the message of differentiation must reach the clients, as the customer's perceptions of the company are important and suggest bending the customer's will to match the company's mission through differentiation and these has been achieved through aggressive marketing.



In order to achieve focus strategy, the company adopted the strategy of market penetration and development and at the same time offering more products to the market.

Despite the great steps that has been taken by Airtel in developing new products, processes, organizational structure as well as in its human resource facet, under the second research objective, the organization has identified a number of challenges that faces the organization in implementing these innovations.

These challenges as listed by the respondents include; technological, economical, social, political and legal factors. Airtel Kenya being technologically based, it has had to change its level of technology of offering services almost every year in conformity with the new technology that will have been introduced in the market. They recognized that with the number of mobile subscribers increasing every year, it has become challenging to keep pace and provide a system that is free of problem. As a result, the cost of replacing old machinery and disposing off of this equipment has proved to be expensive to the organization.

### **5.3 Conclusion**

As a result of intense competition in the business environment from globalization of the market, firms have been forced to improve their ways of doing business in order to attract and maintain the existing clients. One way that has come out as a competitive strategy that a firm can use to remain ahead of the pack is through innovation of better products and process of offering the service. Such innovative strategies focus on all aspects of the business operations ranging from technological advancement, customer care, better



organization structure to support the innovation business and good leadership and management system.

Currently, the companies try to ensure their competitiveness through innovation. To be in the company conducting effective work with innovation is necessary to adopt and implement an innovation strategy. The main effort of business should be to create an innovative corporate culture. It should be noted that the corporate culture significantly affects the development of innovative strategies, as well as its implementation. Creating an innovation strategy will require a change in the organizational structure of the company. On the other hand, it should be noted that the innovation strategy, if successful, is not only plan to be implemented. It has symbolic value. It is something that provides information to staff about where the company is going with innovations, what motivates employees, what is the meaning of their work. In this sense the innovation strategy is a particular culture.

As a result in the case of Airtel Kenya, the organization should continue being proactive in its innovation process to reap from the benefits of being a market leader. The organization should continue investing more in research, innovation of new products and recruitment of more qualified staff to steer the organization to greater heights if growth. Measures should also be taken to encourage the generation of creative ideas within the organization through continuous brain storming sessions and offering rewards. In addition, the organization should always and continuously monitor the environment for any challenge that will hinder the organization innovative strategies such as political, economic, social and regulatory challenges.



## 5.4 Recommendations

A firm's competitive advantage can be obtained through a number of ways but perhaps the most influential of them all is gaining competitive advantage through innovations. As a result, Airtel should continue giving product and process innovation the priority it deserves in order to be able to face the challenges of the current business environment.

For the successful implementation of innovation strategy it is essential to avoid more potential problems. Insufficient development of an innovative program it is a common problem in implementing innovative strategies in the enterprise. It is recommended that managers should not rely too much on technology. That the company to be able to successfully implement an innovation strategy must have a sufficient basis for innovative processes, innovative capacity, innovative resources and information flows. It can be recommended to business manager that they ought to focus for detailed analysis of the current situation in business and to understand the role of technology in implementing the innovation strategy. It is also necessary to map innovative potential and correctly specify the innovative requirements to properly set evaluation system and a set of rules.

Staff who are not involved in the creation of an innovation strategy, they do not get sufficient information about the objectives innovation strategy, are not thoroughly familiar with the intentions of firm's innovation activities, may be in some activities passively. It can be recommended that the company should ensure regular communication with employees with aim to create an innovative climate. Top management should allow employees to participate in creating innovative strategies and welcome their ideas and explain the importance of innovation strategy. Of course it is



necessary to ensure staff awareness during of the different steps of the implementation of innovation strategy.

It is recommended that Airtel should continue engaging in advertisement campaign to popularize its products because it is found that sometimes its clients do not know of all the products. This will help in holding back customers from moving to the competitors and also make the organization not to be considered to be more concerned with profits and not interested with reducing its prices of offering better services. The organization should also be able to deliver the same services and products to its customers but at a lower cost (Cost leadership) and also be able to differentiate its products.

### **5.5 Limitations of study**

The study depended on interviews and discussions with top and middle management staff of the organization. It would have been good to obtain the views of those being served by the organization or other stakeholders in the firm .The scope and depth of study was also limited by time factor and financial resource constraints. This put researcher under immense time pressure.

The researcher also encountered problems with the respondents' unwillingness to give researcher interview time promptly due to their job nature. Some could give this exercise little time where enough information could not be arrived at .These kind of limitations might have reduced the accuracy of research findings.



## 5.6 Suggestions for further research

Future research should endeavor to overcome some of the limitations of this study. The researcher relied on a few respondents to address an organization-level question, future research might seek the views of multiple organization members to reduce the potential for common method variance. Future research might also consider how innovation as newness is related to performance and other internal and external factors. Is there a price to pay for being the most innovative? Or can a firm focus on the newness aspect of innovation without jeopardizing profitability? The innovation-performance relationship might also be tested with regard to potential contingencies.

A study to establish any relationships between any of the growth innovation strategies and its related outcomes in terms of market share growth is necessary, and should be extended to determine the optimal combinations of the strategies, tactics and activities into set. Which sets are critical to achieving an efficient and measurable growth of market share and the idea members of each set should also be studied.



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## APPENDICES

### Appendix I: Interview Guide

#### 1. INNOVATION STRATEGIES

i. Explain what innovation strategies Airtel Kenya Ltd has adopted in the following areas.

I. Financials.....

II. Organizational structure.....

III. Technology .....

IV. Customer care.....

V. Product .....

VI. Human resources.....

VII. Any other (please specify).....

a) Explain how Airtel Kenya Ltd has used the following generic competitive strategies to gain the innovative advantage.

I. Cost leadership.....

II. Differentiation.....

III. Market focus.....

b) Have these innovation strategies been implemented by other firms in the industry and how successful have they been?.....



**2. FACTORS INFLUENCING INNOVATION STRATEGIES**

a) Have changes in the following factors affected the adoption and implementation of the strategies at Airtel Kenya?

I. Technological factors

Explain.....

II. Political factors

Explain.....

III. Economic factors

Explain.....

IV. Social factors

Explain.....

Legal factors

Explain.....

V. Any other (please specify).....

.....

b) What are the challenges faced by Airtel Kenya in the application of innovation strategies?

i).....

ii).....

iii).....



c) Explain the successes of the innovation strategies adopted by the Airtel Kenya Ltd Company in terms of:

I. Customer base.....

II. Profitability.....

III. Asset base.....

IV. Employee retention.....

V. Brand image.....

d) Explain the Airtel Kenya Ltd's future in terms of innovation

What are some of the areas that Airtel Kenya Ltd has not applied the innovation strategy?