STRATEGIC RESPONSES TO INCREASING COMPETITIVE CHALLENGES IN THE TELECOMMUNICATIONS INDUSTRY IN KENYA - A CASE OF TELKOM KENYA LIMITED

By

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(July 2008)

DECLARATION

I declare that, this project work is my own original work and has not been presented for award of any degree in any university.

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DEDICATION

This work is dedicated to my dear wife Mary Tanui, our children Ann Chepkoech, John Kiprutto and David Kipkoech.

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ABSTRACT

Strategy responses, according to the classic organizational literature, are organizational responses in predictable ways to the conditions that surround them, adjusting their purpose and shape to meet market and other environmental characteristics. Child (1972) and Weick (1977) argue that organizations can create their own environments through choices regarding markets, products, technologies, scale of operations, etc.

Telkom Kenya (TKL) has been subjected to intensive competition over the past few years as a result of increased liberalization of the market. The mobile operators, Zain (formally Celtel) and Saraficom have provided the main competition to TKL's voice business. With the changing business environment, TKL has been forced to review and adjust its competitive strategy. No study had been done specifically on TKL's strategic responses to the highly turbulent environment, after the initial five exclusivity granted to it by the regulator expired in 2004. This study sought to determine the environmental challenges facing TKL and the strategic responses that it has adopted, to effectively fight competition. Primary data was collected from key senior management TKL staff, handling strategy aspects of the company, via personal interviews. Thereafter, the content analysis technique was employed to analyze the data.

The researcher found out that TKL has been battling with adverse environmental challenges. The major internal challenges are culture change and harmonization of huge disparities in staff remuneration. The key external challenges are the impending unified license by the telecommunications

regulator and advanced customer needs, exceeding TKL's current services. The top competitive challenges are intense rivalry among the telecom players, cheaper substitute products and high bargaining power of customers.

TKL has responded to these challenges by enhancing it internal capability to match the prevailing external environment via implementation of a culture change program and adoption of a market benchmark for harmonization of staff packages. To deal with the competitive challenges, TKL has embarked on an elaborate technological strategy to rollout new mobile services platform and has also embraced market penetration, product development and market development strategies by increasing sales and promotional activities, development of new products and recruitment of dealers in the distribution network.

The researcher recommends a survey to be carried out across the various telecommunications firms in Kenya, to determine their respective strategy responses to intensified competition, for comparative analysis.

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Chapter 1: INTRODUCTION

1.1 Background

Since 1990s, the Kenyan industries, including the telecommunications sector, have experienced increased competition as a result of exposure to foreign organizations. According Rogers (1994) and Nordas (1996), increased competition encompasses the greater global competition as well as a secondary range of new competitive forces in the domestic market and competition among brands. The forces of globalization, which primarily comprise privatization, trade liberalization and deregulation, have profoundly influenced the structure of industries in many countries (Amann and Nixson, 1999; Bromwich and Bhimami, 1994). Collectively, these forces bring about a business environment that is more competitive (Porter 1985), and impose a significant impact on the economic performance of business organizations (Amann and Nixson, 1999). If an organization is to achieve and maintain successful business operations, it should continuously scan the environment to ensure that it dynamically provides matching strategic responses, being fully aware of the challenges in the market place (Dixon and Smith, 1993).

Telkom Kenya Limited (TKL) is one of the players in the telecommunications industry in Kenya, and has been facing rapidly increasing competition from new players into the market for the last five years.

1.1.1 Strategic Responses

Strategy has been defined by various scholars differently. The several definitions of strategy include: strategy as a game plan, commercial logic, competitive battle, and direction and scope. The definition of strategy by Johnson and Scholes (2002) as "The direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and fulfill stakeholder expectation", offers a more complete version which includes the key aspects of strategy, i.e. direction, long term nature and business objectives. Mintzberg (1987) on the other hand has defined strategy as a plan, ploy, pattern, position and perspective.

Thus, strategy is a unifying theme that gives coherence and direction to the actions and decisions of an organization, guiding the organization to superior performance by establishing competitive advantage. Strategy must match the external environment and internal capability of the organization (Porter, 1985; Mintzberg, 1987).

Strategy development is traced to Alfred D. Chandler, who was among the first scholars to study strategic management. His book, Strategy and Structure (1962) describes the development of organizations. Noting that 'structure follows strategy' (Chandler 1962, p. 14), Chandler alluded to the impact that strategies have on the internal organizational environment.

Strategic responses, according to the classic organizational literature, are organizational responses in predictable ways to the conditions that surround them, adjusting their purpose and shape to meet market and other environmental characteristics. Some authors (Child, 1972; Weick, 1977) argue that this process is not unidirectional, that is, organizations can also create their own environments through choices regarding markets, products, technologies, scale of operations, etc. According to these authors, firms constantly adjust to their environments in a dynamic process or adaptive cycle, and can be accordingly classified into several strategic types: reactors, defenders, analyzers and prospectors (Miles and Snow, 1978), from the most reactive to the most proactive. This typology alludes to broad aspects inherent to the firm's nature: organizational structures, processes, management style and others.

Other authors have related speed of the decision-making processes with organizational performance. According to Eisenhardt (1989), firms that are able to make fast decisions based on the perceptions of their managers, corporate culture and their use of information can outperform the slower ones, particularly in high-velocity environments. Zaheer and Zaheer (1997) analyzed alertness and responsiveness in competitive environments and concluded that these attributes are linked to a highest organizational performance. These authors define alertness as proactive attentiveness to information about the environment, figuratively "having one's antennae out"; while responsiveness refers to the quickness with which firms respond to environmental signals. The information communication technology arena has become one of this aforementioned "high-velocity environments", a medium in which firms are forced to be alert and responsive to the rapid changes in the present environments that require speedy adaptation processes (Bowman and Gatignon, 1995).

Competitiveness of the company, is the ability to provide products and services as or more effectively and efficiently than the relevant competitors. In the global trading sector, this means sustained success in international and national markets without protection or subsidies. Although transportation costs might allow national firms to compete successfully in their home market or in adjacent markets, competitiveness usually refers to advantage obtained through superior productivity. Measures of competitiveness in the global trade include firm profitability, the firm's export quotient (exports or foreign sales divided by output), and national, regional or global market share (Enright et al, 1994, 1996).

At the industry level, competitiveness is the ability of the national firms to achieve sustained success against (or compared to) foreign competitors, without protection or subsidies. Measures of competitiveness at the industry level include overall profitability of the national firms in the industry, the nation's trade balance in the industry, the balance of outbound and inbound foreign direct investment, and direct measures of cost and quality at the industry level. Competitiveness at the industry level is often a better indicator of the economic health of the nation than competitiveness at the firm level (Enright et al, 1994, 1996).

At the national level, competitiveness means the ability of the nation's citizens to achieve a high and rising standard of living. In most nations, the standard of living is determined by the productivity with which the nation's resources are deployed, the output of the economy per unit of labor and/or capital employed. A high and rising standard of living for all the nation's citizens can be sustained only by continual improvements in productivity, either through achieving higher productivity in existing businesses or through successful entry into higher productivity businesses. According to Enright et al, (1994, 1996), competitiveness at the national level is measured by the level and growth of the nation's standard of living, the level and growth of aggregate productivity, and the ability of the national firms to increase their penetration of world markets through exports or foreign direct investment.

1.1.2 Telkom Kenya Limited

TKL is the incumbent fixed line operator in Kenya. It was incorporated in 1999 to operate under the Companies Act (Cap 486) as the national telecommunications infrastructure service provider. Following its formation, TKL was granted a five years exclusivity period on specific services (including fixed voice and international gateway services) (Telkom Kenya Limited, 2007).

