

**DETERMINANTS OF APPLICATION OF  
DECENTRALIZATION STRATEGY AT SAFARICOM  
LIMITED**

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**DECLARATION**

This research report is my original work and has not been presented for the award of a degree in any other University or Examination body.

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This research report has been submitted for examination with my approval as the candidate's university supervisor.

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## **DEDICATION**

I dedicate this research project to the Almighty God for His grace, mercy and blessings that have seen me through. To my loving parents Mr. and Mrs. Kaaria who gave me immense support and encouraged me whenever I felt like giving up. My siblings the late Dennis, Evans, Nelly and Gertrude. Thank you for your understanding when I stayed away for long, either in class, throughout the weekends or in the field.

## **ABBREVIATIONS AND ACRONYMS**

**BTS** – Base transceiver station

**CCK** - Communications Commission of Kenya

**CEO** - Chief Executive Officer

**EAMS** - East Africa Marine Systems

**EASSy** - East Africa Submarine Cable Systems

**GDP** - Gross Domestic Product

**HOD** - Head of Department

**HQ** - Headquarters

**TELECOM** - Telecommunication

## **LIST OF FIGURES**

Figure 1 - Regional Representation of Safaricom Kenya

Figure 2 - Organogram of Safaricom Kenya Limited Regional Offices

## **ABSTRACT**

The study sought to establish the determinants of decentralization strategy at Safaricom limited. As competition increases in telecommunication industry companies are coming up with innovative ways to ensure customer needs are met in a more effective way. Through an interview guide, data was collected using questionnaire and sent to Safaricom staff both mid-level staff and lower cadre. The methodology used is research design, data collection and data analysis. The analysis showed quicker turnaround in decision-making means more effectiveness in handling competition and other external threats which might harm the business. Decentralization in Safaricom has ensured the firm's strengthened response mechanisms to customer needs as well as enable the firm localize products and services based on regional needs. The challenge however with this approach is lack of uniformity and harmonization of services and products offered at each region. Unhealthy competition within the organization can also be witnessed among regions even though the overall company objective is the same. In conclusion, the successful implementation of the strategy is influenced by both internal (firms size, structure, technology) and external (competition, regulations, industry) determinants.

Key recommendations is that the structure should be customer centric, market driven and suitable to specific markets.

## TABLE OF CONTENTS

<b>DECLARATION</b> .....	ii
<b>ACKNOWLEDGEMENTS</b> .....	ii
<b>DEDICATION</b> .....	iii
<b>ABBREVIATIONS AND ACRONYMS</b> .....	iiiv
<b>LIST OF FIGURES</b> .....	v
<b>ABSTRACT</b> .....	vi
<b>TABLE OF CONTENTS</b> .....	vii
<b>CHAPTER ONE: INTRODUCTION</b> .....	1
1.1 Background of the Study .....	1
1.1.1 Decentralization Strategy.....	2
1.1.2 Telecommunication Industry in Kenya.....	3
1.1.3 Safaricom Kenya Limited.....	4
1.2 Research Problem .....	5
1.3 Research Objectives.....	7
1.4 Value of study.....	7
1.5 Chapter Summary .....	8
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	9
2.1 Introduction.....	9
2.2 Theoretical Foundation .....	9



2.2.1 Contingency Theory.....	9
2.2.2 Population Ecology Theory .....	10
2.2.3 Structure-Strategy Relationship Theory .....	11
2.3 Determinants of Decentralization Strategy .....	14
2.3.1 Internal Factors .....	14
2.3.2 External Factors .....	14
2.4 Ansoff Growth Matrix .....	177
2.5 Empirical Literature Review.....	177
2.6 Chapter Summary .....	17
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>19</b>
3.1 Introduction.....	19
3.2 Research Design.....	19
3.3 Data Collection .....	19
3.4 Data Analysis .....	20
3.5 Chapter Summary .....	21
<b>CHAPTER FOUR: DATA ANALYSIS &amp; INTERPRETATION OF FINDINGS... ..</b>	<b>22</b>
4.1 Introduction.....	22
4.1.1 Response Rate .....	22
4.2 Profile of Safaricom and Decentralization.....	22
4.2.1 Structure of Safaricom Regional offices .....	23

4.3 Determinants of decentralized structure at Safaricom Limited .....	24
4.4 Growth Strategy .....	25
4.5 Determinants of Decentralized Strategy at Safaricom Limited .....	26
4.5.1 Internal Factors .....	26
4.5.2 External Factors .....	28
4.6 Discussion of Analysis.....	30
4.7 Chapter Summary .....	31
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ..</b>	<b>32</b>
5.1 Introduction.....	32
5.2 Summary of Findings.....	32
5.3 Conclusions.....	33
5.4 Recommendations.....	35
5.5 Limitation of the study.....	35
5.6 Suggestions for further studies.....	35
<b>REFERENCE.....</b>	<b>37</b>
<b>APPENDIX I: INTERVIEW GUIDE.....</b>	<b>40</b>

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Modern day incumbent firms operate in challenging task environments. The pursuit of competitive advantage and survival under these conditions is increasingly characterized by temporary advantages punctuated by frequent disruptions (Agarwal & Helfat, 2009; Baden-Fuller & Stopford, 2000; Stopford & Baden-Fuller, 2000; Volberda, Baden-Fuller & Van Den Bosch, 2001). At the core of strategic management thinking rests the premise that, over time, a fit should exist between organizational structure, processes, competencies and resources on the one hand, and opportunities and threats arising in the organization's external environment on the other hand (Miles & Snow, 1999; Venkatraman & Camillus, 2001). However, continuous changes in the organization's task environment driven by increasing rates of technological innovations, changing customer preferences, rise of more efficient organizational forms, lower entry barriers, and shorter product life cycles, have become the reality confronting even the largest and historically successful organizations (Baden-Fuller & Volberda, 2001).

This research study is anchored on the contingency theory which presumes that the most effective way to organize the activities in an organization is contingent on complexity and changes in the environment of other organizations within the field in this case the telecommunication industry (Wiio and Goldhaber, 2001). On the other hand the population ecology theory argues that organization exist within a population or field of similar organizations and the organizations which survive are those that respond appropriately to the environment

(Hannan and Freeman, 2002). The disintermediation, consolidation, global expansion, and the need for cross-industry alliances in the telecommunication industry show the applicability of the contingency and the Population Ecology theory in this study. This therefore means that telecom companies need to strengthen their leadership and internal capabilities and evolve their highly complex, sometimes rigid structures to better meet the current challenges and needs of the market place.

