

**STRATEGIC RESPONSES BY INTERNET SERVICE PROVIDERS IN NAIROBI TO
THE GROWTH OF MOBILE TELEPHONY INDUSTRY IN KENYA**

By

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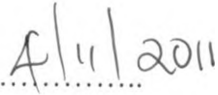
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DECLARATION

This research project is my original work and has not been presented for a degree or any other examination in any University.


Signed 


Date..... 

Miss. Maureen Keeru M'iti

This research project has been submitted for examination with my approval as a university supervisor.

Signed..... 

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DEDICATION

First to God he has done it All. To my father M'iti M'muthara for his unending support during my entire study period and relentlessly instilling in me the value of education and the vigor to press on and to My late mother Grace Muthoni It was indeed her dream to see me pursue a Masters degree.

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Without their support, understanding and encouragement, I could not have completed the master's program.

ABSTRACT

The objective of this study was to establish the strategic responses that have been adapted by the ISPs to address the existing growth of mobile telephony industry and to establish the challenges the ISPs are facing.

A questionnaire was used for data collection. The data obtained from the questionnaire was analyzed using content analysis. Information obtained was organized into themes that sought to achieve the set objectives of the study or answer the research question. Data was presented using prose or narrative format. The respondent experience was averaged at five years

The following recommendations were made. First, ISPs should unite and advocate for a better regulatory environment. This study recommends that ISPs should come together to share infrastructure in order to reduce costs which they can pass down to the consumer or increase their profit margins. The government should also come in with policies that enhance sharing of resources in the industry in order to reduce internet cost and improve usage.

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CHAPTER ONE : INTRODUCTION

1.1 Background of the Study

The rapid globalization, environmental change and competition to provide products and services have become the aim of every organization (Chang and Huang, 2004). This rapid growth has led to more competition, increased choice of consumers, lower prices, lower margins, replacement of tangible assets with information, consumers, dramatically changing global infrastructures from dependence to independence to interdependence, boundaries collapsing, deregulation and privatization, telecommunication infrastructure, and investment from analog to digital (Muchira, 2005).

Ohmae (1988) points out that strategy is not beating the competition, it is serving customers real needs. When one recognizes that customers have changing expectations, it becomes obvious that the way to beat competitors is to deal directly with what the customers want. This rise of expectation has necessitated strategic changes in the way organizations run their business and relate to their customers, that is the overall internal and external environment.

Kibera and Waruingi (1998) note that the company's marketing environment comprises forces close to the company that affect its ability to serve consumers, such as other company departments, channel members, suppliers, competitors and public. The marketing environment facing Kenyan firms has been very dynamic. There has been a shift from a stable, predictable and competitive environment to one that is quiet unpredictable and competitive. Sababu (2007) also notes organizations have to continuously interact with the environment as it is the source of its input, that is, resource dependence and depository of its output, that is market dependence, this harmony creates the strategy in the organization. Most organizations have in the face of these challenges adopted various strategies to remain relevant and more so in meeting the requirements of their customers (Kibera & Waruingi, 1998).

1.1.1 Strategic Responses

Strategic responses involve the change in a firm's strategic behavior to ensure success in the transforming future environment. Strategic diagnosis is done to identify whether there is need to

carry out such changes (Ansoff, 1999). Sababu (2007) notes that, organizations that exist within a dynamic environment that is subject to competition due to the impact of various changes that triggers both internal and external factors like evolving technologies, changing customer needs, changing political and economic environment, competition and population growth should continue to operate effectively within this environmental turbulence and must be able to change themselves in response to internally and externally initiated competition According to Forker (1991), meeting customer's needs is only a starting point. She insists that surpassing customer expectations should be the goal of every organization. Anticipate customer needs and then supply them in a "value added" mode to ensure that you keep a competitive edge.

Sababu (2007) argues that effective strategic responses require an understanding of the possible effects of competitive change upon people, and how to respond to potential sources of resistance to that change. Competitive change can be said to occur where there is an imbalance between the current state and the environment. The magnitude of today's environment competitive and global market change is unprecedented. It's a very interesting an exciting world, but its also volatile and chaotic. To cope with an unpredictable world, one must build an enormous amount of flexibility into the organization. While one cannot predict the future, one can get a hand on trends which are a way to take advantage of competition and convert risks into opportunities. Such strategic responses include the use of information communication and technology, market segmentation, employing of qualified personnel, product and service differentiation, social cultural developments and adopting new and improved products and services into the market.

Further, every organization should analyze the competitive forces in the industry. The analysis should aim at identifying competitors, collecting and evaluating information competitors are using, identifying potential moves by competitors, determining the competitor's strengths, weaknesses and capabilities and helping the organization devise effective competitive strategies. Factors like organization's market share, breadth of the product line, entity location, productivity capacity, experience, cost of raw materials, financial positions and product quality, should also be considered.

1.1.2. Internet Service Providers in Kenya

ISPs are companies that sell access to the internet. They do this in a variety of ways. When one signs up for an account, one gets a user name, password, telephone numbers that one could dial to access the internet and the appropriate software. This will include a “web browser” – the basic software for accessing and reading content on websites, an email client for composing and reading the messages on the vast numbers of new groups, affinity groups exchanging messages and information on particular topics (Siboe, 1996).

Internet services have permeated almost all sectors of economies in different countries worldwide. In Kenya Internet access came in the early 1990’s for restricted group of users. The Internet is a communication platform riding on network access technologies such as fixed line, mobile cellular, wireless terrestrial and satellite. It is made up of a number of components, which include connectivity links, servers, content and end user devices (Netcom Information Systems Ltd & CCK report, May 2007).