TKL was fully owned by the Government of Kenya (GoK) until November 2007, when the government shed off 51% of its shares to a strategic equity partner, France Telecom. France Telecom, therefore now has the controlling stakes in TKL (Telkom Kenya Limited, 2007).

TKL has been subjected to intensive competition over the past few years as a result of increased liberalization of the market. Mobile operators have provided the main competition to TKL's voice business. There are presently two active national mobile operators, Safaricom and Celtel. In dember 2007, the mobile operators had about 8 million and 2 million subscribers respectively. They were issued with International Gateway Licenses in 2006, further eroding TKL's revenue base. A third mobile operator license was awarded in 2003 to Econet Wireless , but has only started operations in June

2008 due to delays in protracted legal tassels (Communications Commission of Kenya, 2007).

As the business environment changes, TKL has been forced to review and accordingly adjust its competitive strategy in the Kenya telecommunications industry. Because of the rapidly declining revenues and customer numbers, TKL made a strategic decision in 2005 to carryout extensive business re-engineering and restructuring of the company, with a hope to turnaround the situation and improve the competitiveness of the company. The impact of this strategic choice on the competitiveness of TKL has yet to be studied and documented. At the close of the year 2007, TKL had a total of 500,000 subscribers (Telkom Kenya Limited, 2007).

A couple of studies had been done on the strategic management in TKL. Kandie (2001) focused purely on the strategic management philosophies in TKL. Senaji (2006) looked at the problems facing the wider information communications technology (ICT) industry in Kenya. The purpose of this study was to narrow in on the strategic responses employed by TKL to counter the competitive challenges in the telecommunications industry.

1.2 Statement of the Research Problem

From the foregoing discussion theoretical discussion, organizations respond to the changing environmental conditions that surround them, adjusting their purpose, shape and strategies to meet sustained delivery of services to its customers and competitiveness. Therefore, organizations are expected to be alert and responsive to their continuously changing environments ((Zaheer and Zaheer, 1997).

The telecommunications industry in Kenya has been undergoing rapidly changing environmental conditions in terms of the regulatory framework and competition. The Communications Commission of Kenya has in the past 5 years licensed three mobile operators (Vodacom UK, Celtel and Econet Wireless; all of which are global operators), several internet service providers and one additional national telecommunications operator. Clearly, competition in this sector has greatly intensified (Communications Commission of Kenya, 2007)

TKL is therefore expected to have responded strategically in order to combat the stiff competition now in the national telecommunications industry. The big question is thus: "How has TKL strategically responded to the increasing competitive challenges in the telecommunications industry in Kenya?"

Past studies that had been carried out on similar topics include: Mutugi (2006), who studied "responses of micro finance institutions in Kenya to the turbulent business environment". She found out that environmentai forces affect the types of products and services developed, positioning and market strategies. Cheluget (2003) carried out a case study on the New Kenya Co-operative Creameries Limited (KCC), on "the responses of milk processing firms to turbulence in the macro environment of the dairy industry in Kenya". Her findings were that the New KCC had adopted both operational and strategic responses in order to compete effectively. Omondi (2003) did a case study on Savings & Loans (Kenya) Limited on "responses of mortgage companies in Kenya to Threats of New Entrants". Omondi found out that

Savings & Loans responded to the competitive situation by restructuring, marketing, adopting ICT and cultural changes. Wamalwa (2006) studied "responses of catholic health care institutions to environmental changes" and found out that the various catholic health institutions responded by different strategies, i.e. some put in place long term strategic plans, while others used ICT (computers) to ease clients' data processing. On her study on responses by Kenyan pharmaceuticals to HIV/AIDs challenges, Muraah (2003) concluded that 92.9% of the pharmaceutical surveyed did not have any control strategies in place. Nyamwange (2001) studying operational strategies for competitiveness by Kenyan large manufacturing firms found out that these firms have adopted strategies for competition mainly in high quality, low cost, time/speed, innovativeness and flexibility. "Strategic response of commercial banks to the threat of substitute products" was studied by Goro in 2003. Goro (2003) concluded that all commercial banks employ customer retention, market penetration and feed back systems strategies to fight threats of substitute products. While, Mbugua's (2006) study on competitive strategies by dominant daily print media firms in Kenya observed that their products competed on quality and content only, and that the large firms predominantly employed reactionary strategies.

Previous studies on TKL focused mainly on the practice of strategic management at TKL, i.e. strategy formulation, implementation and evaluation processes. Kandie (2001) carried out "a study of the strategic responses by Telkom Kenya Limited in a competitive environment". His findings were that in 2001, TKL was faced with financial, technological, overstaffing, bureaucratic processes and procedures, attitude and culture change, Pension Liability, planning and strategy challenges. Kandie recommended adoption of a strategic partner by TKL to bail the company out of the above difficulties. The approach of Kandie (2001) focused mainly on the internal environment, planning and strategy for TKL. He did not examine the external forces facing the company. In addition, the competitive forces in the Kenya telecommunications industry. had not really taken root, since liberalization had just been introduced (in 2001 TKL customers were 320,000, against 400,000 mobile customers). Today, seven years later, the telecommunications industry environment in Kenya is highly turbulent, with combined mobile subscribers of 10,000,000 against 500,000 customers of TKL, thereby threatening to force TKL out of the market. Further, emergent strategies in TKL have come into play since 2001.

No study had yet explored strategic responses of TKL to competitive challenges. This study was to specifically pursue the latter approach to research on TKL.

1.3 Research Objectives

The objectives of this study were to:

(i) Determine the significance of the competitive challenges facing TKL

(ii) Establish the strategic responses of TKL to these competitive challenges.

1.4 Importance of the Study

The study would be valuable to several stakeholders for the following reasons:

(i) It will help TKL identify the benefits achieved as a result of the strategic responses taken.

(ii) TKL will use the findings to formulate appropriate policies and guidance on strategic responses to competitive challenges, to further better the performance of the company.

(iii) The findings will also contribute to the bridging of the knowledge gap on the effect of the TKL strategic responses on organizational competitiveness.

(iv) Other telecom operators in similar environmental conditions to TKL can learn from the case and better their strategic management practices

(v) The study would also provide a source of inspiration to the researcher for self professional development and enrichment.

Chapter 2: LITERATURE REVIEW

2.1 Strategy

A strategy to an organization is, amongst other things, a plan of how the organization can achieve its goals and objectives (Davies, 2000; Mintzberg, 1996); it is a 'commitment of present resources to future expectations' (Drucker, 1999). In every company there are two independent and simultaneous processes through which strategy comes to be defined, intended (or deliberate) and emergent strategy-making processes. Intended strategy is conscious and analytical, involving assessments of market structure, competitive strengths and weaknesses, the nature of customer needs, and the drivers of market growth. Strategy in the intended strategy process typically, is formulated in a project with a discrete beginning and end. Top-tier management consultants often manage these projects (Moncrieff, 1999).

An emergent strategy is a pattern of action that develops over time in an organization in the absence of a specific mission and goals, or despite a mission and goals. It is the cumulative effect of day-to-day prioritization decisions made by middle managers, engineers, salespeople and financial staff, despite, or in the absence of intentions (Mintzberg, 1987). Mintzberg and Waters (1985) defined the concept of emergent strategy as consistency in behavior, whether or not it is intended.

Realized strategies are at the end, the result of intended and emergent strategies. Mintzberg (1985) suggests that only 10–30 percent of intended strategies is realized. Mintzberg and Waters (1985) separate various kinds of strategies on a five point scale ranging from rather deliberate to mostly emergent.