### **1.1.1 Decentralization Strategy**

A decentralized organizational structure is one in which senior management has shifted the authority for some types of decision making to lower levels in the organization. This usually means that the manager of a cost center, profit center, or investment center has the authority to make decisions that impact his or her area of responsibility. Some decisions can be pushed down to individual employees, though those decisions are typically limited to expenditures related to customer service e.g. unilaterally deciding to give a customer free shipping (Woods, 2009). A decentralized organizational structure functions well in situations where a strong level of individualized customer service is needed, usually at the point of contact with customers. Where there is considerable competition, so that a myriad of decisions must be made to respond to competitor actions and where innovations change the business model constantly, so that no centralized control is possible (Woods, 2009).

Folkmann (2013) suggests that a decentralized organization structure comes with advantages, the key focus of this structure is pushing decision-making down in the organization, which has the following advantages: Local employees have the best knowledge base from which to make decisions, so this should improve tactical level decisions throughout the company. It also

removes many small decisions from senior management, which therefore has more time to develop strategic direction. Since there are fewer layers of bureaucracy in a decentralized structure, the company is able to make decisions more quickly, which is useful in a highly competitive environment. Employees who are given more authority tend to stay with a company longer, so employee turnover declines. There is less need for middle managers, since many employees can report to fewer managers. This reduces overhead costs (Folkmann, 2013).

Despite the advantages of the decentralized organizational structure, it can also negatively impact processes and the flow of information within a business, with the following results: A local manager makes decisions based on his local viewpoint of the company's operations. This may not lead to decisions favorable to the company as a whole. For example, a local manager might pour more funds into a struggling store.

### **1.1.2 Telecommunication 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 and regulatory restructuring have transformed the industry. The telecommunications industry comprises of telephone communication, the internet, audio and visual media, postal communications, fax etc. The industry has grown tremendously over the last couple of years raising the number of mobile subscribers to over 14 million in Kenya in 2014. This is an industry market by stiff competition and a high potential for growth making investors interested in venturing into this industry though not without taking caution of the stiff competition. In 2000, some 180,000 Kenyans had access to a mobile phone. By the end of 2006 that figure had grown to 7.3 million people - an increase of more than 4,000 percent. The fast-growing mobile sector is characterized by competition

between two operators: Safaricom, a 60/40 percent joint venture between the government-owned Telkom Kenya and Britain's Vodafone; and Airtel, a subsidiary of Africa's third-ranked phone company. Both companies have made considerable growth and profits since their inception but still there is enormous potential remaining in the mobile phone sector. In March 2007, global telecommunications giant Ericsson opened a regional hub in Nairobi as part of its ongoing emerging markets expansion program. The mobile phone sector currently accounts for 5 percent of Kenya's Gross Domestic Product (GDP).

The Kenyan government has launched an e-government strategy, a program that intends to connect the country's rural population. The government has also supported several projects aimed at boosting the country's broadband infrastructure with the most high-profile projects being the East Africa Marine Systems (EAMS) and the East Africa Submarine Cable System (EASSy), initiatives that now connect the countries of eastern Africa via a high bandwidth fiber optic cable system with the rest of the world. The era of industrialization and information age has made the telecommunications industry expand into diversified functions to support the growth of technological advancement for better services demanded by the nation (Miller, 2004).

### **1.1.3 Safaricom Kenya Limited**

Safaricom Limited is the leading provider of communications services in Kenya offering cellular network access and business solutions. Safaricom Limited was formed in 1997 and in May 2000, Vodafone group Plc acquired a stake and management responsibility for the company. In 1999 the communication sector was deregulated and opened up for private sector to put up commercial communication networks in the country and Communications Commission of Kenya (CCK) was established as the regulator. The Company has since emerged as one of the fastest growing

companies in Kenya. The Company is still aggressively expanding the market network throughout the country and developing strategic business relationships with leading global telecommunication players which help in ensuring that Safaricom has access to the world's latest technology to maintain its market leadership. Safaricom is proud to be the market leader in offering innovative products like M-PESA to the Kenyan people to enhance their lifestyle and their way of efficiently doing business. However, due to the growing rivals in and outside the African continent, the telecommunications company finds itself in peril. Therefore, Safaricom Limited has adopted several strategies to save the organization that has reached the decline stage due to stiff competition in a developing nation.

In 2013, Safaricom Limited moved to shake and thereby change its top structure, a move it believed, would act as a competitive advantage in ensuring the firm is efficient in its work. Several departments that were headed by chief officers were consolidated and headed by a Director who reports directly to the CEO. The CEO, unveiled an organizational structure that set interesting positioning amongst Chief Officers and Top Managers as they sought to head the new departments.

## **1.2 Research Problem**

Change in organization structure has become a constant phenomenon which must be attended to and managed properly if an organization is to survive and ultimately improve its sustainable competitive advantage. An organization must also identify both its internal and external determinants of decentralization so that it may determine if it has the capacity to have a functional decentralized structure and ultimately achieve set goals and objectives using the decentralized structure. Changes in technology, the economic environment regionally and

globally, social-cultural values, workforce demographics and the political environment have a significant effect on the process, products and services produced and are some of the determinants of decentralization . Culmination of these forces has resulted in an external environment that is dynamic, unpredictable, demanding and often devastating to those organizations which are unprepared or unable to respond (Burnes, 2000).

Safaricom Limited moved to shake and thereby decentralized, a move that was believed would act as a competitive advantage. Safaricom Limited adopted a decentralized structure and the departments that were headed by chief officers were consolidated and are now headed by a Director who reports directly to the CEO. The CEO, unveiled an organizational structure that set interesting positioning amongst Chief Officers and TOP Managers as they sought to head the new departments in an attempt to ensure regional market growth. The relationship between decentralization and the effectiveness of regional offices growth within organizations are based on the considerations of the determinants of the decentralization strategy. Safaricom Kenya must have considered determinants of the decentralization strategy before changing its organization structure.

Studies done on organization restructuring on the banking sector, (Mwanzia, 2011) found out that organizational restructuring has become a constant phenomenon which must be attended to and managed properly if an organization is to steer well in this changing internal and external organizational environments. Even though these studies have been done, there is a knowledge gap on what are determinants of application of decentralization strategy in a firm. It is necessary for an organization to understand both the internal and external factors that determine the success of a decentralized structure. Due to the knowledge gap this study sought to explore the determinants of decentralization strategy in the context of Safaricom Kenya Limited.



