# STRATEGIC INNOVATION AS AN APPROACH TO SUSTAINABLE COMPETITIVE ADVANTAGE BY SAFARICOM LIMITED IN KENYA

**BY**

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**A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**2015**

# DECLARATION

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

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**D61/64699/2013**

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

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# DEDICATION

This research project is dedicated to my wife Patricia, my 3 daughters; Grace, Gloria and Gabriella and also my friends. Thank you for your love, support and encouragement. God bless you.

# ACKNOWLEDGEMENTS

I would like to thank all those who assisted me, encouraged and supported me when doing this project. My supervisor Mr. Eliud Mududa, who was very patient with me and gave me good guidance on how to undertake this project. I am very grateful to the University of Nairobi for the knowledge imparted to me throughout the study period.

I would like to thank the employees at Safaricom Ltd, the management team who gave me much support in my research work hence enabling successful completion. I would like to acknowledge the unwavering support of my family, parents and close friends without which many a time the temptation to procrastinate would have overwhelmed me. Their belief in my abilities was a source of encouragement throughout this journey.

Finally special thanks to the Almighty God for giving me the will power and perseverance to see my studies to a fruitful completion.

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# ABSTRACT

Strategic innovation has opened a new perspective in the way business is conducted. Most organizations are adopting strategic innovations and formulating strategy to guide them. The study sought to determine strategic innovation as an approach to sustainable competitive advantage by Safaricom Limited. In the study, the level of competition in the Kenyan telecommunication industry has been found to have increased especially in the last ten years. From one dominant player in the 1990s,the number of players has increased to five at present which has meant that the firms have had to come up with new strategies that will give its products competitive edge over the competitors The research was conducted through a case study within Safaricom Limited. Primary data was collected from the targeted respondents through an interview guide. The interview guide was conducted on the top managers who included the CEO, Finance manager, human resources manager, marketing manager, customer operations manager, strategy and innovation manager due to their direct involvement in the business decisions that drive growth and performance of the organization. As one of the market leaders in the Kenyan telecommunication industry, Safaricom Limited has made great efforts in its bid to continue being a market leader in the country through employment of appropriate competitive strategies. The study found out that a number of competitive strategies are being employed by the firm. These competitive strategies include focus, penetration, product differentiation, pricing and cost leadership. The study found that the organization has optimized strategic innovation for its customers and it understands how to translate the strategic innovation to business indicators. The study concludes that, the choice of company's competitive strategy is concerned with choosing a favourable industry to operate, it is concerned with achieving profitability in the long term and which factors determine that, as well as establishing the factors that affect the company's position in the market. The study concludes that competition is at the core of the success or failure of firms since it determines the appropriateness of a firm's activities that can contribute to its performance such as innovation, a cohesive culture and good implementation. The study concludes that competitive strategy helps to search for a favourable competitive position in an industry, aims to establish a profitable and sustainable position against the forces that determine industry competition. The analysis of Safaricom Ltd found out that, it is trying to differentiate itself with the other players in the market. Porters' differentiation strategy is frequently used within the company and has been noted to be working. The study concludes that the Telecommunication industry is a high speed changing market and it is impossible to stick to only one strategy which porter suggests. Thus in order to succeed, a company has to use more than one strategy at least to have a backup strategy in case the first one is a failure. The study found out that the company has created a unique position in the market through provision of goods and services, it is therefore recommended that they continue investing in coming up with unique products so that they can differentiate themselves, should continue innovating products which will compete with other companies products while doing aggressive marketing .

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

Innovation is considered to be a critical requirement for the growth and profitability of organizations. For private sector organizations operating in increasingly competitive market, innovation is often a condition for simple survival (Thompson, 2007). The capability to innovate is ever more viewed as the single most vital factor in developing and supporting competitive advantage (Tidd, 2011). According to Davila, Epstein and Shelton (2009) innovation is a necessary ingredient for sustained success and is an integral part of the business. Much weight has been accorded on building innovative institutions and the management of the innovation progression as necessary elements of institutional survival (Brown, 2007). Firm's performance is the appraisal of prescribed indicators or standards of effectiveness, efficiency, and environmental accountability such as productivity, cycle time, regulatory compliance and waste reduction. Performance also refers to the metrics regarding how a certain request is handled, or the act of doing something effectively; of performing; using knowledge as notable from just possessing it. It is the result of all of the organization's operations and strategies (Venkatraman and Ramanujam, 2011).