2.2 Environmental Challenges

Environmental challenges are issues facing the business organization from within (internal) and without (external) that threaten the ability of the organization to compete successfully in the market (Coates, 1985). Therefore, in today's highly turbulent business environment, it is important for the organization engage in continuous scanning of environment in order to promptly identify the strategic issues facing the organization; and undertake timely responses. This section will look at the changing environment, environmental scanning, tools for environmental scanning, internal challenges, external challenges and narrow in specifically on competitive challenges.

2.2.1 Changing Environment

Emery and Trist (1965) recognized that one of the main problems for organizations is that the environmental context in which organizations exist is constantly changing. This change is becoming faster and more complex and is often not recognized until it is too late. Organizations can fail to appreciate that a number of outside, connected events, can lead to irreversible change in the business environment. Emery and Trist (1965) called the business environment 'turbulent fields'. The business environment is dynamic; the ground is consistently in motion.

Emery and Trist (1965) say that survival for an organization can be precarious if it attempts to deal tactically with each environmental variance as it occurs. Survival becomes critically linked with what an organization knows about its environment. Organizational objectives need to be defined in terms of the capacity of the organization to make and meet the competitive challenge.

Loasby (1967) says that uncertainty about the future should not be considered in ignorance, it is in fact knowledge. An exact forecast can hide uncertainty and give less information about the future than a forecast with a range of values. Over confidence can result in commitment to future plans with a reluctance to change them when new information is received or the business environment changes. It also means new information can be ignored or not sought. Timely new information means the organization can change direction if necessary. What is critical is to have an organization that can deal with uncertainty (Loasby, 1967)

2.2.2 Environmental Scanning

Brown and Weiner (1985) define environmental scanning as "a kind of radar to scan the world systematically and signal the new, the unexpected, the major and the minor". Aguilar (1967), in his study of the information gathering practices of managers, defined scanning as the systematic collection of external information in order to: Lessen the randomness of information flowing into the organization and provide early warnings for managers of changing external conditions. More specifically, Coates (1985) identified the following objectives of an environmental scanning system: Detecting scientific, technical, economic, social-political trends and events important to the institution; defining the potential threats, opportunities, or changes for the institution implied by those trends and events; promoting a future orientation in the thinking of management and staff, and alerting management and staff to trends that are converging, diverging, speeding up, slowing down, or interacting.

Fahey and Narayanan (1986) suggest that an effective environmental scanning program should enable decision makers to understand current and potential changes taking place in their institutions' external environments. Scanning provides strategic intelligence useful in determining organizational strategies. The consequences of this activity include fostering an understanding of the effects of change on organizations, aiding in forecasting, and bringing expectations of change to bear on decision making.

Environmental scanning is not a new concept. In 1980, Ansoff documented the changing business environment and introduced strategic issue management. However, increased computer technology and the development of the World Wide Web have made this process more readily accessible and reliable for organizations.

Ansoff (1980) writes that a strategic issue is a future event, from any source whether social, economic, environmental, technological or political, that will impact on the organization either positively or negatively. The issue can be from internal or external sources. Strategic issue management is a system for early identification and response to events impacting on the organization. Early identification of issues requires continuous monitoring of the business environment and for early response decision responsibility must be delegated. Early detection of critical issues leaves more time for a response, hence the importance of detecting weak signals in the organization's business environment (Ansoff, 1980).

Ackoff (1983) introduced a decision making model for organizational rapid response, learning and adaptation. It included an environmental surveillance function in order to detect unusual events that had happened or were likely to happen in the environment. Surveillance should be as wide as possible. It is critical in order for the organization to adapt to a changed environment and for rapid response to change (Ackoff, 1983).

The next few paragraphs will describe the popular tools used by organizations to carryout environmental scanning. First, is the SWOT analysis (strengths, weaknesses, opportunities, threats), which is one of the most popular. The SWOT analysis tool assists to analyze the strengths and weaknesses of business capabilities, and any opportunities and threats to the business. SWOT analysis is a useful summary technique for summarizing the key issues arising from an assessment of a businesses "internal" position and "external" environmental influences. A SWOT analysis can provide a clear basis for examining business performance and prospects. It can be used as part of a regular review process or in preparation for raising finance or bringing in consultants for a review (Halachmi at al., 1993).

Secondly, Kotler (1998) claims that PEST analysis (Political, Economic, Social-Cultural, Technological) is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. The headings of PEST are a framework for reviewing a situation, and can in addition to SWOT and Porter's Five Forces models, be applied by companies to review a strategic direction, including marketing proposition. The use of PEST analysis is effective for business and strategic planning, marketing planning, business and product development and research reports. PEST also ensures that company's performance is aligned positively with the powerful forces of change that are affecting business environment (Porter, 1985). With a PEST analysis, the company can see a longer horizon of time, and be able to clarify strategic opportunities and threats that the company faces. According to Pearce and Robinson (2005), by looking to the outside environment to see the potential forces of change looming on the horizon, firms can take the strategic planning process out of the arena of today and into the horizon of tomorrow.

Thirdly, Porter's 5 Forces analysis deals with factors outside an industry that influence the nature of competition within it, the forces inside the industry (microenvironment) that influence the way in which firms compete, and the industry's likely profitability. A business has to understand the dynamics of its industry and markets in order to compete effectively in the marketplace. After identifying favourable and unfavourable forces for the company's performance and industry's attractiveness, it is important to analyze the situation and examine the impacts of the forces. One of the critical comments made of the Five Forces framework is its static nature, whereas the competitive environment is changing turbulently. Are the five forces able to foresee industry expansion? (Mind Tools, 2006).

The other tools that can be used to perform environmental scanning for an organization include: Scenario planning - a technique that builds various plausible views of possible futures for a business, market megmentation - a technique which seeks to identify similarities and differences between groups of customers or users, directional policy matrix - a technique which summarizes the competitive strength of businesses operations in specific markets, competitor Analysis - a wide range of techniques and analysis that seeks to summarize a business's overall competitive position and critical success factor analysis (CSF) - a technique to identify those areas in which a business must outperform the competition in order to succeed (Fahey and Narayanan, 1986).

2.2.3 Internal and External Challenges

The foregoing are a number of useful business models and tools that help to carry out environmental scanning on a business, aimed at identifying the challenges facing or likely to face the organization in the foreseeable future. The environmental challenges can be broadly grouped into two: Internal challenges and External challenges (Halachmi et al., 1993).

2.2.3.1 Internal Environmental Challenges

Internal environmental challenges are weaknesses internal to the organization that significantly disfavours the organization, i.e, compromise its effectiveness in the competitive business environment. If the organization has to survive in the turbulent environmental conditions, then it has to adopt appropriate strategies to eliminate or at the least minimize the effects of its internal weaknesses (Halachmi et al., 1993). Internal weaknesses for an organization could include any of the following combinations: Poor corporate governance, negative organizational culture, poor financial performance, slow business growth, poor quality of products and services, poor marketing strategies, inefficient distribution channels, high inefficiencies in production, bloated workforce, unskilled and inexperienced key employees, poor staff compensation, and retention incentives and low staff morale. Each organization should clearly identify its internal weaknesses against the major competitors and put in place strategies to overcome these weaknesses (Ghoshal, 1991; Barney, 1995; Lamb, 1984; Porter, 1980).

2.2.3.2 External Environmental Challenges

External environmental challenges are factors presented to the organization by the external environment that threaten or hamper the organization from achieving its business objectives and targets. PEST analysis categorizes environmental influences as political, economic, social and technological forces. Sometimes two additional factors, environmental and legal, will be added to make a PESTEL analysis, but these themes can easily be subsumed in the others. It is important to examine the impact of each of these factors (and their interplay with each other) on the business. The results can then be used to take advantage of opportunities and to make contingency plans for threats when preparing business and strategic plans (Byars, 1991; Cooper, 2000).