### **1.3 Research Objectives**

- i. To find out the determinants of application of decentralization strategy at Safaricom Limited.
- ii. To establish reasons for decentralization of Safaricom Ltd operations.
- iii. To establish growth strategy practices adopted by safaricom Ltd.

### **1.4 Value of study**

The findings of this study make practical, theoretical and legislation contributions.

The study will benefit practicing staff and management of Safaricom Kenya and other organizations since it will shade light on the significance of the decentralization strategy on regional market growth. This will in the long run enable companies to know if the decentralization strategy is effective to service delivery. The company will be able to understand the effects of decentralization strategy, implementation and the service delivery and in the long run achieve market growth. Organizations will be able to design policies and programs that will help increase market growth and efficient service delivery to their customers and thus improving overall performance.

Policy makers in the field of strategic management will use the findings of this study to come up with universally applicable decentralization strategies. Safaricom Kenya will use the findings of this research to get insight on the best decentralization practice and their applicability.

Lastly the findings will contribute to professional extension of the existing knowledge in the theory of strategic management by helping to understand the influence of organization structure on market growth of a firm. It will also provide a useful base upon which further studies on

enhanced decentralization strategy towards a tailored approach of regional market growth could be conducted and recommendations used to make organizations improve market growth.

## **1.5 Chapter Summary**

This chapter looked at the concept of decentralization in terms of decision making. To improve its competitive advantage, Safaricom Limited adopted a decentralized structure in an attempt to ensure regional market growth. This was aimed at giving competitive advantage over the other player in the market.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews literature and the theoretical foundation of the study, determinants of decentralization strategy, empirical literature and finally summary of the literature.

#### **2.2 Theoretical Foundation**

This is the basic with which the theory can become explainable and sustainable. It may range from some assumptions which serve to really make the situation. The simplest of ways to put it is saying that a theoretical foundation is something which makes the theory valid while at the same time logically sustainable. For the case of this study the population ecology theory, the contingency theory and structure-strategy relationship theory were used.

##### **2.2.1 Contingency Theory**

This theory argues that the most effective way to organize is contingent on complexity and changes in the environment. The environment is turbulent and ever changing therefore managers should first perceive the environment and come up with effective growth strategy which can enable the firm achieve sustainable competitive advantage. Wiio and Goldhaber (1993) when a business operates in a stable environment once the firm has come up with its growth strategy the firm can adopt a mechanistic organization structure. These structures are characterized by specialization of roles.

On the other hand if a business is operating in a changing environment once the firm has settled on the growth strategy it should adopt an organic structure which is characterized with less specialization. For instance, based on a primary organization structure, the development of new product features may require more collaborative working between separate departments and with suppliers and distributors. This change in behavior might be supported by a reduction in departmentally based targets and the creation of a cross-departmental development budget and thus a re-design in the structure. Similarly, based on the same primary organizational structure of a firm and the need to develop a new strategy, it can lead to the adoption of a new structure (Blaxill and Eckardt, 2009).

### **2.2.2 Population Ecology Theory**

In trying to answer the question why there are so many kinds of organizations, population ecology challenges the view that individual organizations effectively and without consequence adapt to changes in the environment (Hannan &Freeman, 1977). Population ecology theory proposes that change occurs at the population level and is a result of the process of organizational selection and replacement (Carroll, 1988). Population ecology theory presumes that organizations exist within a population or field of similar organizations, and the organizations which survive are those that respond appropriately to their environment. That can be the external environment outside the field, or the internal environment of the other organizations within the field, or both. Newer members of the field initially survive by copying the field's dominant or successful organizations not only because those organizations' strategies obviously work, but also because if the new organization acts like the dominant organizations, it will likely be perceived as more legitimate and thus be able to gain the resources it needs.

However, newer organizations have an advantage over older organizations in that they can usually adapt to the environment more quickly; older organizations are usually larger and slower, and are probably more committed to continuing what has worked for them in the past. Organizations can get into serious trouble if they misinterpret what their environment consists of, if they misread the environment's signals, or if they understand the signals but choose to deviate from them, and the environment doesn't accept the deviation. The underlying concepts of population ecology theory are borrowed from evolutionary theory in biology. A population ecology perspective on organization environment relations is proposed as an alternative to the dominant adaptation perspective. The strength of inertial pressures on organizational structure suggests the application of models that depend on competition and selection in populations of organizations. Several such models as well as issues that arise in attempts to apply them to the organization environment problem are discussed (Hannan & Freeman, 1989)

The population ecology theory has its focus on the whole population of organizations, in this case the banking industries. All the firms are subjected to a natural selection process, the firms compete using their strategies and they go through a natural selection process which involves variation, selection and retention, the unsuccessful firms will die out and the successful ones will continue growing and competing. This theory is mainly based on the concept of environmental determinism, such that it is the growth strategy that a firm chooses to adopt that will determine whether the firm can withstand the environmental turbulence or it will die out.

### **2.2.3 Structure-Strategy Relationship Theory**

Structure is not simply an organization chart. Structure is all the people, positions, procedures, processes, culture, technology and related elements that comprise the organization. It defines

how all the pieces, parts and processes work together (or don't in some cases). This structure must be totally integrated with strategy for the organization to achieve its mission and goals. Structure supports strategy. If an organization changes its strategy, it must change its structure to support the new strategy. When it doesn't, the structure acts like a cord and pulls the organization back to its old strategy. What the organization does defines the strategy. Changing strategy means changing what everyone in the organization does (Ansoff, 1965). Chandler's (1962) statement, Structure follows strategy 'implies that every organizational structure is mainly developed based on the strategy of the organization and therefore successful implementation of an organization's strategy will depend on the firm's primary organizational structure. The primary structure of an organization is one of the basic means through which strategists position the firm so as to execute the strategy in a manner that balances internal efficiency and effectiveness (Grant, 1998).