Organizational theory approach purports that knowledge acquisition is an important element in competitive strategy. The motives under this classification are mainly acquisition of new skills and entry into new product market domains (Kogut, 2008). Entry into new product market domains is another compelling factor. Firms that operate in stagnant or mature industries often focus on innovation to gain a foothold in emerging industries. This move helps such industries to increase the market share for their products. An organization that endeavours to learn gains a unique competitive advantage. This is because such an organization is able to regenerate it from within and produce ideas that can spur the firm into great success (Thompson, 2007).

Strategic innovation in the telecommunication sector aims at developing a change adept organization that anticipates, creates and responds effectively to change in the external and internal environments to increase profit potential. Some of the forces of change that have greatly influenced the telecommunication industry in Kenya include intense competition, regulation and technological advancement. Safaricom Ltd has been engaging in strategic planning and have appropriately designed and applied competitive strategies tend to have higher performance than those that do not (Caroline, 2012). Competitive strategies can lead to high organizational performance, customer satisfaction, and increased competitiveness in the face of other rival businesses.

### 1.1.1 Concept of Strategy

According to Porter (1980), competitive strategy in a search for a favourable competitive position in an industry. It originates from the understanding of the business environment where the firm operates, the micro and macro –environments analysis and proper matching of organizational resources and capabilities and other attractiveness factors. Competitive strategies need be reviewed regularly to cope up with ever changing business environment industry changes and structure. Russel and Taylor (2003) outlines out that competitive strategy are about positioning of the firms products in the market. It outlines how the firm will compete in the market place and the unique value it will deliver to the customer, taking care hat effectiveness in positioning depends on the strengths and weaknesses of the organization the needs of the market, the position of the competitors. It comprises of those moves and approaches that a firm has to take and is undertaking to retain, attract customers withstanding competitive pressure, improved its market position and achieve competitive advantage from the way they organize and undertake their activities (Thomson & Strickland, 2002). A competitive strategy concerns that specific of management game plan for competing successfully and securing competitive advantage over rivals through better performance and meeting buyer needs and preference (Thomas, Strickland & Gamble, 2007).

Firms can utilize cost leadership, difference and focus strategies (Porter, 1985). The cost leadership and differentiation strategies seek competitive advantages in broad range of industry segments, while focus strategies aim at cost advantage or differentiation in a narrow segment. Thompson Strickland, and Gamble (2007) have identified five generic competitive strategies namely low cost provider, strategy, abroad differentiation strategy, a low cost provider strategy, a focused strategy based on low costs and a focused strategy based on differentiation a slight variation of Porters generic strategies. Effective implementation depends on how the organizations adapt other competitive strategies for example Mergers and Acquisitions, vertical integration, strategic alliances, offensive strategies, defensive strategies and outsourcing strategies.

### 1.1.2 Strategic Innovation

Strategic innovation is about creation of new markets and leaps in customer value and reshaping the existing markets to achieve value improvements for customers (Gebauer, Worch, & Truffer, 2012) and (Schlegelmilch, Diamantapoulos, & Kreuz, 2013). Strategic innovation has a clear aim of achieving competitive advantage by creating customer value and new markets. However, the concept is drifting between the two extremes of creating customer value on existing markets or for new markets. Academics agree that strategic innovation is found at the re-definition of the business model of an organization; however the question between the two extremes of strategic innovation lies therefore in how organizations redefine their business model and how organizations link the redefinition to the strategic literature.

Markides referred to strategic innovation as “the strategy of breaking rules” (Markides, 2007), implying that strategic innovation is an extreme on surviving in a volatile market. They extended that support by stating that strategic innovation is a fundamentally different way of competing in an existing business and it starts with the innovation in one's business model leading towards a new way of playing the game (Charitou & Markides, 2013). While other academics agree that the organization’s business model is at the hearth of strategic innovation, not all researchers go till the extent of strategic innovation aiming at the disruption of the industry.

The innovative element of gaining competitive advantage is strategized in a market driven versus the market driving perspective. One may also refer to these opposite perspectives of gaining competitive advantage to Blue Ocean strategy versus Red Ocean strategy and Conventional logic versus Value Innovation logic. The market driving perspective on creating competitive advantage explains that firms are more successful when they overcome their competitors by not considering them (Kim & Mauborgne, 2004). While the research is focused on the value innovation process, in terms of creating more value for the customer and perhaps changing the rules of the industry it will be interesting if future research can link the market driving perspective to disruptive innovation and the market driven perspective to incremental innovation.