Siboe further added that in the past consumers would be provided with dial up access to their ISP using their standard telephone line. However this is continuously changing as other access methods, which offer higher capacity (greater bandwidth) and provide “always on” services to avoid the delay whilst a telephone connection is established have been developed. The most common is the use of the leased lines offering a permanent connection to the internet. Apart from offering internet connection, ISPs offer other value added services like web hosting – allowing the customer to set up a website on the ISPs web server; virtual private Networks (VPN) where the customers organization may have a number of branches connecting to private networks and voice over internet – offering low quality but cheap telephone calls across the internet.

The telecommunications market in Kenya was liberalized in 1999. Before the enactment of CCK Act 1998, the Kenya internet industry was monopolized by Africa online a Pan African Internet service providers. This led to the formalization of market structures and advent of activities geared towards the development of the telecommunications markets in total. On the Internet front, ISPs were licensed to operate formally and the incumbent was given the monopoly to

operate the Internet Backbone as well as the provision of access circuits (leased lines, VSAT, etc) for 5 years until July 2004. Though Telkom Kenya developed and expanded a national backbone, the coverage area was limited to the main urban centres and for a long time availability, reliability and quality of the services provided was way below average. During this period, the Internet market in Kenya, spearheaded by commercial service providers (ISPs), witnessed rapid expansions and the user base grew to over 500,000 users (estimated). Currently there is over 70 ISPs operating in Kenya, the major players being the mobile operators who have scooped the cream off the non-mobile ISPs specialization. This is attributed to affordability of services, easy accessibility, and high quality service governed by service compliance of the industry regulator CCK (CCK 2008-2011, reports).

The Internet has increasingly gained widespread recognition as a knowledge infrastructure (World Telecommunication Development Report, 2006). For example, in the latest CCK 2010/2011 quarterly report, the number of internet/data subscriptions reached 3.2 million at the end of July – September (2010/2011) quarter up from 3.09 million at the end of the previous quarter. The mobile data/internet subscriptions through GPRS/EDGE and 3G continue to dominate internet subscriptions and accounted for 99 per cent of the total subscriptions during the period. The highest penetration rate was by Safaricom Ltd, followed by Celtel (Now Airtel). Access Kenya one of the leading ISPs came in fourth after Orange Telkom.

1.2 Research Problem

Ansoff and Chandler (1987), hold the view that when external environmental changes markedly, organizational strategies will follow suite, together with changes or alignment of internal capabilities. The factors that pose as challenges to the ISP industry in Nairobi is, the threat of substitute products, for example the use of mobile phones by ISPs consumers to access internet services and the threat of new entrant, in this case the introduction of data subscriptions/internet subscription by a mobile operator to render internet services to its users in order to be at par with the rest of the operators. To date the latest entrant in this industry is Telkom orange.

CCK's July to Sept (2010/2011) latest quarterly sector statistics report indicated that there were an estimated 8.69 million internet users compared to 7.8 million reported in the previous quarter,

which is represented 10.9 per cent increase. During the period under review, the percentage of population that had internet access reached 22.1 per cent from 19.9 per cent reported in the previous quarter, representing an increase of 2.2 percentage points. Out of these, 98% of the internet subscriptions were dominated by the mobile operators while only 2% comprised the entire Internet Service Providers subscription. Report indicates that many ISPs have been phased out of the market as a result of the stiff competition especially on the use of mobile operators advanced technology.

Ansoff (1999) observes that organizations, which fail to adopt their internal operations to external realities, would definitely loose the battle. To these regard, there is need to find out what strategies the ISPs have put in place to adopt to these changes. Thompson and Strickland (1985) state that, organization has to monitor its environment continuously so that it can identify any shifts that require it to adjust its strategies in response to such changes.

Several studies have been done to document strategic responses by organizations towards the changing environment. Among such studies are: Kiptugen's (2003), strategic response to changing competitive environment, a case study of KCB; Mwarania's (2003) response by Kenya Reinsurance to the changes of the environment, Muriithi's (2008), strategic responses to environmental challenges, a case of plan international, Maikuri's (2008) response strategies adopted by provincial secondary schools in Nairobi to respond to student unrest. Kenya Reinsurance for instance responded by engaging in an aggressive local and international marketing programme and organizational restructuring. From the researchers knowledge no other study has been done to find out the strategic responses by ISPs in Nairobi. The study therefore sought to fill the gap by providing answers to the following research; What strategic responses have the existing ISPs put in place as a result of the mobile operator growth?

1.3 Objectives of the Study

The objectives of this study were:

- i) To establish the strategic responses that have been adopted by the ISPs to address the existing growth of mobile telephony industry
- ii) To establish the challenges the ISPs are facing in applying the responses they have adopted.

1.4 Importance of the Study

The study will give managers and staff an insight on issues of organizational responses, which they must take cognizance of since the survival of the organization in the changing environment depends on how well it is able to adapt to the changes.

Information harnessed will shed some light on issues of the need for customer satisfaction hence the need for better service. In this case the customers will also benefit from more customer focused strategies that leave them happy and contented.

The study will benefit the academic researchers as it will add to the existing body of knowledge and provide a source of reference to further empirical studies into the little known organizational responses to the changing responses.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The growing trend in Kenya is in the use of mobile phones to accomplish almost every detail starting from making or receiving calls or short messaging services (sms), payment of water and electricity bills, money transfer using Zap (Airtel) and Yu Cash (Essar ltd) among others and the use of internet to access interactive interfaces like Facebook, Twitter, Gmail, Yahoo among others. The provision of this specific service was initially the domain of the Internet Service Providers (ISPs). Customers could access these services at their offices, at home if connected to the internet and the popular cyber café.

The introduction of data services by the mobile operators through phones and modems provided more portable devices from where to access the internet, which got many customers purchasing the device for their use at home, offices or while on business trip and others opting to just access internet from their phones. Advancement in technology has now made it possible for mobile users to access the internet at minimal costs and conveniently. This growth has quickly led to the decline of many ISPs in the country. The chapter outlines various existing strategic responses that may be applied by organizations, in order for them to counter the threats and remain competitive in their area of specialization.