Political factors include areas such as: Tax policy, employment laws, environmental regulations, trade restrictions and tariffs, political stability, elections, consumer protection, competitive regulations, inter-country diplomatic relationships/attitudes, war, terrorism and governance/country leadership. Political factors can either favour or disfavour the organization, thus affecting its ability to successfully conduct business (Robinson, Hichens, & Wade, 1978; Johnson &-Scholes, 1993, Pearce & Robinson 2005).

Economic conditions affect how easy or how difficult it is to be successful and profitable at any time because they affect both capital availability and cost, and also demand (Thompson, 2002). If demand is buyout, for example, and the cost of capital is low, it will be attractive for firms to invest and grow with expectations of being profitable. In opposite circumstances firms might find that profitability throughout the industry is low. The timing and relative success of particular strategies can be influenced by economic conditions.

When the economy, as a whole or certain sectors of the economy, are growing, demand may exist for a product or service which would not be in demand in more depressed circumstances. Similarly, the opportunity to exploit a particular strategy successfully may depend on demand which exists in growth conditions and does not in recession. Although a depressed economy will generally be a threat which results in a number of organizations going out of business, it can provide opportunities for some (Robinson and et al., 1978; Thompson, 2002).

Economic conditions are influenced by political and government policy, being a major influence affecting government decisions. The issue of whether European countries join, or remain outside, the single European currency is a case in point. At any one time either exported or imported goods can seem expensive or inexpensive, dependent upon currency exchange rates. Government decisions will affect organizations both directly and indirectly, as they provide both opportunities and threats (Thomson, 2002).

While economic conditions and government policy are closely related, they both influence a number of other environmental forces that can affect organizations. Capital markets determine the conditions for alternative types of funding for organizations. They tend to be subject to government controls, and they will be guided by the prevailing economic conditions. The rate of interest charged for loans will be affected by inflation and by international economics. Government spending can increase the money supply and make capital markets more buoyant. The expectations of shareholders with regard to company performance, their willingness to provide more equity funding or their willingness to sell their shares will also be affected (Thompson, 2002).

The socio-cultural environment encapsulates demand and tastes, which vary with fashion and disposable income. In addition, the general changes can again provide both opportunities and threats for particular companies (Thompson, 2002; Pearce and Robinson, 2005). Over-time most products change from being a novelty to a situation of market saturation, and as this happens pricing and promotion strategies have to change. Similarly, some products and services will sell around the world with little variation, but these are relatively unusual. Organizations should be aware of demographics changes as the structure of the population by ages, affluence, regions, numbers working, etc; which can have an important bearing on demand as a whole and on demand for particular products and services. Threats to existing products might be increasing, while opportunities for differentiation and market segmentation might be emerging (Pearce and Robinson, 2005).

Technology is widely recognized by various literature on strategic management (Capron and Glazer, 1987; Johnson and Scholes, 1993; Jan, 2002), as part of the organization and the industry part of the model as it is used for the creation of competitive advantage. However, technology external to the industry can also be captured and used, and this again can be influenced by government support and encouragement. Technological breakthroughs can create new industries which might prove a threat to existing organizations whose products or services might be rendered redundant, and those firms which might be affected in this way should be alert to the possibility. Equally, new technology could provide a useful input, in both manufacturing and service industries, but in turn its purchase will require funding and possibly employee training before it can be used (Capron and Glazer, 1987)

2.2.3.3 Competitive Challenges

Competitive challenges are usually classified under the micro-environmental (industry) external factors, but for this study they will be treated separately. Porter (1980a) defined the forces which drive competition, contending that the competitive environment is created by the interaction of five different forces acting on a business. The original competitive forces model, as proposed by Porter, identified five forces which would impact on an organization's behaviour in a competitive market. These include the following: The rivalry between existing firms in the market, the power exerted by the customers in the market, the impact of the suppliers on the sellers, the potential threat of new firms entering the market and the threat of substitute products becoming available in the market.

Understanding the nature of each of these forces gives organizations the necessary insights to enable them to formulate the appropriate strategies to be successful in their market (Thurlby, 1998).

The Rivalry between firms

The intensity of rivalry, which is the most obvious of the five forces in an industry, helps determine the extent to which the value created by an industry will be dissipated through head-to-head competition. The most valuable contribution of Porter's "five forces" framework in this issue may be its suggestion that rivalry, while important, is only one of several forces that determine industry attractiveness (Sanderson, 1998).

The Threat of New Entrants

Both potential and existing competitors influence average industry profitability. The threat of new entrants is usually based on the market entry barriers. They can take diverse forms and are used to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital, rise above zero. In contrast, entry barriers exist whenever it is difficult or not economically feasible for an outsider to replicate the incumbents' position (Porter, 1980b; Sanderson, 1998). The most common forms of entry barriers, except intrinsic physical or legal obstacles, are as follows: Economies of scale - for example, benefits associated with bulk purchasing, cost of entry - for example, investment into technology, distribution channels - for example, ease of access for competitors, cost advantages not related to the size of the company - for example, contacts and expertise, government legislations - for example, introduction of new laws might weaken company's competitive position, and differentiation - for example, certain brands that cannot be copied.

The Threat of Substitute Products

The threat that substitute products pose to an industry's profitability depends on the relative price-to-performance ratios of the different types of products or services to which customers can turn to satisfy the same basic need. The threat of substitution is also affected by switching costs, that is, the costs in areas such as retraining, retooling and redesigning that are incurred when a customer switches to a different type of product or service. It also involves: Product-for-product substitution (email for mail, fax), is based on the substitution of need, generic substitution – for example Video suppliers competing with travel companies, substitution that relates to something that people can do without – for examples cigarettes, alcohol.

The Bargaining Power of Customers

The bargaining power of customers is one of the two horizontal forces that influence the appropriation of the value created by an industry. The most important determinants of buyer power are the size and the concentration of customers. Other factors are the extent to which the buyers are informed and the concentration or differentiation of the competitors. Kippenberger (1998) states that it is often useful to distinguish potential buyer power from the buyer's willingness or incentive to use that power, willingness that derives mainly from the "risk of failure" associated with a product's use. This force is relatively high where there a few, large players in the market, as it is the case with retailers an grocery stores. This force is present where there is a large number of undifferentiated, small suppliers, such as small farming businesses supplying large grocery companies. Also, this force comes into play where there is low cost of switching between suppliers, such as from one fleet supplier of trucks to another.

The Bargaining Power of Suppliers

The bargaining power of suppliers is a mirror image of the bargaining buyer power. As a result, the analysis of supplier power typically focuses first on the relative size and concentration of suppliers relative to industry participants and second on the degree of differentiation in the inputs supplied. The ability to charge customers different prices in line with differences in the value created for each of those buyers usually indicates that the market is characterized by high bargaining power of suppliers and at the same time by low bargaining power of buyers (Porter, 1998). Bargaining power of suppliers exists in the following situations: Where the switching costs are high (e.g. switching from one Internet provider to another), high power of brands (e.g. McDonalds, British Airways), possibility of forward integration of suppliers (e.g. Brewers buying bars)and fragmentation of customers (not in clusters) with a limited bargaining power (e.g. Gas/Petrol stations in remote places).

By thinking through how each force affects a company, and by identifying the strength and direction of each force, it provides with an opportunity to identify the strength of the position and the ability to make a sustained profit in the industry (Mind Tools, 2006).

2.3 Strategic Responses

Strategic responses, according to the classic organizational literature, are organizational responses in predictable ways to the conditions that surround them, adjusting their purpose and shape to meet market and other environmental characteristics. Some authors (Child, 1972; Weick, 1977) argue that this process is not unidirectional, that is, organizations can also create their own environments through choices regarding markets, products, technologies, scale of operations, etc. According to these authors, firms constantly adjust to their environments in a dynamic process or adaptive cycle, and can be accordingly classified into several strategic types: reactors, defenders, analyzers and prospectors (Miles and Snow, 1978), from the most reactive to the most proactive. This typology alludes to broad aspects inherent to the firm's nature, i.e. organizational structures, processes, management style and others.