Since structure follows strategy, the choice of an organization structure largely depends on the strategy of the firm. The structural design ties together key activities and resources of the firm and it must therefore be closely aligned with the demands of the firm's strategy. This is so because organizations change their growth strategy in response to environmental changes but the new a strategy normally creates administrative problems that result in a decline in performance. The problems arise because the existing structure is ineffective in organizing and co-coordinating the activities required by the new strategy. To resolve the problems and improve performance, the structures are thus re-designed according to the demands of the strategy. This implies that a failure to re-design structure would eventually cause a decline in performance (Ansoff 1965) Take an example of a firm that begins as a simple functional unit operating at a single site such as a shoe warehouse and within a single industry. The initial growth strategy of the firm is

volume expansion which creates a need for an administrative office that will manage the increased volume. The growth strategy becomes geographic expansion which will require multiple field units, still performing the same function but in different locations. Administrative problems with regard to standardization, specialization and inter- unit coordination will lead to geographic units and for a central administrative unit to oversee these problems.

It can be clearly seen that a firm will adopt a structure depending on the type of strategy it wishes to accomplish (Mulcaster, 2009). Tichy (1983) described corporate strategy as the determination of long-term goals and objectives, the adoption of courses of action and associated allocation of resources required to achieve goals; he defined structure as the design of the organization through which strategy is administered. Changes in an organization's strategy led to new administrative problems which, in turn, required a new or refashioned structure for the successful implementation of the new strategy. The sum total of how an organization goes about its work is its strategy. Structure and strategy are married to each other. When a company makes major changes, it must carefully think out every aspect of the structure required to support the strategy. That is the only way to implement lasting improvements. Every part of an organization and every person working for that organization needs to be focused on supporting the vision and direction. How everything is done and everything operates needs to be integrated so all the effort and resources support the strategy. It takes the right structure for a strategy to succeed. Management that is solely focused on results can have a tendency to direct everyone on what they need to do without paying attention to the current way the organization works. While people may carry out these actions, it is only when their daily way of working supports strategy that the organization's direction is sustainable over time (Davis and Devinney, 1997). Chandler (1962) argues that structures follows strategy in organizations. Strategy is the determination of long-

term goals and objectives, courses of action and allocation of resources, and structure is the way the organization is put together to administer the strategy, with all the hierarchies and lines of authority that the strategy implies (Collins, 2007).

## **2.3 Determinants of decentralization strategy**

Determinants of decentralization can either occur either internally or externally within an organisation. That way we have both external and internal determinants.

### **2.3.1 Internal determinants.**

In a study by (Okaka, Odera, Musa & Riany, 2012) that examined the effect of decentralization on an organization's performance in the mobile service provider industry. The report focused on establishing how portfolio restructuring, financial restructuring and organizational restructuring affect the market share and market growth of companies. Some of the determinants includes strategy cost, control systems, size of the firm, firm's organizational structure and human and capital resources. This is because as decentralization take place the firm requires capital to finance the new structures. The company mostly has control over these internal factors and can play around with them.

### **2.3.2 External determinants.**

The other factors which affect firm's decision are external according to (Okaka, Odera, Musa & Riany, 2012) Competition, legal, political, environmental influences and socio-cultural factors had an impact on the decision to restructure. The firm has little or no control on these external factors. Companies conducts decentralization to position themselves better in order to stay ahead of competitors, carry out turn around, repositioning, changes in legal and other statutory requirements. Mobile phone service provider industry is more service oriented and customers



tend to subscribe to the network that has the best deals; and also due to change in the market and market growth impacted by the change in a firm's portfolio. It is apparent that external determinants affects restructuring on the companies' market share and market growth. Results indicate that restructuring had the greatest impact on a company's market share and market growth rate (Okaka, Odera, Musa & Riany, 2012)

## **2.4 Ansoff growth matrix**

According to (Ansoff, 1965) product/market growth matrix, company's growth depends on the following factors, if market is new or existing product in new or existing markets. The output suggested growth strategies which set way forward for the business strategy. Market penetration largely means growth strategy where a firm focuses on selling existing products and services into already existing markets. Drivers here includes increasing market share, securing dominance of grown markets restructuring mature markets etc.

Market development refers to growth strategy where firms seeks to sell already existing products into new markets. Drivers here includes new geographical markets, new product dimensions, new channels etc.

Product development is growth strategy firms aims to introduce new products into already existing markets. This may require development of new competencies. Key drivers here are research & development and innovation, detailed customer insights and needs, being first to market etc.

Lastly diversification refers to growth strategy where firms markets new products and services in new markets. This is more risky because the firm is going into markets where there is little or no previous experience.

## **2.5 Empirical Literature Review**

As Galbraith (1973) has argued, when the task becomes more unpredictable, a greater number of exceptions arises which cannot be handled by the existing rules and procedures, and, therefore, must be referred upward in the hierarchy. This may at some point seriously overload the hierarchy, making decentralization more attractive. Interdependence Support for the following premise is provided by Lorsch & Allen (1973), Thompson (1967), & Vancil (1980), among others clearly, more research, both theoretical and empirical, is needed to provide valuable insights into the relationship between decentralization along various types of decisions and the SBU's strategy, and the effects of interaction between these two variables on the market growth.

Okaka, Odera, Musa & Riany (2012) in their study on restructuring came to the conclusion that a firm's decision to restructure is influenced by a change in the firm's objectives, political/legal, technological, economic and socio-cultural factors; with a greater weight being set on the firm's objectives, technological change and economic factors. Organizations have embraced the concept of restructuring and conduct it more often in a bid to increase their performance. Financial restructuring had the greatest impact on performance followed by portfolio and organizational restructuring. A firm's decision to restructure is therefore influenced by a change in the firm's objectives, political/legal, technological, economic and socio-cultural factors. It is evident that the major factors influencing the decision to impart a restructure are changes in the firm's objectives, technological change and economic factors.

Dumais (2011) has observed that organizational design and the resulting capabilities are the last sustainable sources of competitive advantage that are available to firms. Efficient Organization structures can enable an organization to reduce the cost of operations, increase production efficiency, and improve the Turnaround Time in decision making and generally position the

organization better to manage competition in the industry of operation. Pearce & Robinson, (1997) has observed that in order for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment. Kenya Commercial Bank, the largest commercial bank in East and Central African has evolved and adjusted continuously to the environment over the last ten years, moving from a loss making organization, reporting a loss of Kshs. 3 Billion in 2002 to profit making organization reporting a profit of Kshs. 15.1 Billion in 2011 Annual Financial Reports (2003 –2012).