### 1.1.3 Sustainable Competitive Advantage

A sustainable competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors (Davidow and Uttal, 2005). These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel human resources. New technologies such as robotics and information technology can provide competitive advantage, whether as a part of the product itself, as an advantage to the making of the product, or as a competitive aid in the business process (better identification and understanding of customers) (Porter, 1985). The goal of much of business strategy is to achieve a sustainable competitive advantage. An organization will gain competitive advantage over its competitors from an understanding of both markets and customers, and special competences that it possesses (Porter, 1985). A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus a competitive advantage enables a firm to create superior value for its customers and superior profits for itself.

Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation (Porter, 1985). A firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. Mc Lauren (2004) argues that resources are the sources of a firm's capabilities, while capabilities are the source of a firm's competitive advantage.

A sustainable competitive advantage framework uses concepts developed in micro-economics to derive five forces that determine the attractiveness of a market (Barney, 2012). They consist of those forces close to a firm that affect its ability to serve its customers and make a profit. A change in any of the forces requires a firm to reassess its marketplace. These forces include, bargaining power of suppliers, bargaining power of buyers, threat of substitute product and threat of new entrants (Caroline, 2008). The above four forces combine with other variables to influence a fifth force, the level of competition in an industry. The intensity of rivalry among firms varies across industries. If rivalry among firms in an industry is low, the industry is considered to be disciplined. This discipline may result from the industry's history of competition, the role of leading firm, or informal compliance with a generally understood code of Conduct (Porter, 1980).

### 1.1.4 Mobile Telephony Sector

The mobile telephony in Kenya is going through profound changes. In the past decade, technological advancement and regulatory restructuring have transformed the industry. Markets that were formerly distinct, discrete and vertical have coalesced across their old boundaries with a massive investment of capital - much of it originating from private sector participants.

Mobile services in Kenya were pioneered with the launch of an ETACS network in 2003. But due to issues such as the high cost of handsets and high charges for the service, the number of mobile subscribers at the end of 2009 was only 20,000. The number of operators providing mobile services in Kenya has now increased to four and with improving mobile infrastructure there is network coverage in all major towns and highways in the country. The price of handsets has reduced due to the duty being waived by the Government and the increased number of operators has intensified competition leading to price wars in the market. Safaricom still dominate the market with a market share of 79% and the number of subscribers had risen to over 19 million in 2009 (Caroline, 2008).

The landscape of the Kenyan Telecommunication industry has however; seen dramatic changes in the last decade. New companies both local and foreign have emerged some as start-ups others through mergers or acquisitions. Kenya's mobile market has four key players - Safaricom, Bharti Airtel (was Zain), Telkom Kenya (Orange/France Telecom) and Essar Telecom Kenya (known as the brand Yu); all virtually offering similar products in the industry. In another dimension, the liberalization of the economic environment has intensified the competition leading to the influx of operators hence the need to ascertain each company's performance in the last decade or so and the resulting effectiveness of its competitive strategies adopted through quality of service and the ardent impact on procurement processes (Caroline, 2012). It is therefore not out of place to make a safe claim that each company's performance in the last decade reflects the effectiveness of its customer service activities.

As at December 2013, market share within the Telecoms industry has Safaricom Limited as the market leader at 65.3% of total subscriptions. Other operators are Airtel, 15.3%, Orange, 10.6% and Essar 8.7%. Despite the growth in subscription levels of the market leader there is a reduction in the overall market leadership position dropping from 66.6% as at December 2011. This depicts increased overall competitiveness within the industry and hence the need for firms within the Telecommunications industry to continually reinvent themselves to maintain a competitive position in the industry (CCK Research, March 2013).

### 1.1.5 Safaricom Limited

Safaricom Ltd is the leading telecommunications company operating in Kenya. The Mobile subscriber base for Safaricom has grown steadily to a record high of 15 Million which represents 78% of the total market share in just nine years of operation. Safaricom Ltd started as a department of Kenya Posts and Telecommunications Corporation. Telkom Kenya launched operations in 2003 based on an analogue ETACS network and was upgraded to GSM in 2006. Safaricom Limited was incorporated on 3 April 2007 under the Companies Act as a private limited liability company. It was converted into a public company with limited liability on 16 May 2012 (Safaricom History, 2012).