Other authors have related speed of the decision-making processes with organizational performance. According to Eisenhardt (1989), firms that are able to make fast decisions based on the perceptions of their managers, corporate culture and their use of information can outperform the slower ones, particularly in high-velocity environments. Zaheer and Zaheer (1997) analyzed alertness and responsiveness in competitive environments and concluded that these attributes are linked to the highest organizational performance. These authors define alertness as proactive attentiveness to information about the environment, figuratively "having one's antennae out"; while responsiveness refers to the quickness with which firms respond to environmental signals. The information communication technology arena has become one of this aforementioned "high-velocity environments", a medium in which firms are forced to be alert and responsive to the rapid changes in the present environments that require speedy adaptation processes (Zaheer and Zaheer, 1997).

Furthermore, local and foreign sources of competition significantly fluctuate over time and increase the complexity and dynamism of the firm's environment. Khandwalla (1976) shows that, when managers perceive their environment as uncertain and dynamic, their strategies are more comprehensive or multifaceted, suggesting that competition will play a major role in determining strategic actions. The environment and strategy interact in a dynamic co-alignment process (Miller, 1988), with resulting performance implications.

According to the resource-based theory, the competitive advantage of a firm draws on its internal resources and competences (Mahoney and Pandian, 1992; Penrose, 1995; Peteraf, 1993; Wernerfelt, 1984). In this paradigm, a company can be considered as a bundle of resources that makes it unique if the resources are valuable, rare, hard to imitate, and difficult to substitute (Barney, 1991). For firms operating in a highly competitive environment a distinctive strategic orientation is needed, requiring the exploitation of critical resources in order to gain competitive advantage. In case of an environment characterized by low-cost competition the resources and competences of dominant firms differ dramatically from those of their competitors.

A common approach to competition strategy considers multiple elements of competition, including those that reflect the competences of firms. In practice competition can be split into two dimensions: one, intensity, a measure that combines elements of the intensity of competition, cost advantage, and market experience, and two, quality, a measure that reflects the relative product quality and product characteristics of products. Consistent with the resource-based view, Mintzberg (1973) considers strategy as a pattern stream of decisions which allocate resources to reach consistency between a firm's strategy and its environment. However, in case of inconsistency, strategic choice theory (Child, 1972) suggests two distinct categories of strategic action to resolve this misfit. First, "Organizational strategies" refer to situations where companies seek to actively fit their strategies to the existing environment, here the environment is perceived as being given, while the strategy can be adapted. Secondly, "environmental strategies" aim at manipulating the environment in such a way that fit between strategy and the environment is established, i.e. strategy is largely fixed while the environment is mutable. Such a change can either be achieved if firms relocate themselves into a more favorable environment or if the environment is actively manipulated in favour of the firm's strategy.

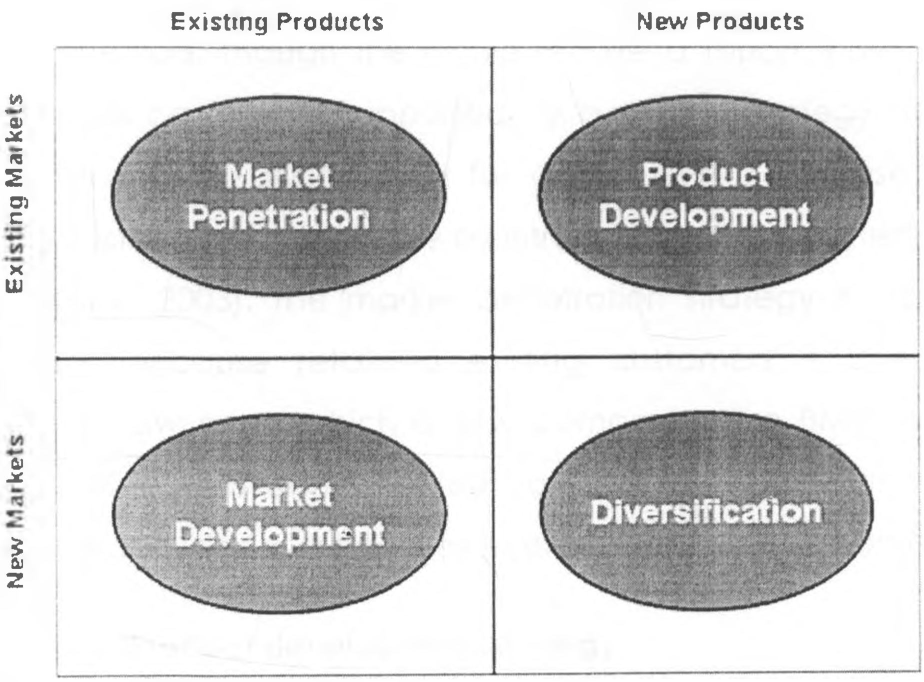
2.3.1 Potential Strategic Responses

A total of seven strategies can be identified as potential strategic responses to competition: Cost efficiency, product differentiation, focus, marketing differentiation, avoidance of competition by changing products or industries, deterrence of market entry by competitors and Ansoff's matrix strategy. These seven choices reflect different components of the strategic responses available to firms but, for an individual company, they are not mutually exclusive (Miles and Snow, 1978; Mandel, 1983). The first three strategies (also known Porter's competitive strategies) are generic and are usually applied by competing firms in various combinations and extensions. For this study, the most appropriate response strategy model is the Ansoff matrix, which will be used to guide the study. Following is a detailed description of the Ansoff matrix strategy.

2.3.2 Ansoff Matrix Strategy

The Ansoff strategy matrix is a widely used tool by organizations to respond competitive challenges. The Ansoff matrix provides the basis for an organisation's objective setting process and sets the foundation of directional policy for its future (Ansoff, 1987). The Ansoff matrix is used as a model for setting objectives along with other models like Porter matrix, Boston Consulting Group (BCG), Directional Policy Matrix (DPM) and Gap analysis. The Ansoff matrix is also used in marketing audits (Lynch, 2003). The Ansoff matrix strategy entails four possible product/market combinations: Market penetration, product development, market development and diversification (Ansoff, 1987). According to Kippenberger (1998), the Ansoff Matrix presents the product and market choices available to an organisation. Herein markets may be defined as customers, and products as items sold to customers (Lynch, 2003). The Ansoff matrix strategy tool was first published in the Harvard Business Review (Ansoff, 1957). It was consequently published in Ansoff's book on 'Corporate Strategy' in 1965 (Kippenberger, 1988). The four strategies entailed in the matrix are elaborated below.

Figure 1: Ansoff Matrix Strategy



Source: Ansoff (1987)

2.3.2.1 Market penetration strategy

Market penetration occurs when a company penetrates a market with its current products. It is important to note that the market penetration strategy begins with the existing customers of the organisation. This strategy is used by companies in order to increase sales without drifting from the original product-market strategy (Ansoff, 1987). The market penetration strategy seeks to achieve four main objectives: Maintain or increase the market share of current products by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling; Secure dominance of growth markets; Restructure a mature market by driving out competitors, though this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors; Increase usage by existing customers, for example by introducing loyalty schemes (Ansoff, 1987; Lynch, 2003). The market penetration strategy is important for businesses because retaining existing customers is cheaper than attracting new ones, which is why companies like BMW and Toyota (Lynch, 2003), and banks like Barclays bank engage in relationship marketing activities to retain their high lifetime value customers.