## **2.5 Chapter Summary**

This chapter mainly focused on the existing literature about this topic of study. The theoretical foundation of this study which is the basis in which the theory can become explainable and sustainable was discussed at length in this chapter. The population ecology theory was discussed and this theory presumes that organizations exist within a population and the organizations which survive are those that respond appropriately to their environment. To add on that the contingency theory is also discussed and this theory argues that the most effective way to organize is contingent on complexity and changes in the environment.

The structure strategy relationship theory on the other hand suggests that structure is not simply an organization chart. Structure is all the people, positions, procedures, processes, culture, technology and related elements that comprise the organization. It defines how all the pieces, parts and processes work together (or don't in some cases). This structure must be totally integrated with strategy for the organization to achieve its mission and goals. When it doesn't, the structure acts like a cord and pulls the organization back to its old strategy. Changing strategy means changing what everyone in the organization does (Ansoff, 1965). Chandler's (1962)

statement, Structure follows strategy ‘implies that every organizational structure is mainly developed based on the strategy of the organization and therefore successful implementation of an organization’s strategy will depend on the firm’s primary organizational structure.

A firm’s growth strategy is important for the ultimate competitiveness of the firm; this chapter concentrates more on Ansoff’s growth matrix theory which focuses mainly on market penetration, Market development, Product development and Diversification as the main strategies. A firm’s organizational structure defines how activities such as task allocation, coordination and supervision are directed towards the achievement of organizational aims.

This chapter also looked at the works of previous scholars on the same research study area, the relationship between growth strategy and organization structure is also discussed in this chapter. Every organization has a unique structure. An organizational structure reflects the company’s past history, reporting relationships and internal politics.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents research methodology which include the research design, data collection and data analysis.

#### **3.2 Research Design**

The research design used in this study was a case study design. A case study research design generally entails describing a unit in details. It is intensive, descriptive and holistic analysis of an entity (Oso & Onen, 2005). The purpose of case study research is to describe that particular case in detail and take learning from that and develop theory from that approach. The choice of the case study was due to the fact that effectiveness in regional service delivery in the telecommunications industry has become an aspect that gives players in the industry a competitive edge. A case study would also provide flexibility during the research project. The targeted respondents were the top level professionals in the Safaricom regional offices.

#### **3.3 Data Collection**

This study used only primary data. The researcher used semi structured interviews as the main tool for collecting data. The selection of this tool was guided by the nature of data to be collected, the time available as well as the objective of the study. The overall aim of this study was to explore the determinants of application of decentralization strategy at Safaricom Kenya Limited. The researcher was mainly concerned with opinions, skills, knowledge and attitude of

workers of Safaricom Kenya regional offices to the subject area, such information could only be best collected through the use of focus group interviews (Touliatos & Compton, 1988; Bell, 1993). Open ended questions were used since open ended nature of the question defines the topic under investigation but provides opportunities for both interviewer and interviewee to discuss some topics in more detail.

A pilot test was conducted and the researcher tried an interview out on a small sample of the population so as to find out the integrity of the tools used and whether the questions were measuring what they were supposed to measure, whether the wording was clear, whether the set questions were provoking a response and finally whether there was any researcher bias.

Informed consent was obtained from all respondents in this study following detailed information about the purpose, aim and objective of the study. The purpose of this was to ensure that all respondents participating were aware and willing to be involved in the study. A copy of this proposal was presented to the University for approval. Permission was also sought from Safaricom Kenya limited regional offices Management to conduct the study.

### **3.4 Data Analysis**

All findings were analyzed to bring out the determinants of application of decentralization strategy at Safaricom Limited (Kenya). Content analysis was carried out on the qualitative data collected from the focused groups and the results displayed in form of descriptive paragraphs related to the research objectives. After checking the probable determinants of decentralization strategy at Safaricom Kenya conclusion was made and appropriate recommendations given to the Management of Safaricom Kenya for possible implementation.

### **3.5 Chapter Summary**

In this chapter we have discussed the methodology used in the study, target respondents as well as the data collection techniques that were used. However, the study also faced various challenges. The limitations of this study are related to the challenge of generalizing from only one firm. No inference can be made about the universality of the patterns of behavior observed. Time constraints were also faced in the course of this study because of the tight schedule of the researcher and his assistants.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND INTERPRETATION OF FINDINGS**

#### **4.1 Introduction**

This chapter contains analysis of the findings from the study. The chapter analyses the data systematically by focusing on the study objective: To find out the determinants of application of decentralization strategy at Safaricom Kenya Limited.

##### **4.1.1 Response Rate**

A total of 6 focus group Interviews were conducted, that was a presentation of all the six decentralized regions which are Nairobi East region, Nairobi West region, Central region, Coast region, Rift Valley region, Western and Nyanza region. Each focused group was expected to have seven members for the purposes of getting diverse views from each focused group but only 90% showed up for the interviews. The findings are presented as a report of the questions answered by the respondents.

#### **4.2 Profile of Safaricom and Decentralization**

Safaricom Kenya is spread countrywide and it is divided into six regions which are, Nairobi East region comprising of five million customers and eight hundred employees, Nairobi West region which has two million Safaricom mobile phone subscriber and nine hundred employees, Central region which has nine million Safaricom mobile phone subscriber and two hundred and sixty employees, Coast region which has three million Safaricom mobile phone subscriber and two hundred and fifty employees, Rift Valley region which has ten million Safaricom mobile



phone subscriber and six hundred employees, Western and Nyanza region which has twelve million Safaricom mobile phone subscriber and two hundred and forty employees. The figure 4.1 below shows a regional representation of Safaricom Kenya Limited.