2.2 The Concept of Strategy

Nickols (2000) describes the term strategy as having emerged from the Greek *strategia*, which means generalship. This concept has been borrowed from Military and adopted for use in business. In Military it refers to maneuvering troops into position before the enemy is actually engaged, it is the deployment of troops. The employment of troops when changed to employment of resources then the transfer of the concept to the business world begins to emerge. Mintzberg (1994) asserts that strategy is used in different ways and the most common being as a plan, how, a means of getting from here to there, as a pattern, and to position a perspective. He argues that strategy emerges over time as intentions collide and accommodate a changing reality. Whereas (Porter, 1996) perceive strategy as a competitive position, about differentiating yourself

in the eyes of the customer, about adding value through a mix of activities different from those applied by competitors. He limits his argument to strategy to the context competition.

Andrew (2004) on the other hand defines strategy in the corporate context. He distinguishes a corporate strategy, which determines the business in which a company will compete from business strategy which defines the basis of competition for a given business. He views strategy as the pattern of decisions in a company that determines and reveals its objectives, purpose or goals, produces the principles policies and plans for achieving these goals and define the range of business the company is to pursue, the kind of economic and human organization it is or intends to make to its shareholders, employees, customers, and communities. Kepner and Trego (1980) view strategy as a form of organization perspective. They describe strategy as a framework which guides those choices that determine the nature and direction of an organization. It is about selecting products to offer and the market in which to offer them.

2.3 Strategic Responses

In order for organizations to be effective and successful, they should appropriately respond to the changes that occur in their respective environments (Hofer and Shendler, 1978). Ansoff and McDonell (1999) explain that, strategic responses involve changes to the organization behavior which may take many forms depending on the organizations capability and the environment in which it operates. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. The results of strategic activities are new products, new services, new processes, new markets, abandoned markets, new competitive strategies for attacking the markets and new responses to social and political challenges. The overall responsibility for effective strategic response belongs to the general management of the firm. Thompson and Strickland (1996) argue that the nature and manner of firm's response depends on the speed and frequency of a particular threat of opportunity in the environment. In order to address whatever situation, firms may adopt response strategies such as restructuring, marketing, information technology, cultural changes, integration, and defensive strategies.

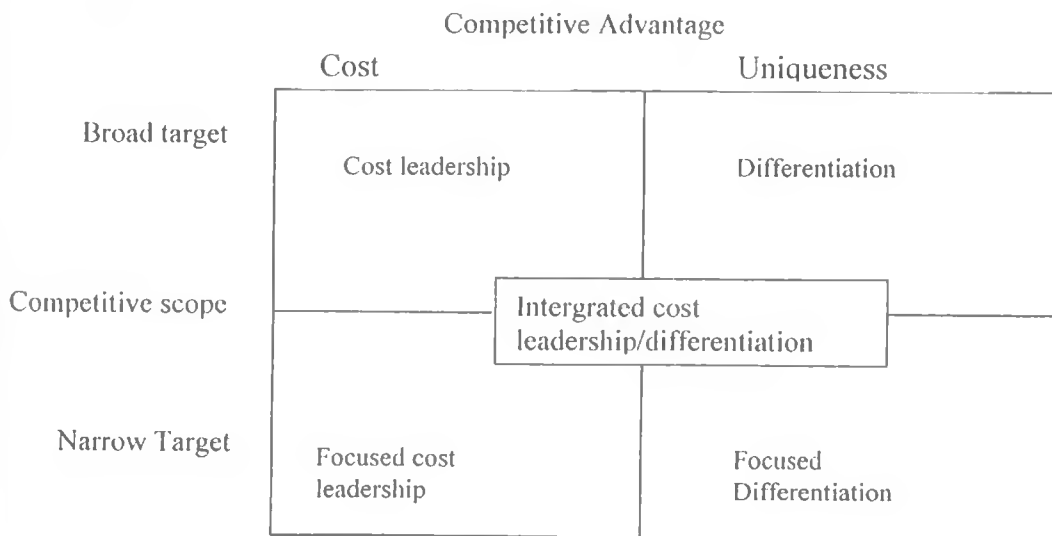
Pearce and Robinson (1997) state that, it is only through competitive strategies that winning companies emerge. These strategies psyche everyone up in the organizations to support

initiatives and also see into it that they bring enduring changes to fruition. In addition to that, organizations must be more responsive to environmental changes in order for them to be more stable and coherent to their mission and vision.

2.3.1 Marketing Strategy

Kotler (2000) define marketing as a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others. Johnson and Scholes (1997) emphasized the need for organizations to be market oriented, that is, by producing according to customer preferences. Organizations need to engage divergent strategies to enhance their competitive position. This may be done for instance by the use of Porter's (1998) five business-level strategies adopted to establish and defend their desired strategic position against rivals. These include; cost leadership, differentiation, focused cost leadership, focused differentiation and integrated cost leadership/differentiation as demonstrated below.

Figure 2.3. Five Business level strategies



Source: Porter (1998), Competitive Strategy: Techniques for Analyzing industries and competitors. p.39

When setting a business level strategy, firms evaluate two types of competitive advantage: lower cost than rivals, or the ability to differentiate and command a premium price that exceeds the extra cost of doing so. Having lower cost derived from the firm's ability to perform activities differently than rivals; being able to differentiate indicates the firm's capacity to perform different (and valuable) activities (Gimeno, 1999). Focus strategies help a firm to select a segment or group of segments in the industry and tailor its strategy to serving them to the exclusion of others (Chevalier, 1999). The effectiveness of each strategy is contingent both on the opportunities and threats in a firm's external environment and on the possibilities provided by the firm's unique resources, capabilities and core competencies.

Ansoff (1957) however states that an excellent way to analyze marketing as a strategic response is to use the product-market expansion grid illustrated below.