2.3.2.2 Product development strategy

Another strategic option for an organisation is to develop new products. Product development is the name given to a business growth strategy where a business aims to introduce new products into existing markets. This strategy may require development of new competencies and modified products which can appeal to existing markets. Product development refers to significant new product developments and not minor changes in an existing product of the firm (Ansoff, 1987). The reasons that justify the use of the product development strategy include one or more of the following: Utilization of excess production capacity, countering competitive entry, maintaining the company's reputation as a product innovator, exploitation of new technology, and protection of overall market share (Lynch, 2003).

2.3.2.3 Market development strategy

Market development strategy is where the business seeks to sell its existing products into new markets. There are several possible ways of approaching this strategy, including: Entry to new geographical markets, for example exporting the product to a new country; New product dimensions or packaging, for example new distribution channels and different pricing policies to attract different customers or create new market segments (Ansoff, 1987). Thus, a company which follows the market development strategy, moves beyond its immediate customer base towards attracting new customers for its existing products (Ansoff, 1987; Lynch, 2003))

2.3.2.4 Diversification strategy

According to Lynch (2003) and Kippenberger (1998), the diversification strategy is distinct in the sense that when a company diversifies, it essentially moves out of its current products and markets into new areas. Kippenberger (1998), argue that diversification may be into related and unrelated areas. Related diversification may be in the form of backward, forward, and horizontal integration. Backward integration takes place when the company extends its activities towards its inputs such as suppliers of raw materials etc. in the same business. Forward integration differs from backward integration, in that the company extends its activities towards its outputs .such as distribution etc., in the same business. Horizontal integration takes place when a company moves into businesses that are related to its existing activities (Lynch, 2003; Kippenberger, 1998).

Several authours concur that even unrelated diversification often has some synergy with the original business of the company. The risk of one such manoeuvre is that detailed knowledge of the key success factors may be limited to the company (Lynch, 2003). While diversified businesses seem to grow faster in cases where diversification is unrelated, it is crucial to note that the track record of diversification remains poor as in many cases diversifications have been divested (Porter, 1987). Scholars have argued that related diversification is generally more profitable (Pearson, 1999; Lynch 2003). Therefore, diversification is a high-risk strategy as it involves taking a step into a territory where the parameters are unknown to the organization. This situation is aggravated by the fact the organization has little or no experience in the new territories. The risks of diversification can be minimised by moving into related markets (Ansoff, 1987). For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and should conduct an honest assessment of the risks.

Chapter 3: RESEARCH METHODOLOGY

3.1 Research Design

In this research, a case study approach was adopted. TKL has been undergoing fast changing business environmental conditions in the last five years. The nature of the strategic responses taken by the organization had not been clearly understood and documented. A case study method of research would go into the in-depth examination of the TKL situation.

Cooper & Schindler (2003) describes a case study as a detailed study that is concerned with who, what, when, where and how of the phenomenon in question. Rather than using large samples and following a rigid protocol to examine a selected number of variables, case study methods involve an in-depth, longitudinal examination of a single instance or event as a case (Flyvbjerg, 2006). Oresi (2005) used a descriptive case study in his study on the "performance management practices by the court registry staff in Nairobi'.

3.2 Data Collection

Having picked on TKL as a case, in order to select the best respondents that would give significant insight into this study, the most appropriate type of sampling was purposive sampling (within TKL boundaries), under the non-probability category. In purposive sampling, sampling is done with a *purpose* in mind. With a purposive sample, one is likely to get the opinions of the target population (Trochim, 2000).

Both primary and secondary data was collected. Primary data was collected from key senior management TKL staff, handling strategy aspects of the company, via personal interviews. The TKL officers from whom the data was collected were: Manager/Strategy and Regulatory Affairs, Manager/Human Resources Officer, Manager/Revenue, Manager/Performance and Evaluation, Manager/Telkom Wireless, and Former Manager/Government Affairs. Secondary data was collected from the reports of the Commutations Commission of Kenya (CCK), via the internet.

An interview guide, consisting of three parts was used for collection of primary data in this study. Part I contained job-related information for the respondent (job title, nature of duties undertaken, etc); Part contained request for information on the competitive challenges faced by TKL; and Part III contained request on the strategic responses by TKL to the challenges given under Part II. The above interviews were administered personally by the researcher.

3.3 Data Analysis

For this study, the content analysis technique was employed to analyze the data. Microsoft Excel Spread Sheet, with the associated trend analysis and graphical representation techniques was used to analyze quantitative data. Data from each of the respondents was analyzed for content, i.e. relevance, strategic impact and level of significance. In addition, each response was confirmed by at least one other respondent. The level of significance was graded as "High, Medium, and Low" and the overall result was taken as the predominant view (where there was a tie, the lower grading was taken); the main aim being to pick only the key issues. The full report on the key findings of this study by the researcher, are presented in chapter 4, below.

Chapter 4: FINDINGS AND DISCUSSION

4.1 Introduction

This chapter deals with analysis and discussion of the research findings. The chapter is divided into two parts: the first part deals with environmental challenges while the second deals with the strategic responses by TKL.
Data was collected from six key managers in TKL, who are involved in the strategic management process of the company. The respondents had worked for TKL, for between fifteen and twenty two years. Because of their varied nature of the responsibilities and long years of service, they have a thorough knowledge of the organization, its activities, programs and strategies. Each response from the respondents was analyzed for content, i.e. relevance, strategic impact, level of significance and confirmation by at least one other respondent. Following is a report on the key findings of this study by the researcher. Detailed research findings are attached as appendix 1.

4.2 Environmental Challenges

Table 1 below summarizes the key findings on the environmental challenges faced by TKL.

Table 1 : Environmental Challenges

Environmental Challenge	Significance
Internal Challenges	
• Cultural blending between new foreign staff and old staff	**High**
• Harmonization of HR issues, plus remuneration	**High**
External Challenges	
• New unified licensing regime is just about to be introduced	**High**
• The regulator is perceived to favour the competitors of TKL.	**High**
• TKL' old network requires complete overhaul	**High**
• Customer needs are ahead of current TKL services.	**High**
• Rivalry in the telecoms industry is currently very intense	**High**
• There are several substitute products for telecoms services	**High**
• Customer choices on telecommunications service providers	**High**
• Poor quality of service	**High**

Source : Research Findings

4.2.1 Internal Challenges

From the study, the researcher realized that TKL faces two major internal environmental challenges. First is the cultural blending between the new expatriates and the local staff. The new strategic partner for TKL has brought in several expatriates from its vast worldwide operations, to impart new skills and competences to the local staff. However, there is a conflict of cultures between the old ways of doings things and the emerging new ways. Second, are the huge disparities in remuneration, between the newly recruited staff (with better terms on similar or even lower qualifications) and the old staff. The differences in remuneration between the two groups are up to five times. This has created a cold attitude between the two categories of staff.

4.2.2 External Challenges

The researcher also established that the major external challenges facing TKL are: the impending new unified license regime, the general perception that regulator favours TKL competitors, old network equipment .and customer needs that exceeds the current TKL services. The first two external challenges are classified as political-legal in the PESTEL environmental scanning model. The proposed unified license by Communications Commission of Kenya will open up the traditional fixed telephony services area to TKL's competitors, thus exposing the company to intense competition from all fronts. At the moment competition has mainly been on the area of mobility. Over the last few years, TKl has not been able to effectively fight regulatory issues due to perceived bias by the regulator, towards the competitors of TKL. The old network equipment poses a technological challenge to TKL by limiting its capabilities to offer modern services demanded by the customers, in the rapidly evolving telecommunications sector.