**Figure 4.1:** Regional representation of Safaricom Kenya

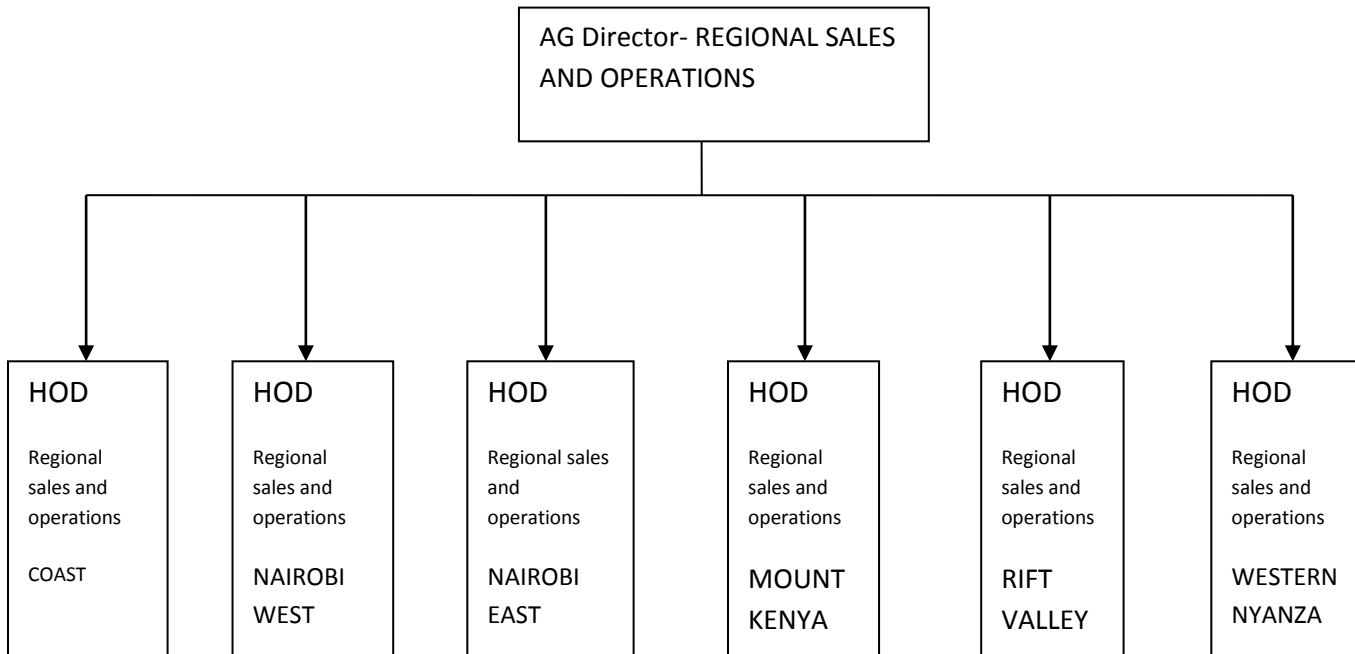
REGION	AREA (sq Meters)	Estimated 2014 Population	NO of employees
COAST	69537	3854475	250
Mt. KENYA	280107	9605733	260
NAIROBI EAST	52745	5690305	800
NAIROBI WEST	1658	2567099	900
RIFT VALLEY	151151	10762495	600
WESTERN KENYA	23131	12529948	240

Source: Safaricom Kenya Limited

#### **4.2.1 Structure of Safaricom Regional offices**

The regional offices are headed by regional Head of Department who reports to the head of regional operations at the head office. The regional coordinator is in charge of all the operations of the region. Subordinate to the regional coordinator are regional managers, area managers who report to the coordinator to ensure smooth flow of activities in the region. The operation and decision making of each region is done at the regional level headed by a small group known as executive committee. Regional strategic planning is done and implemented at the regional level since each region has its own customer unique needs. The figure 4.2 below indicates the current decentralized structure.

**Figure 4.2:** Organo-gram of Safaricom Kenya Limited regional offices



Source: Safaricom Kenya Limited

### 4.3 Reasons for decentralized structure at Safaricom’s Kenya

This research study sought to find the reason why Safaricom Kenya decided to adopt a decentralized structure for its operations. Respondents from the focus group interview argued that Safaricom Kenya needed to meet its customers’ needs by offering them the right products and services and at the same time serve them better so that their customers are satisfied and they stay loyal. This could be made possible by a decentralized structure where each regional office serves customers better.

The key focus of this decentralized structure was to push decision making down in the organization to the regional level; Safaricom Kenya wanted its regional employees to have the best knowledge base from which to make decisions, so this should improve tactical level

decisions throughout the company. The choice of a decentralized structure would also see to it that it removes many decisions from senior management, which therefore has more time to develop strategic direction.

Since there are fewer layers of bureaucracy in a decentralized structure, Safaricom Kenya also envisioned the company being able to make decisions more quickly, which is useful in a highly competitive telecommunication environment. Basing on the fact that employees who are given more authority tend to stay with a company longer, Safaricom had a reason to go for a decentralized structure so that their employee turnover declines.

Finally giving some autonomy to regional managers is an excellent way to observe their decision making ability, which can be used to determine advancement to higher positions. There is less need for middle managers, since many employees can report to fewer managers. This therefore in the long run reduces overhead costs.

#### **4.4 Growth strategy**

According to the respondents the main key drivers of decentralization were increasing market share in each decentralized unit. This was achieved by building of more network BTS. Through this the firm was able to bring products and services to areas which had none. This could only be done more efficiently when management is done regionally. Network roll out also lead to another need. The newly acquired customers required access to customer service. Due to this the firm opened up care desks in satellite Towns to cater for the newly acquired customers who are far from main Towns.

The firm aimed to focus more on employees, supporting them by training, suggesting ethical standards and giving them freedom in making decisions but however being accountable for them.

The other thing that Safaricom wanted to foster by decentralization was values which mainly includes three things which are speed simplicity and trust. Decentralized units are seen as more effective in responding to customer issues in simplified way and takes shorter time

The new approach is characterized by a typical structure that functioned in the past that have been criticized for inefficiency, duplication and lack of a coherent strategy for action. Instead, the company implemented a process-oriented strategy. Key information will remain centralized, so that employees can more easily receive, store and retrieve them. This ensures more effective and efficient data processing, which in turn increases workers' rights to search for information needed for direct cooperation with customers and to make important business decisions, avoiding un-necessary delays.

#### **4.5 Determinants of Decentralization Strategy at Safaricom Ltd.**

The focus of this research study was to find out the determinants of application of decentralization strategy at Safaricom limited. Interview of focused groups were carried out and both internal and external factors came up from the focused group's discussions as discussed below.

##### **4.5.1 Internal Factors**

These are factors that are internal to the organization and are within the organization. Among the factors internal to the firm that affect application of decentralization strategy at Safaricom Kenya is: firm size, implementation cost, system control, the current firm's organizational structure, the

technology, the firm's human capital and the age of the firm. Safaricom Kenya is spread country wide and has a large number of employees. According to the information collected from the respondents during the interviews it was evident that the size of Safaricom Kenya was a determinant of the decentralization strategy. Safaricom's firm size is a factor that might have made difficult the flow of information within the firm and made local knowledge important. In effect, the larger firm size might in some cases lead to information overload within the firm, which increases the principals marginal disutility of getting informed and therefore this made the CEO to delegate decision-making power to the regional offices This implication is largely consistent with recent evidence by Bloom et al. (2010) and Bloom and Van Reenen (2010) that larger firms are more decentralized.