Table 1: Production Market-expansion grid

Table 1: Product market-expansion grid

Products \ Markets	Current Products	New products
Current markets	Market penetration strategy	Product development strategy
New markets	Market development strategy	Diversification strategy

Source: Kotler (2000)

Ansoff and Mc Donell (1990) are of the opinion that, the key to succeed in today's competitive environment is the continual substitution of new products and services, and that, firms which do not innovate do not survive. Kotler (2000) stated that, marketing strategy involves marketing current products in current markets. This is not a viable strategic response in a changing environment. Marketing development consists of marketing current products, often with only

cosmetic modifications to customers in new markets for example adding channels of distribution or by changing the content of advertising or promotion. Market development strategy involves substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. An alternative term for development is innovation.

2.3.2 Diversification Strategy

A diversification strategy is the process of expanding firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of diversification is to allow the company to enter lines of business that are different from current operations (Amit and Lavit, 1998). Kotler (2000) states that a good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful. Three types of diversification are possible. The company could seek new products that have technological and/or marketing synergies with existing product lines even though the new products themselves may appeal to a different group of customers (concentric diversification). Second the company might search for new products that could appeal to its current customers even though the new products are technologically unrelated to its current product line (horizontal diversification). Finally the company might seek new businesses that have no relationship to the company's current technology products or markets (conglomerate diversification).

2.3.3 Divestiture Strategy

Kotler (2000) defines divestiture as a process whereby a product line (or a product division of a business) or service is liquidated or sold so as to limit either real or anticipated losses and to redirect the resources behind that product line or division to other company products or divisions. He suggests that manager's should focus on the company's growth opportunities not fritter away energy and resources trying to salvage hemorrhaging businesses with high market value can be sacrificed. This involves the sale of a firm or a major component of a firm. Companies must not only develop new businesses but also carefully prune, harvest or divest tired and weak businesses or products in order to release needed resources and reduce costs.

2.3.4 Leadership and Culture

Pearce and Robison (1991) observe that organizational leadership involves action in first guiding the organization to deal with constant change by embracing change, clarifying strategic intent and shaping the culture to fit with opportunities and challenges that change affords and second identifying and supplying the organization with operating managers prepared to provide leadership and vision. According to Kotler (1990) leadership is about coping with change. Part of the reason leadership has become so important in recent years is that the business world has become more competitive and more volatile. Major changes are more and more necessary to survive and compete in this new environment. More change always demands more leadership.

Ansoff and Mc Donnell (1999) characterize organization leadership as general management capability. They define general management as the propensity and ability of the general management to engage in behavior, which will optimize attainment of the firms near and long term objectives. They see general management's role as the art of a developer of the firm's future. The successful performance of this role requires a climate within the firm, which welcomes and seeks change, competence to anticipate, analyze and select attractive opportunities. They recognize that general management's capability is determined by qualifications and mentality of key managers, social climate (culture) within the firm, power structure, systems and organizational structure and capacity of general management to do managerial work.

As for the organizational culture, (Pearce and Robison 2003) argue that, organizational culture is similar to an individuals' personality-an intangible yet ever present them that provides meaning direction and the basis of action. Insightful leaders nurture key themes or dominant values within their organizations that reinforce the competitive advantages they possess or seek such as quality, differentiation, cost and speed. Deming (1950) ideas and principles present total quality management (TQM) as one approach to developing a culture of quality. TQM focuses management on the continuous improvement of all operations, functions and above all process of work. It is build around an intense focus on customer satisfaction, an accurate measurement of every critical variable in a business's operation, on continuous improvement of products, services and on work relationships based on trust and teamwork. Benchmarking is one of the

important tool for TQM, whose objective is to identify the best practices in performing an activity, to learn how lower costs, fewer defects or other outcomes linked to the excellence are achieved.

2.3.5 Organizational Structure

An organizational structure is The framework, typically hierarchical, within which an organization arranges its lines of authority and communications, and allocates rights and duties (Jacobides, 2007). Ansoff (1990) states that one of the strategic responses to environmental turbulence is restructuring. Restructuring as a consequence of environmental changes is based on the notion that changes in environmental factors precipitate mismatches between the structure of an organization and its environment. Consequently it is normally inevitable to devise the appropriate strategy that would create a “fit” between the environment and the organization structure. Thus as a strategy of an organization is dependent on the environment, the organizations strategy will cause the organization to develop its internal capability that will enable it to exploit the opportunities in the environment or to overcome environmental challenges

Business process re-engineering (BPR), popularized by consultants Hammer and Champy (1983) is one of the most popular methods by which organizations have undergone restructuring efforts to remain competitive. BPR is intended to reorganize a company so that it can best create value for the customer by eliminating barriers that create distance between employees and customers. It involves fundamental rethinking and radical redesign of a business process to achieve dramatic improvements such as cost, quality, service and speed. Re-engineering and value orientation have led to downsizing, outsourcing and self management as the three themes influencing organizational structures. It has also resulted in the formation of strategic alliances. Restructuring is affected to overcome identified and anticipated competitive disadvantage or weakness challenges. Corporations undergoing operational and strategic challenges normally follow restructuring strategies. This involves changing the current direction, focus, governance and thinking in order to take advantage of the new opportunities posed by the environment to turn threats into opportunities.

A final aspect of organizational structure is the removal of structural barriers and the creation of the learning organization. Johnson and Scholes (1999) define learning organization as one capable of continual regeneration from the variety of knowledge, experience, and skills of individuals within a culture, which encourages mutual questioning and challenge around a shared purpose or vision.

2.3.6 Information Technology Strategy

O'Brien (1999) states that, Information technology has become an indispensable ingredient in several strategic thrust that businesses have initiated to meet the challenges of change. Such strategic thrusts include Internet, which have become the primary information technology infrastructure that supports the business operations. This is especially evident in electronic commerce. Using information systems that help give a company a competitive advantage in the market place. These strategic information systems use information technology to develop products, services and processes and capabilities that give business a strategic advantage over the competitive forces it faces in its industry.