From table 1 above, the other key competitive challenges that threaten TKL's competitive position, as determined by the researcher are: rivalry in the Kenya telecoms industry, substitute products, high bargaining power of customers and poor quality of service. The researcher used Porter's five force model to analyze the competitive forces facing TKL. There is intense rivalry in the Kenyan telecoms industry, from pricing to aggressive advertising and sales promotions. Substitute products in the form of alternative calling methods like voice over the internet (VOIP) and wireless local loop are eating TKL's market share in fixed telephony. Wireless local loop is also a close substitute to mobile telephony, especially for customers whose operations are concentrated in the major urban centres. The telecommunications customers in Kenya possess significant bargaining power, as a result of the several similar service providers, i.e. TKL, Safaricom, Celtel, Flashcom and Emcom. TKL provides fixed telephony, and has just acquired a license to offer full mobile services. TKL is expected to launch mobile services before the close of this year. Safaricom and Celtel (now Zain) offer mobile services. Econet Wireless is a newly licensed mobile services operator and is currently rolling out its network. Econet Wirless is also expected to launch mobile services in the third quarter of this year. On the other hand, poor quality of service is hitting hard on TKL. TKL has lost lots of business to the mobile operators because of frequent faults in fixed lines and wanting customer service.

4.3 Strategic Responses

Table 2 below summarizes the key findings on the strategic responses that TKL have put in place to deal with the environmental challenges highlighted above.

Table 2 : Strategic Responses

Strategic Response	Significance
Strategic Responses to Internal Challenges	
• Culture change programme is already in place	**High**
• Harmonization of remuneration is already in place	**High**
Strategic Responses to external Challenges	
• Programme to upgrade network equipment has already been put in place	**High**
• The new strategic partner for TKL is injecting new skills, expertise and knowledge to old TKL staff.	**High**
• Strategic partner has started rolling out GSM mobile, to expand TKL range of products	**High**
• TKL has developed more attractive packages / tariffs in order fight competition.	**High**
• Sales and promotional activities have been stepped up	**High**
• A Quality of Service programme has been introduced	**High**
• TKL is now developing ne w products and services (GSM mobile, broadband services)	**High**
• TKL is not pursing any diversification strategies at the moment.	**High**

Source : Research Findings

4.3.1 Strategy Responses to Internal Challenges

The researcher established the strategy responses that TKL have adopted (from table 2 above), to deal with the internal environmental challenges to be: carry out a culture change program and harmonize staff remuneration. TKL has already embarked on a culture change program, whose main intention is to bring about homogeneous working relationships between the new expatriates and the local staff and to minimize chances of conflicts. Secondly, TKL is in the process of reviewing the current staff remuneration and ultimately harmonize with the prevailing markets rates. This will bring to an end the current restlessness among the old staff, who feel that the newly recruited colleagues are enjoying far better terms. The organization can only realize synergy if the two groups are working harmoniously.

4.3.2 Strategy Responses to External Challenges

According to the findings by the researcher, TKL has put in place the following key strategies, to combat the external environmental challenges: Programme to upgrade network equipment; injection of new skills, expertise and knowledge from the strategic partner and roll out of Global Satellite Mobile (GSM) services. The upgrade of TKL network to state-of-the-art is a technological response strategy being implemented to increase TKL's network resilience and hence offer higher quality of service and provide a platform for automated customer services. Injection of skills and expertise from the strategic partner, France Telecom, is a strategy response that aims to match the internal capabilities of TKL to the strategic responses to the rapidly changing external environment. The new fully fledged mobile services (GSM), will expand TKL's products portfolio, thereby availing high demand modern services that are not supported by the current TKL network. Some of the new services anticipated include international roaming, blackberry (mobile internet), electronic money transfer via the mobile phone, mobile television and video message exchange.

The researcher used the Ansoff matrix strategy to analyze the strategic responses to competition by TKL. From this perspective, the researcher established that TKL is already developing more attractive packages/tariffs, stepping up sales and promotional activities, implementing a quality of service program and developing new products and services. These four strategies are being accorded high priority by TKL. The attractive packages/tariff response falls under the market penetration strategy. The attractive packages/tariffs are meant to induce the customers to take TKL products and services and also hedge against high switching costs. The increase of sales and promotional activities fall under the market penetration strategy. Sales and promotional activities increase awareness of TKL products and promote the TKL brand. Development of new products and services will increase TKL products range as captured under responses to external challenges above. The researcher mapped the TKL responses to Ansoff's matrix strategy as shown below:

Figure 2 : Mapping of TKL Response Strategies to Ansoff Matrix

Market Penetration Strategies	**Product Development Strategies**
• Development of more attractive packages/tariffs • Stepping up of sales and promotional activities • Introduction of a Quality of Service progamme	• Development of new products and services (full mobile, international roaming, mobile internet, broadband)
Market Development Strategies	**Diversification Strategy**
• Use of different sales channels, • Targeting of the young generation via the proposed GSM mobile services. • Different pricing policies to create new market segments.	• TKL is nor pursuing this strategy at the moment

Source : Research Findings

Chapter 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objectives of this study were to determine the environmental challenges faced by TKL and the strategy responses it has adopted in order to effectively deal with the highly competitive Kenyan telecommunications industry. The researcher found out that TKL is battling with internal, external and competitive environmental challenges. The major internal challenges are culture change and harmonization of huge disparities in staff remuneration. The key external challenges are the impending unified license by the telecommunications regulator, advanced customer needs that are ahead of TKL's current services and a poor state of network infrastructure that cannot offer modern telecommunications services. The top competitive challenges to TKL are intense rivalry among the telecom players, existence of cheaper substitute products to traditional telecommunications services, high bargaining power of customers and poor quality of service. TKL has responded to these challenges by implementing a culture change program, adopting a market benchmark for harmonization of staff packages, rollout of new mobile services platform, bringing in of new skills and competences via experienced consultants, development of new products and services, increasing sales and promotional activities and introducing a quality of service program.

5.2 Conclusions

In conclusion, TKL is indeed facing internal, external and competitive challenges. According to the researcher, the above internal challenges could compound to significantly slow down TKL's steady progress towards matching up to competition, if not dealt with sooner than later. Secondly the rollout of fully fledged mobile services would give TKL a cutting edge technological advantage on the telecommunications infrastructure, supporting highly modern services that meet and exceed customer expectations. The market penetration, market development and product development strategies adopted by TKL is expected to turn in the customer numbers required to lift the company to profitability levels.

5.3 Recommendations

In the light of the foregoing findings by the researcher, TKL should keenly implement the following:

(i) Promptly, fast track the ongoing culture change and remuneration programs to a logical conclusion.

(ii) Enhance the current marketing strategies with convincing incentives for customers to switch to TKL products, since they are already enjoying good quality services from the competitors.

(iii) Develop proactive, long term customer retention policies.

(iv) Bring the quality of service to significantly new competitive levels.

LIMITATIONS OF THE STUDY

Due to the in-depth nature of the study, the available time was not sufficient to exhaustively interview all the relevant officers of TKL, who deal with the strategy aspects of the company. Secondly, the case study method of approach suffers from undue biases towards own understanding and interpretation by the researcher. Thirdly, the study was confined to understanding only the strategy responses, instead of the whole realm of strategy practices, thereby posing a likelihood of excluding some useful information. Lastly, the content analysis method was used to analyze the qualitative data collected, making it impossible to infer results to other similar organizations.

AREAS FOR FURTHER STUDY

A future research agenda should include a survey of strategy responses to a highly turbulent environment by telecommunications firms in Kenya; in order to compare the various strategic approaches by the different telecommunications operators in Kenya. Another area of study would be look at the strategic impact of key strategy responses on the competitiveness of Kenyan telecommunications companies.