The aspect of diversity and inclusion: There was a need to ensure that environment under which the company operates was diverse and therefore align human resources to this. Safaricom Kenya has a wide base of human capital, the other arguments supporting this idea are the fact that Safaricom Kenya skilled workers are more autonomous and less likely to make mistakes and they are better at communicating, which reduces the risk of duplicating information and they are more able to analyze new pieces of product and service knowledge so that the benefits of regional information processing are enhanced when the labor force is more skilled. The respondents also explained that Safaricom went a step further to consider not only the firms average human capital but also the dispersion of skills of the labor force and they explained that the dispersion of skills of their labor force was highly considered before they decided to settle on the decentralization strategy so that they could have regional labor force balance.

The firm's age also came in as a determinant of the decentralization strategy. The respondents argued that at the moment Safaricom Kenya had been in Kenya since 1997 and a much

decentralized structure is what Safaricom needed for the purposes of meeting the regional customer's needs, the regional growth and ultimately the growth of the firm as a whole.

The nature of the decision is also important determinant of the decentralization strategy at Safaricom Kenya. Response showed that the need to delegate authority is higher for decisions that involve large private benefits for the regional offices while the decisions about projects that involve a large pay off to Safaricom as a whole will definitely tend to be centralized. For instance, decisions such as hiring staffs, that affects the regional power and employee relationships with subordinates, are more likely to be delegated whereas decisions that require greater coordination should be retained at the head office.

Finally as an internal factor the respondents also acknowledged that Safaricom Kenya also took into consideration the use of incentives for the regional offices. They argued that their degree of decentralization was influenced by the ability of the head office to design an efficient incentive schemes so that the head office could observe the behavior of the regional offices.

#### **4.5.2 External Factors**

This are factors which are found in the outside environment. Among the factors external to the firm, the Safaricom Kenya respondents considered the need to quick decision making, product market competition, statutory requirements, culture and diversity heterogeneity of the telecommunication environment as the external determinants of their move to adopt a decentralized strategy.

The telecommunication industry generally requires quick decision making in the ever changing business environment. Quick decision making is needed to reduce time to market and ensure quick response to market .The respondents also considered that the urgency of decision should

also favor delegation of authority to the regional offices because the decision-making process is slower when the structure of an organization is centralized. By contrast, when organizations adopt decentralized structures, responsibility is often delegated to teams of workers that do multitask which requires less coordination and enables quick responses to market changes.

The product/service market competition also affects the degree of delegation. The respondents made it clear that the stiff competition in the telecommunication industry in Kenya increases the need for timely decisions that make better use of the regional knowledge and the end that leads to better firms.

The heterogeneity of the firm's environment was also an external determinant of the application of the decentralization strategy adopted by Safaricom Kenya. The telecommunication industry in Kenya is more heterogeneous and this was an aspect that favored adoption of the decentralized structure. It was evident that it was much difficult for the CEO to know what is best for his Safaricom Kenya from the experiences of other players in the market. It is evident that firms in a more heterogeneous environment are more likely to choose decentralization.

The other factor which leads to decentralization is alignment to government structure. Devolution within Kenyan government required a different structure which can engage these devolved government in order to ensure there is efficiency in service delivery. Every region engages the county governments within its jurisdiction ensuring customer demands are met within a shorter time.

The value of regional information is also a determinant that Safaricom Kenya put into consideration before applying decentralization. When the value of regional information is sufficiently high compared to that of countrywide information a firm is more likely to

decentralize like was the case of Safaricom Kenya. From this it is evident that firms closer to the technology frontier are more likely to be decentralized, because they are less likely to learn from public information just like Safaricom Kenya did.

#### **4.6 Discussion of Analysis**

We have seen that decentralization may have multiple goals of varying priority and that it is inherently a complex and challenging phenomenon. If decentralization is to work effectively, reform must be conceived in a way that is appropriate to the context in which it is being adopted, and careful attention to its various interrelated dimensions and elements is needed. Bottom-up information flow enforced will be a key element of competitive advantage. The company will therefore be forced to turn their customers to its information system. It is therefore important to carefully "listening" to their customers and capture the wealth of information on their new needs and innovative solutions to current processes and the creation of products. Innovative decisions as a result of decentralization will be undertaken by the regular employees giving impetus to the rapid development of the company.

An organization structure is the core outline of a firm's framework and acts as a guide for managing business day to day operations. By removing management layers of bureaucracy, decision making also becomes easier. The only challenge with this is that sometimes it takes time where different managers come with different opinion and company has to settle on common ground. Setting everyone on the same page can be an impediment.



## **4.7 Chapter Summary**

This chapter analyzed the data collected in the field and inferences given. HODs of all regions must take on ever more challenging projects in order to overcome deficiencies in other areas of business. Optimizing decision-making structures at regional level ensured that Safaricom Kenya remained autonomous and diverse in regards to the unique needs of each region earlier mentioned.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provides the summary of the findings from chapter four and also gives the conclusions and recommendations of the study based on the objective of the study: To find out the determinants of application of decentralization strategy at Safaricom Kenya Limited.

#### **5.2 Summary of Findings**

Focusing on the objective of this study I was able to establish that there are both internal and external factors that were determinants of the decentralization strategy at Safaricom Kenya limited.

The internal determinants are factors that are internal to the organization and are within the organization. Among the factors internal to the firm that affected the application of the decentralization strategy at Safaricom Kenya was: firm size considering the fact that Safaricom Kenya is wide spread country wide. The firm organizational structure which they were using was a centralized one and due to bureaucracy operations were quite slow and decision making took more time, the use of up to date communication technologies gave Safaricom an upper arm in resolving to use a decentralized strategy.

Diversity and inclusion is also one of the determinants that Safaricom Kenya considered, the firm's human capital available and most of their staff are skilled with product knowledge were

based at HQ and not representative of all regions. The age of the firm as an internal factor was a determinant, the respondents argued that Safaricom Kenya had been in Kenya since 1997 and considering all that period a decentralization strategy could work well for the firm since they understand the dynamics of the telecommunication business in Kenya and they were in a best position to now get to know the needs of the customer, and meet their expectations at a much narrower level which is at a regional level compared to the countrywide level.