Dowling (2005) also argues that, organizations are able to attain competitive advantage through the ability to access and use information effectively. Combined, the Internet and the World Wide Web have created an infrastructure that allows delivery of significant quantities of relatively inexpensive information that for organizations that have adopted it well, it has yielded strategic opportunities to organizations. For instance, e-learning is a recent development the education sector has embraced in response to increased demand for educational services.

Abdullahi (2000) states that, technology developments can take several forms each, which might give organizations advantage in a particular way. Such a novelty in the process so that others cannot match the speed, lower cost and customized products. It can also offer processes that are complex so that others find it difficult to master. The computer and developments in telecommunications are the most important aspects of information technology that have transformed the business environment and process. Computers' have enabled automation of many processes in business organizations which has led to dramatic improvements in productivity and

reduction in costs while telecommunications have dramatically improved the speed with which information is transmitted thus facilitating speedy decision making.

Simonin (1999) argues that the value of intangible assets, including knowledge, is growing as a proportion of total shareholder value. Information technologies have changed the consumers, producers and civic environments in such profound and irrevocable ways such that those who cannot create a presence in this area will find it difficult to survive the current intense competition. According to Sanchez (1995), the key to sustainable competitive advantage and therefore success in the modern turbulent environment is deeply embedded capability for continuous radical innovations.

2.3.7 Integration Strategy

Integration strategies involve expanding a firm's range of activities backward into sources of supply and /or forward toward end – users of the final product (Strickland, 1998). Further, these strategies allow firms to use their skills and capabilities in different stages of the value chain to create value (Hanson, 2005). For example, a number of industries have successfully attempted backward integration into the production of their own cereals, vegetable, and milk requirements. Consequently, the organizations have been able to reduce the uncertainty of resource availability/cost by purchasing or developing control over those resources. Equally, the organizations are able to strengthen their market position and/or secure competitive advantage (Harrigan, 1983).

Stoffels (1994) argues that, horizontal integration as well is utilized by organizations to reduce competitive risks by buying the competition. Internal expansion might be more desirable in markets with many competitors in relatively stable environments, since the costs of extending market boundaries would be more widely shared and the risks of government intervention from alleged anti-trust violations would be avoided. But in intensely competitive markets, where saturation is a threat or reality, horizontal integration may be the only way for a company to increase or maintain market share

2.3.8 Organizational Culture Changes

Charles and Gareth (2001) define organizational culture as "the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization." Strickland (1998) assert that every organization has a unique culture and hence it's own set ways of approaching problems and conducting activities, its own patterns of "how we do things around here", that is, its own climate, folklore, and organization personality. Implanting the desired values derives from obvious, sincere, sustained commitment by the executive coupled with extraordinary persistence in reinforcing those values. Appropriate culture that has been developed and entrenched in the organization history may not be a source of competitive advantage.

This is especially true in a situation where organizational staff is victim of routines and therefore resists accommodating changes. Its here that the strategic leaders have the challenge of having to initiate and influence the desired change in beliefs, values and attitudes The strategic leader in organizations and in particular schools' Principals need to appropriately identify the existence of strategic drifts in their organizations/schools. In such situations, conservativeness hinders the introduction of alternative views and approaches as necessitated by the changing remote environment. It is also observed that the senior managers may become the concrete ceiling blocking many new innovations and fails to accommodate environmental changes. Chief Executives need to know that cultural changes succeed only when they support them actively.

2.4 Summary of Literature Review

Grant (1998) notes that, although the primary purpose of strategy is to guide management decisions towards superior performance through establishing competitive advantage, strategy also acts as a vehicle for communication and coordination with the organization.

The general management has a role in facilitating firm's strategic responses. Ansoff (1990) states that general management is the propensity and ability of the firm to engage in behavior which optimizes attainment of the firm's near and long term objectives. It is about setting the right climate (will to respond), competence (ability to respond) and capacity (volume of response). He argues that the three components are essential if the firm is to implement a

strategic response. Climate setting involves the mentality and power position of the managers. Competence involves talents, skills and knowledge of the management. It determines the organizational structures and systems and shared knowledge. Capacity on the other hand, entails the personal and organizational capability to accumulate the various management challenges as may arise from time to time.

Osthuzer, et al (2000) argue that successful strategies could only be implemented through an organizational structure that links people's abilities and skills to the mission of the enterprise. Modern executives must therefore respond to the challenges posed by the organizations immediate and remote external environment (Aosa, 1992; Shimba, 1993, Pearce and Robinson, 1977). The immediate external environment includes competitors, suppliers, scarce resources, government agencies and customers whose preferences keep on shifting (Webb, 1989).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Research Design

The researcher used a descriptive research design to obtain data for this study. The descriptive design attempts to describe possible behavior, attributes, values and characteristics (Mugenda, 2003). A descriptive research as the name suggests aims at describing the characteristics of the population under study (Quee, 1999). The study sought to describe the strategic responses that organizations have taken as a result of mobile growth in Kenya.

3.2. The Sample of the Study

The researcher focused on 30 ISPs from the list provided in appendix 2 that are located in Nairobi, as they are the major ISPs in the industry, excluding the three mobile operators. Mugenda and Mugenda's (1999) observed that such a sample is sufficient enough for purposes of statistical analysis. The sample was chosen through convenient sampling technique. Mugenda, (2003) noted that convenient sampling involves selecting cases or units of observation as they become available to the researcher. The basic idea about sampling is that by selecting some of the elements in a population, we draw conclusion about the entire population (Cooper et al, 2003).

3.3. Data Collection

The researcher used a questionnaire containing open ended questions to collect primary data. The was divided into sections; A, B and C. Section A contain general information of the respondent, section B enquired on the challenges that respondent's have been experiencing while part C examined the strategic responses that organizations have put in place as a result of competition. Data was collected through an interview using the questionnaire as a guide. Interviews were more preferred as they increase the rate of questionnaires returned. The researcher administered the questionnaire through an interview and where the respondent was not readily available, a "drop & pick later" method was used. The study targeted heads of Information technology department.