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APPENDIX 1 : DETAILED INTERVIEW FINDINGS

1. Environmental Challenges

1.1 Internal Challenges

Respondent	Challenge	Significance (corresponding - Overall)	
1,2,3,4,5,	Cultural blending between new foreign staff and old staff	H,H,M,H,M	H
1,3,5	Harmonization of HR issues, including remuneration (there exists big disparities in salaries)	H,M,H	H
2,4	Low staff commitment (during the transition from old to new TKL, staff uncertain of their future))	H,M	M
3,5,6	Change management during restructuring (ineffective communication, communication, low staff morale, processes nor clearly defined)	M,L,L	L

1.2 External Challenges

1.2.1 Political Challenges

Respondent	Challenge	Significance (corresponding-Overall)	
1,3,4	New Licensing regime is just about to be introduced (unified license)	M,M,M	M
1,2,4,5	The TKL wireless service faces regulatory restriction on mobility	M,L,L,L	L
1,3,4	The regulator is perceived to favour the competitors of TKL. TKL needs to positively engage the regulator.	L,L,M	L

1.2.2 Economic Challenges

Respondent	Challenge	Significance (corresponding-Overall)	
1,5	The current tough economic conditions fuelled by increase oil prices is causing TKL customers to cut down on communication expenses	M,M	M
1,3	The post-election violence effects has also hurt the Kenyan economy	M ,L	L

1.2.3 Social - Cultural Challenges

Respondent	Challenge	Significance (corresponding)	
1,3	Poor perception on TKL "efficiency". Expectations are high for a complete turnaround.	H,H	H
1,4	TKL is being perceived to be sidelining "old" staff in favour of the "new"	M,M	M
2,5,6	Generally Kenyans are receptive to TKL products. But negative treatment of old employees could have negative impacts	L,M,M	M
1,4	Poor staff remuneration may impact negatively, since TKL staff cannot participate in community development, neither can they stand tall	L,L	L
2,4,6	TKL loosing highly experienced staff to competitors due to uncertainty	M,L,L	L

1.2.4 Technological Challenges

Respondent	Challenge	Significance (corresponding-Overall)	
1,2,4,5	Network infrastructure is old and requires complete overhaul	H,H,M,H	H
1,3,5	Customer needs are ahead of current TKL services. This may force the company to be reactive instead of proactive	H,M,H	H
1,3,6	New technologies will require acquisition of advanced skills by respective TKL staff	M,L,M	M

1.2.5 Competition Specific Challenges

1.2.5.1 Rivalry in the Industry

Respondent	Challenge	Significance (corresponding-Overall)	
1,3,5,6	Rivalry in the telecoms industry is currently very intense, especially in the mobile, internet and broadband services. Key players here are Safaricom, Celtel, Kenya Data Networks and Jamii Telecom.	H,M,H,H,H	H

1.2.5.2 Threat of New Entrants

Respondent	Challenge	Significance (corresponding-Overall)	
1,3,6	Because the industry is highly liberalized possibilities are there for entrants. E.g. Econoet Wirless, Local Loop operators, Dtat Network Operators. The market is highly porous, TKL no longer has control over it. TKL needs to develop new capabilities to match the competition.	H,H,H	H

1.2.5.3 Threat of Substitute Products

Respondent	Challenge	Significance (corresponding-Overc	
1,3,5,6	There are several substitute products for traditional telecoms services, e.g. Wimax, Voice Over Internet (for long distance calls).	M,M,H,M	M

1.2.5.4 Bargaining Power of Customers

Respondent	Challenge	Significance (corresponding-Overall)	
1,2,4,6	High bargaining power from the customers comes from the several choices available from mobile, Local Loop Operators, Voice Over Internet.	H,H,M,H	H
1,4,5	Poor quality of service	H,H,M	H

1.2.5.5 Bargaining Power of Suppliers

Respondent	Challenge	Significance (corresponding-Overall)	
1,3,5	Suppliers used to have significant bargaining power before the coming in the Strategic Partner for TKL. But now the new partner enjoys volume discounts because of their large worldwide networks.	L,L,L	L

2. Strategic Responses

2.1 Responses to Internal Challenges

Respondent	Response	Significance (corresponding-Overall)	
1,2,4,5	Culture programme is already in place (being implemented by France Telecom consultants, includes retraining, impartation of new vision)	H ,H,M,H,	H
1,4,6	Harmonization of remuneration (but it falls short of staff expectation, still leaves big disparities on similar qualifications and experience)	L,M,L	L
2,3,5	Qualified staff are being confirmed after successful interview	M,L,L	L
3,5,6	Process re-engineering ahs began (re-definition of processes being undertaken)	M,H,M	M

2.2 Responses to External Challenges

Respondent	Response	Significance (corresponding-Overall)	
1,3,4,5,6	Programme to upgrade network equipment has already been put in place (will facilitate introduction of new services)	H,H,H,M,H	H
1,5	The current government is perceived to favour TKL.. TKL is using this advantage positively (though CEO and the board).	H,M	M
1,2,3,4,45,6	The new strategic partner for TKL is injecting new skills, expertise and knowledge to old TKL staff.	H,H,M,M,H,H	H
1,3,5,6	Strategic partner has started rolling out GSM mobile, to expand TKL range of products and thus create new markets	H,H,M,H	H

3,5,6	TKL has started to strategically recruit highly qualified and experienced from competitors, to bring in new competences and skills.	M,H,M	M
2,3,4,5,6	Harmonization of staff remuneration to market rates	H,L,L,L,L	L
3,4,5,6	Re-branding of TKL is currently underway (to effect new image, new TKL)	H,M,M,M	M

2.3 Responses to Competition Specific External Challenges

2.3.1 Market Penetration

Respondent	Response	Significance (corresponding-Overall)	
1,3,5,6	TKL has developed more attractive packages / tariffs in order fight competition. The long distance tariff was removed altogether, allowing customers to call countrywide with local rates.	H,M,H,H	H
1,5,6	A low flat rate of Kshs 2,500/= for internet access via dial-up or broadband modem for unlimited monthly access.	M,M,L	M
1,2,4	Sales and promotional activities have also been stepped up.	M,L,M	M
4,5,6	Quality of service programme has been introduced (to raise quality to competitive levels)	H,M,H	H

2.3.2 Product Development

Respondent	Response	Significance (corresponding-Overall)	
1,2,3,4,5,6	TKL is now developing ne w products and services. These include: wireless telephony, Broad band access, GSM mobile, Corporate reach	M,H,H,M,M,H	H

APPENDIX 2 : INTERVIEW GUIDE

Interview Guide - *MBA Project (UON, 2008)*

Part I: Backaround

Organization : TELKOM KENYA LIMITED	
Title/Position/Office	Department
Years of Service	Date of completion of questionnaire

Part II: Environmental Challenges

1) Is TKL facing any internal, external or competitive environmental challenges? Kindly indicate the significance (magnitude) of each challenge i.e. "LOW", "MEDIUM", "HIGH".

2) Please briefly describe how each of the internal challenges affects the business operation of TKL.

3) Please briefly describe how each of the external challenges (PEST) affects the business operation of TKL.

4) Please briefly describe how each of the competitive challenges affects the business operation of TKL.

5) In your opinion, which is the greatest challenge facing TKL?

Part III: Strategic Responses

6) Has TKL already put in place any strategies to address the internal, external and competitive challenges above? Kindly indicate the significance of each response i.e. "LOW", "MEDIUM", "HIGH".

7) Please briefly describe how TKL has responded to each of the internal challenges above.

8) Please briefly describe how TKL has responded to each of the external challenges (PEST) above.

9) Please briefly describe how TKL has responded to each of the competitive challenges above.

10) In your opinion, which is the single most needed strategy response that TKL should immediately adopt to achieve significant results?