The Government of Kenya held a 60% shareholding at the time of incorporation. Safaricom was thus a state corporation within the meaning of the State Corporations Act. The remaining 40% shareholding was owned by UK based Vodafone group Plc. Until 20 December 2007, the GoK shares were held by Telkom Kenya Limited, which was a state corporation under the Act. The Government of Kenya transferred 25% of the shares it held in Safaricom to the public in March 2008 through an Initial Public Offering (IPO). The Government of Kenya thus ceased to have a controlling majority in Safaricom.

Safaricom Limited is Kenya's current leading Mobile Telephone operator and it aim to become the best company in Africa. In order to achieve this, a strong focus has been placed on quality of service to its customers as well as developing products that meet customer's requirements (Safaricom History, 2012). The firm will continue implementing best practices based on Vodafone's vast international experience as well as their knowledge of the local market, having operated in Kenya for 8 years. In terms of its business operations, the firm has been able to keep pace with the global mobile telecommunication scenario by having strategic business association; associations which add value to the global mobile telecommunication initiative and which help in meeting dynamic challenges of the modern mobile telecommunication world. This strategic association with the leaders in mobile telephony has created a niche in the Kenyan market today.

### 1.2 Research Problem

Rycroft & Kash (2009) state that strategic innovation requires a process of co-evolution between technology and cultural perspectives where radical innovations are new technologies or new products that fill needs perhaps yet unrecognized; and incremental innovations improve what already exists. Kim and Mauborgne (2009) argue that strategic innovation is concerned with improving the mix of target markets and how chosen markets are best served. The telecommunications industry in Kenya had been expanding rapidly and fierce competition was witnessed in the sector. With the Kenyan government liberalizing its telecommunication sector, many new entrants have entered into the market and thus challenging established players as Safaricom Limited.

To remain competitive, Safaricom Limited has had to design new and achievable strategic plans as the competitors to have a stake in what is considered lucrative market with great potential of growth. With the increased level of competition, firms need to maintain or grow its market share, in order to remain relevant in the market. This has therefore forced the organization to develop new and effective business strategies in order to remain competitive in the market. Safaricom has found itself in a very competitive market where customers were demanding more value for their money. As the Kenyan people got more and more educated, they were demanding more quality services, especially in the data segment of the market. As a technological firm, Safaricom had to look at how to get more skilled expertise, better and cheaper ways of acquiring inputs, ways of acquiring the most recent and sophisticated technology in order to avoid being obsolete in the market as well as ways to reach wider geographical areas. The firm realized the need to leverage on economies of scale so as to keep its operating costs lower. The question however, was how to achieve these objectives.

Recent local studies done in the area of competitive strategy include: Obado (2005) did competitive strategies employed by the sugar manufacturing firms in Kenya and found out that the sugar manufacturing firms have formalized vision and mission statements. They employ competitive strategies of cost leadership, differentiation and focus to different degrees. Cost leadership strategy is the most widely practiced amongst the firms while differentiation strategy mainly revolves around customers' service, distribution networks, and branding. Kamau (2009) researched on competitive strategies employed by Zain; Kinyua (2010) undertook a study on competitive strategies adopted by small supermarkets in Nairobi and established that the strategies which were adopted included branding of an outlet differentiates it from others; Amir (2007) did a study on competitive strategies adopted by petroleum retail stations in Kenya a case of Mombasa city and the findings showed that all stations are applying some strategies for competition but most of them combine both the cost leadership and differentiation strategies at the same time, most of which are the multinationals due to their favorable financial capabilities.

As observed above, the studies conducted on competitive strategies adopted by various organizations have not considered the application of strategic innovation used by Safaricom in sustaining competitive advantage which is currently very competitive. This research therefore identified the application of strategic innovation used by Safaricom in sustaining competitive advantage. This problem statement leads to the following question: what strategic innovation have Safaricom put in place to sustain competitive advantage?

### 1.3 Research Objective

The objective of this study is to establish strategic innovation as an approach to sustainable competitive advantage by Safaricom Limited.

### 1.4 Value of the Study

The study was important to enable Safaricom Limited to evaluate the strategic innovation they can adopt in the face of high competition in the telecommunication sector. In addition the study was an invaluable source to those interested in establishing a business within the telecommunication sector as it highlights competitive strategies employed.

The study also created a profile which could be employed by other companies. Most importantly, this research is further aimed at offering some practical suggestions on the innovative strategies to be put in place in order to gain competitive advantage. The policy makers obtained knowledge of the telecommunication sector dynamics and the appropriate competitive strategies. They therefore obtained guidance in designing appropriate policies that regulated the sector.