3.4. Data Analysis Method

The data obtained from the questionnaire was analyzed using content analysis. Information obtained was organized into themes that sought to achieve the set objectives of the study or answer the research questions. Data was presented using prose or narrative format.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents data analysis and interpretation of the study findings. This study sought to answer the following research objectives: Establish the strategic responses that have been adopted by the ISPs to address the existing growth of mobile telephony industry; and establish the challenges the ISPs are facing. Thirty (30) middle level managers of Internet Service Providers (ISPs) were interviewed. There are 33 ISPs in Kenya according to Communication Commission of Kenya (2011). The three major mobile service providers namely Safaricom, Airtel, and Telkom Orange were excluded from this study. All the respondents indicated that they are middle level managers in their firms.

4.2 Challenges experienced by the ISPs

In order to ascertain the challenges of the internet providers, the researcher asked the respondents to mention the changes that have taken place in the last five years in the external environment. The respondents cited new entrants and substitute products as the changes that have affected their firms. They further indicated that these changes have brought challenges such as low profit margins, competition as well as threat of being phased out of business. The licensing framework is not in line with convergence of technologies. In addition, the regulator has not been sufficiently driven by competition, market and commercial issue. Interconnection processes take long (some cases have taken more than one year), and often business opportunities are lost. The business environment, especially the independence of the regulator, has not been predictable. Investors are looking for a more stable, consistent and predictable business environment. The researcher sought to know how the internet providers (ISPs) have responded to the changes identified. The respondents said they have responded by providing value added services, product differentiation and repackaging.

4.3 Strategic Responses

The researcher sought to establish the changes that have taken place in market development of ISPs. Most cited changes included product development and diversification. On a daily basis, the demand for Internet access continues to spread in Kenya. However, just supply of internet services, even in areas that previously never had access, does not guarantee successful results in

the long- term. As the customer base increases, the challenges facing ISPs begin to make their way into the forefront. Competition between larger and smaller providers is a huge issue currently facing ISPs. To date, ISPs still have not earned a substantial share of the Internet marketing segment, which yields extremely low penetration within online advertising. In order to overcome this challenge, ISPs must devise a creative plan that will help with tapping into advertising revenue. ISPs have to continue to try and increase subscriber revenue with new options for services, while keeping expenses relatively low for deploying these services, in order to enable the shortest ROI time possible.

4.4 Information Communication Technology

The ISPs cited lack of skilled labour in ICT which has forced them to train more people to overcome that problem. ICT has also brought opportunities according to ISPs. The use of information technology influenced introduction and application of effective promotion methods that eased marketing of organization services in the target market. With the advancement of technology there have been new channels of selling products, and this has also provided consumers with a good quality of the products, this is due to high rate of competition. The product information can be accessed easily. The consumers can sort products based on any desired attribute. IT has made the companies to be flexible in changing and managing their portfolios of options and products. Another impact is that IT has significantly reduced transaction cost, thus making products cost cheaper and ease of doing business and actual product improvement. The use of information technology increases the pace of product development and this facilitates effective marketing of communication services. The evolution and introduction of more effective communication services is greatly influenced by development of new information communication technology. New product development leads to a wide product range that influences attraction and retention of many customers.

4.5 Human Resource Development

There were no well trained personnel that the ISPs could employ and be productive immediately. ISPs had to invest in training before the personnel could be productive. Owing to the high cost of training and maintaining skilled employees, this raises operations cost hence pricing of internet products are affected. The ISPs have responded to this challenge by investing in skills for long

term return for the industry. However, they cited that this cost has been eating on their profit margin without definite returns.

4.6 Product Development and Innovation

Features of existing internet products vary. In particular, features of extended products such as the quality of the customer support information can be enhanced. To achieve these, ISP companies have considered differentiating their internet services from competitors and providing extranet to their key customers. ISPs have also adopted enhanced customer relationship through personalized services. Reengineering though expensive for some ISP companies, has enabled the some ISP companies analyze the historical trends and marketing strategies of the competitors and know on what to develop in relation to the needs of the market. ISP companies indicated that they have reviewed their options on how to add value to their core and extended services when developing their products.

4.7 Promotion and Advertising

Promotion is important because the consumers are informed about the new products and their attributes before they develop positive attitudes toward them. For the products and services in the internet market, promotion acts as a way to persuade and informing the end users so that they attain the product knowledge and hence like the product. A Satisfied customer will send word-of-mouth to the others thereby increasing the demand of the product. ISPs promotion involves product, distribution and price components of marketing.

ISPs indicated that their promotional mix consists of a blend of advertising, personal selling, sales promotion, brand management, product placement and public relations tools. It was established that many ISP companies apply these promotion mix elements in order to increase sales revenue. Some ISPs cited decline in sales revenue as a result of poor implementation of the most effective promotion mix elements. Each of the applied promotional mix elements has strengths and weakness and it should be the company management's responsibility to determine the most effective promotion mix element that will increase sales revenue.

Modern marketing methods are saving ISP companies many problems because they tend to be effective, feasible or economical. ISPs indicated that they are using a variety of online methods

to reach business customers. The major methods such as online directory services, use of matching services to find business partners, use of the marketing and advertising services of exchanges, co-branding or alliances, affiliate programs, online marketing services and use of e-communities are widely used by ISP companies.

The internet is a public, global communication tool network that provides direct connectivity to anyone over a local area network via an internet service provider (ISP) or directly via an ISP. This public network is connected and routed over gateways. The ISPs are connected to internet service providers, to network service providers, and eventually to the internet appliances. Through the internet, communications has been enhanced whereby it enables improved internal communication, improved business partnership channels, effective marketing, sales, and customer support and facilitated collaborative activities support. Productivity enhancements include the extranet that enables just-in-time information delivery, reduction of information overload, productive collaboration between work groups, and training on demand. Internet enhances businesses by enabling faster time to market, potential for simultaneous engineering and collaboration, lower design and production costs, improved client relationships, and creation of new business opportunities for the ISPs.