The external determinants are factors which are found in the outside environment. From this research study Safaricom Kenya respondents considered the need to quick decision making a determinant to go for a decentralized strategy since it is less bureaucratic in a decentralized structure and decisions will now be made at regional levels. The product market competition in the telecommunication industry in Kenya was also a factor worth consideration since the telecommunication industry in Kenya has become highly competitive and to a greater extent each competitor is coming up with new products and services at a very high rate. The heterogeneity of the telecommunication environment in Kenya also influenced their move to adopt a decentralized strategy since the industry is highly turbulent and competitive and changing environment like devolution in government.

### **5.3 Conclusion**

The choice of the decentralization strategy by Safaricom Kenya was influenced by some determinants which were both internal ( firm size, implementation cost, the firm organizational structure, the use of communication technologies, the firms human capital and the age of the firm) and external factors(quick decision making, cultural needs, market competition and the heterogeneity of the industry)

Basing on the findings of this study the researcher come to the conclusion that the large size of Safaricom Kenya propelled Safaricom move to adopt a decentralized structure and do away with the centralized structure which they had. Their strength of advance communication technologies would also play a big role in their decentralization strategy if it was to be successful. Safaricom Kenya had also been in the business in Kenya since 1997 .Considering the age of the firm Safaricom Kenya was a better place in adopting the decentralized structure for the purposes of meeting customer needs at the regional level. Basing on the findings of this study there was availability of human capital at Safaricom enough to handle the decentralization. This therefore in the long run has seen to it that the decentralization strategy is a success.

The researcher also concluded that there were external factors which were determinants to the application of the decentralization strategy at Safaricom Kenya Limited .The need to quick decision making in the industry was a factor which needed to be addressed and the easiest way to go about it was to avoid bureaucracy and allow regions to make just in time decisions on their own so that they can meet the needs of their customers .On the other hand another external factor which served as a determinant was the product market competition in the telecommunication industry in Kenya, the other mobile phone providers are trying hard to compete with Safaricom Kenya limited so that they remain relevant in the game. Therefore Safaricom Kenya had to come up with the decentralization strategy so that they strengthen their roots from the grass root level which was the regional offices. The researcher concluded that the heterogeneity of the telecommunication environment was an external factor that determined Safaricom's move to adopt the decentralization strategy .The telecommunication industry in Kenya is highly turbulent and competitive. Based on this Safaricom had to make a move which could enable them operate

smoothly so that they were able to meet all their customers' needs and at the same time achieve growth.

#### **5.4 Recommendations**

There is need for firms to ensure that they have the right structure so that they are able to implement the strategy that they set. The structure they pick on should be customer centric, market driven, suitable to specific markets, technologically updated and futuristic in nature if they have to achieve the ultimate firm's growth under the conditions of efficiency and reduced costs of operations

When choosing the organization structure for the firm the firm has to consider the internal and the external determinants so that at the end it settles on an organization structure which works perfectly for the firm

#### **5.5 Limitation of the study**

The research is limited to Safaricom as a case study that is a limitation in itself. This will mean that the material to be collected during the survey should be only from Safaricom staff and will only be relevant to the Safaricom's context.

#### **5.6 Suggestions for further studies**

A similar study could be carried out on the other players in the telecommunication industry with a main focus of studying the determinants of the organization structures that they are using. A study could also be done in a different context e.g. the banking or the manufacturing industry.

Further a research could be carried out to unearth the factors that affect the whole decentralization strategy as a whole.

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## APPENDIX I: INTERVIEW GUIDE

### Instructions:

Dear Sir/Madam, you are kindly requested to answer all questions in this interview. The information that you will provide will be treated with a high level of confidentiality and strictly used for the purpose of this research study. This study aims at establishing the progress of the decentralization strategy by Safaricom Kenya Limited towards market growth.

### SECTION 1:

Specific Information on decentralized regional office.

1. Is decentralization strategy to your regions advantageous in terms of market growth?
2. From your own perspective would you do a SWOT analysis of the decentralization strategy in your region

NAME OF REGION: Coast, Nairobi West/East, Rift, Central, Western & Nyanza	
STRENGTHS	
WEAKNESSES	
OPPORTUNITIES	
THREATS	

3. What are some of the reasons why you think it was necessary for Safaricom Limited to decentralize its operations?

4. After the decentralization strategy to what extent has your regional offices practiced

**a) PRODUCT DEVELOPMENT STRATEGY:**

To what extent have the following product development strategies been used to achieve market growth in your new decentralized unit/office?

*5- Very great extent, 4- Great extent, 3- Some extent, 2- Little extent, 1- Very little extent.*

1. New products have been introduced.
2. New features have been incorporated into the existing products.
3. Product qualities have been improved.
4. On- going research on new products.

**b) MARKET PENETRATION STRATEGY:**

To what extent have the following methods been used to achieve growth in your new decentralized unit/region? (Give a score ranging from 1-5)

*5- Very great extent, 4- Great extent, 3- Some extent, 2- Little extent, 1- Very little extent.*

1. Establishment of a regional marketing department.
2. Introduction of new facilities to the users in the region.
3. Advertising of mobile phone service products and services.

4. Introduction of bundled products.
5. Price reduction.

**c). MARKET DEVELOPMENT STRATEGY:**

To what extent has the following methods been used to achieve growth in your new decentralized unit/region? (Give a score ranging from 1-5)

*5- Very great extent, 4- Great extent, 3- Some extent, 2- Little extent, 1- Very little extent.*

1. Opening new branches in other parts of the region.
2. Giving specific incentives to existing customers. E.g. bundles promotions.
3. Advertising in other media in the region.
4. Establishment of new mobile products.

**d). DIVERSIFICATION STRATEGIES:**

To what extent have the following methods been used to achieve growth in your newly decentralized unit/region? (Give a score ranging from 1-5)

*5- Very great extent, 4- Great extent, 3- Some extent, 2- Little extent, 1- Very little extent.*

1. Acquired other mobile phone service providers.
2. Merged with other mobile phone service providers.
5. What changes should be made to the growth strategy of the region?
6. What changes should be made to the growth strategy of your line of business?

7. What changes should be made on the organization structure for the purposes of achieving maximum regional market growth

8. Comment on the ideal organizational structure to assist in attaining the strategic growth objectives of your regional office