The internet is cost-effective, improved comparison shopping, reduced travel and meeting time and cost, and reduced administrative and operational costs and elimination of paper publishing and mailing costs. The internet enables the flow of information delivery at a low-cost publishing, leveraging of legacy systems, standard delivery systems, ease of maintenance and implementation. ISP companies have benefited from the capabilities the internet has provided. In earlier times, companies had limited financial problems and the amount of information they could send to customers was in a form of brochures. However, nowadays companies can place almost an unlimited amount of information on their homepages and many people can learn about the company and its products online and buy them. Through online advertising, marketers have the possibility to change, cancel or improve their marketing campaign from the internet if they know that it is not achieving or reaching the intended group. Also through the internet, ISps can improve their customer service strategies.

4.8 Refocusing Strategy

The Internet in Kenya is dominated by foreign content. This is a challenge to the Internet Service Providers. In order to experience increased usage of Internet, then Kenya needs to tremendously increase its amount of relevant local electronic content. The ISPs have responded to this challenge through encouraging internet growth fueled by growth in e-government as well as e-commerce services. Another challenge has been that ISPs have focused on primarily re-selling bandwidth with very little value addition. It is necessary to re-orient the business focus of ISPs to services to the customers. Besides current demand conditions existing in the market, ISP companies need to have knowledge about future demand and respond to it appropriately. From this analysis, ISP companies can reduce or increase their capacity in relation to the market.

4.9 Pricing Strategy

Internet service market price erosion challenges face ISPs. ISPs work by offering different types of plans to all users. However, unique costly tools are required to generate more revenue from each subscriber, including even basic access customers. The cost of Internet services is still too high, in comparison to the income levels of Kenyans. ISPs indicated that they seek to reduce operational costs in order to lower their prices. Price represents the value of a product or service for both the seller and the buyer. In order for it to be of importance there has to be a defined price planning which means a systematic decision-making relating to all aspects of pricing by a company involving both tangible and intangible factors, purchase terms, and the non-monetary exchange of products and services. Price balances demand and supply because it makes the buyer and the seller agree on a certain value for goods and services. Price is one of the positioning methods and should be implemented in relation to target market, product mix, services and competition.

Price should involve all the cost, otherwise companies will incur losses. Therefore, the management and the managers should understand how to set the price by considering lost margin and lost sales. Also factors such as demand, competition, distribution channels, internal environment and public authorities affect price setting. Understanding how to set a price is an important aspect of marketing decision-making because of changes in the competitive market that many believe will act to decrease prices in many countries. Developing a coherent pricing

strategy assumes major significance. Pricing decisions include determining the overall level of prices (low, medium, or high), the range of the prices (lowest to highest), the relationship between price and quality, the emphasis to place on price, how to react to competitors' prices, when to offer discounts, how prices are computed and what billing terms to implement such as cash or credit policy.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the summary of the study, conclusion and recommendations. The study sought to establish the strategic responses that have been adopted by the ISPs to address the existing growth of mobile telephony industry and establish the challenges the ISPs are facing. These objectives have been achieved in the previous chapter. This chapter summarizes the study, concludes and gives recommendations.

5.2 Summary of the Study

The study sought to find out the strategic responses by ISPs in Nairobi as a result of the mobile operator growth. The study was guided by the following objectives: to establish the strategic responses that have been adopted by the ISPs to address the existing growth of mobile telephony industry and establish the challenges the ISPs are facing. Descriptive research design was used to obtain data for this study. The researcher focused on 30 ISPs located in Nairobi excluding the three mobile operators. The sample was chosen through convenient sampling technique. The study targeted heads of Information technology department. Data was collected through an interview using the questionnaire as a guide. The data obtained from the questionnaire was analyzed using content analysis.

Low profit margins, competition, licensing framework, long interconnection processes as well as unpredictable business environment were cited as the major challenges facing ISPs in Nairobi. The ISPs have responded to some of these challenges by providing value added services, product differentiation and repackaging. In ICT, skilled labour has been a challenge to the ISPs. The ISPs have had to train more people in order to overcome this challenge. The use of information technology influenced introduction and application of effective promotion methods that eased marketing of organization services in the target market. It was also established that there were no well trained personnel that the ISPs could employ and be productive immediately. ISPs had therefore to invest in training before the personnel could be productive. ISP companies have considered differentiating their internet services from competitors and providing extranet to their key customers. They have also adopted enhanced customer relationship through personalized

services. ISPs indicated that their promotional mix consists of a blend of advertising, personal selling, sales promotion, brand management, product placement and public relations tools. ISP companies have benefited from the capabilities the internet has provided. ISPs have responded to the challenge of lack of local content through encouraging internet growth fueled by growth in e-government as well as e-commerce services. The cost of Internet services is still too high, in comparison to the income levels of Kenyans. ISPs have attempted to reduce operational costs in order to lower their internet product prices.

5.3 Conclusion

Most of the challenges facing ISPs emanate from external factors. These challenges in one way or the other are dependent on business environment. The strategic responses by ISPs have largely been internal through such things as value addition, differentiation, and repackaging. Although these responses are important, the ISPs have not come out strongly to advocate for better regulatory environment that affect licensing framework, interconnection processes and competition. Having solved skilled labour challenge through training, ISPs can exploit this labour pool by encouraging innovation and value addition in the industry. This will not only ensure a source of revenue but also variety of products and services to the customers. ISPs have used promotional mix to reach out to their customers, however, market segmentation would work more conveniently to cater for different categories of customers based on their needs.

5.4 Recommendations

This study recommends that ISPs should unite and advocate for a better regulatory environment. They should not only concentrate on internal factors that are affecting their businesses but also external factors that are key determinants in their operations. This study also recommends that ISPs should come together to share infrastructure in order to reduce costs which they can pass down to the consumer or increase their profit margins. The government should also come in with policies that enhance sharing of resources in the industry in order to reduce internet cost and improve usage. Although the government has been vocal on advocating for lower cost of internet, a more meaningful partnership is needed among the stakeholders not only to lower cost but also increase usage, enhance the role of internet in development and improve efficiency in the industry.

APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

MAUREEN
C/O MBA OFFICE
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI,
P.O. BOX 30197
NAIROBI.

17TH JUNE 2011.

Dear Respondent,

RE: COLLECTION OF RESEARCH DATA:

I am a postgraduate student at school of business, university of Nairobi. In order to fulfill the requirements of attaining Master of Business Administration Degree, I am undertaking a management research project on “Strategies adopted by ISPs in Kenya to respond to the growth of mobile telephony industry in Kenya”.

I kindly request you to participate as one of the respondents for an interview to assist me in data collection. The information is for academic purpose only and will be treated with strict confidentiality. Upon request, a copy of the final report will be made available to you.

Thank you for your cooperation

Yours Faithfully,

Maureen
Student, MBA

Mr. Mududa,
Supervisor, University,
of Nairobi.

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APPENDIX 2: LIST OF ISPS

1. Safaricom Ltd
2. Airtel
3. Telkom Orange
4. Communication Solutions (Access Kenya)
5. Wananchi Telkom Ltd
6. Kenya Data Networks
7. Africa Online
8. Flexible Bandwidth
9. Swift Global
10. Callkey Networks Ltd
11. Kenyaweb Dot com Ltd. Nairobi
12. Net two thousand Ltd/Bidii Dot Com Nairobi
13. Communication Solution Ltd/Access Kenya Nairobi
14. Liam Telecommunications Ltd. Nairobi
15. SkyWeb Technologies Ltd. Nairobi
16. Global Telecomms Ltd. Nairobi
17. Pwani Telecomms Ltd/IKenya Dot Com Mombasa
18. Simbanet Com Ltd. Nairobi
19. African Regional Centre For Computing Nairobi
20. Todays Online Ltd. Nairobi
21. Flexible Bandwidth Services Ltd. Nairobi
22. ISP Kenya Nairobi
23. Karibu Networks Ltd. Nairobi
24. Karibu Dot Com Ltd (Former Family Web-Link Africa Ltd) Nairobi
25. Finnet Communications Ltd. Nairobi
26. Geo-Net Communications Ltd. Nairobi
27. Net Force (K) Ltd. Nairobi
28. Telecom Solutions Ltd. Nairobi

29. System Intergration Ltd. Nairobi
30. UUNET Kenya Ltd. Nairobi
31. Trans-Business Machines Ltd. Nairobi
32. Postal Corporation of Kenya Ltd. Nairobi
33. Sahannet Ltd. Nairobi

Source: CCK 2010/2011 quarterly report and Kenya ICT industry report 2009

APPENDIX 3: QUESTIONNAIRE

SECTION A : RESPONDENTS PROFILE

1. Position held.....
2. Years of service.....

SECTION B: CHALLENGES EXPERIENCED BY THE ISP

1a) Please state the changes that have taken place in the last 5 years in the external environment which have affected the company.

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.....

b) What challenges has these changes posed to your firm.

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.....

2. How has the company responded to the changes identified in question one above.

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SECTION C: STRATEGIC RESPONSES

1. Market development

a) Briefly state which changes (if any) have taken place in marketing at the company in the last 5 years? [If non, go to question 2]

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b) What were the objectives of the changes in marketing?

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.....

c) How have the changes been effected

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d) What challenges were met while making the changes?

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.....
e) What is the current status of the marketing response strategy?
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.....
.....

2. Information Communication Technology

a) State which changes (if any) have taken place in ICT at the company in the last 5 years?
[If non, go to question 3]
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.....

b) What were the objectives of the changes in ICT?
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c) How have the changes been effected?
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d) What challenges were met while making the changes?
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e) What is the current status of the ICT response strategy?
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3. Human Resource Development

a) Which changes (if any) have taken place in HIR at the company in the last 5 years? [If non, go to question 4]
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b) What were the objectives of the changes in the HIR?
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c) How have the changes been effected
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d) What challenges were met while making the changes?
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e) What is the current status of the HR response strategy?
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4. Product Development and Innovation

a) Please list the changes (if any) that have taken place in Product development & innovation at the company in the last 5 years? [If non, go to question 5]
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b) What were the objectives of the changes in product development and innovation?
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c) How have the changes been effected
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d) What challenges were met while making the changes?
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e) What is the current status of the Product Development and Innovation response strategy?
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5. Promotion and Advertising

a) Briefly state which changes (if any) have taken place in Promotion and Advertising at the company in the last 5 years? [If non, go to question 6]
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b) What were the objectives of the changes in promotion and advertising?
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c) How have the changes been effected?
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d) What challenges were met while making the changes?
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e) What is the current status of the Promotion and Advertising response strategy?
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6. Refocusing

a) Has the firm undertaken refocusing in the last 5 years? [If non, go to question 7]
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b) What were the objectives of the changes in refocusing?
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c) How have the changes been effected
.....
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d) What challenges were met while making the changes?
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e) What is the current status of the refocusing response strategy?
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7. Pricing

a) Briefly state which changes (if any) have taken place in terms of Pricing at the company in the last 5 years? [If non, go to question 8]
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b) What were the objectives of the changes in Price?
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c) How have the changes been effected?
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d) What challenges were met while making the changes?
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e) What is the current status of the Price as a response strategy?

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8. Mergers

a) Which mergers have you had (if any) at the company in the last 5 years? [If non, go to question 9]

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b) What were the objectives of the changes in merging?

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c) How have the changes been effected

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d) What challenges were met while making the changes?

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e) What is the current status of the merging response strategy?

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9. Which other strategic responses has the company undertaken apart from the ones mentioned?

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Thank you for your Participation.