Future scholars may use the results of this study as a reference. The findings of this study can be compared with competitive strategies in other sectors to draw conclusions on various ways an institution can respond to competitive forces within its environment. It also benefited consultants who endeavor to provide assistance to successful running of organizations in developing and sustaining a competitive edge.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter shall review the literature available on the application of innovation strategy in sustaining competitive advantage. Empirical studies in these areas shall also be reviewed.

## 2.2 Theoretical Foundation

This section discusses the relevant theories that are related to competitive strategy and organization. In this case the study focused on the resource-based view and Porter's Five Forces theory.

### 2.2.1 Resource-Based View

The resource-based view theory can be used to elaborate competitive strategies. This theory argues that competitive advantage lies in the resources that an organization can access and exploit and not in the ability to manage the environment (Campbell, 2004). It maintains that companies are well endowed with a bundle of resources in the form of assets, competencies, processes, and substitutes that provide the organization with competitive advantage. David (2007) denotes that since companies have different attributes at different levels and different bundles of resources, differences in organizational performance are likely to be witnessed. The theory further asserts that firms have three types of resources namely; tangible resources, intangible resources and organizational capabilities. Tangible resources include financial, physical, technological and organizational assets and thus are easily identified on the other hand intangible resources are more complex to identify and thus difficulty to imitate. They include strategies that a firm adopts over time and culminates to improved performance (Barney, 2006).

Finally, organizational capabilities are skills and competencies which a firm combines to transform tangible and intangible resources into outputs, for example, outstanding customer service (Dess etal, 2007). The resource-based theory also argues that organizational resources in themselves are not necessarily a source of competitive advantage because rival firms may also possess similar resources. In this case therefore, competitive advantage lies in the resources possessing one or more of other attributes such as valuable substitutes. A firm has to therefore sustain a competitive advantage as long as other firms are unable to duplicate the same attributes (Dess etal, 2007).

The theory argues that a firm needs to harness its resources using organizational repeatable knowledge that ensures it a competitive advantage. Grant (2004) posits that achieving and developing organizational competence is paramount to achieving competitive advantage and therefore competitive advantage is sourced in the organization's ability to learn and apply knowledge rather than simply accessing resources. The theory further argues that competitiveness ought to be supported by a culture that encourages sharing and exchanging skills, competencies and capabilities through organizational learning.

### 2.2.2 Theory of acceptance

Theory of acceptance and use of technology by Venkatesh (2000) has its main independent construct: effort expectancy; social influence; facilitative conditions gender age, experience, voluntariness of use  Unified theory of acceptance and use of Technology (UTAUT) aims  to explain user intentions  to use an IS and subsequent usage behaviour. The theory holds that four key constructs (performance expectancy, effort expectancy, social influence, and facilitating conditions) are direct determinants of usage intention and behaviour (Venkatesh *et al*, 2003). Gender, age, experience and voluntariness of use are posited to mediate the impact of the four key constructs on usage intention and behaviour (Venkatesh *et al*, 2003). The theory was developed through a review and consolidation of the constructs of eight models that earlier research had employed to explain is usage behaviour (theory of reasoned action. Technology acceptance model, motivational model, theory of planned behaviour a combined theory of planned behaviour/ technology acceptance model, model of PC utilization, innovation diffusion theory, and social cognitive theory).

Subsequent validation  of UTAUT in a longitudinal study found it to account for 70% of the variance in usage intention (Venkatesh *et al*, 2003). Venkatesh identifies seven constructs in UTAUT theory. These are Performance expectation: The degree to which an individual believes that using the system will help him or her attains gains in job performance. Effort expectancy: the degree of ease associated with the use of the system. Social influence: the degree to which an individual perceives that important others believe he or she should use the new system. Facilitating conditions: the degree to which an individual believes that an organizational and technical infrastructure exists to support use of the system. Attitude towards using technology: the degree to which an individual beliefs he or she should use a particular system, Self-efficacy – the degree to which an individual judges his or her ability to use a particular system to accomplish a particular job or task: and Anxiety the degree of anxious or emotional reactions associated with the use of a particular system.

### 2.2.3 Neo-institutional theory

Neo-institutional theory explains heterogeneity and differentiation (Oliver, 1996). Differentiation supports and sustains competitive advantage, but conformity to institutional pressures provides legitimacy, resources, and competitive advantage. Through institutional embeddedness and interconnection, the creation of competitive advantages can be explained because institutional embeddedness has an impact on organizational behaviour, causing it to seek an economic and social fit. In telecommunication firms like Company A and Company B contexts where institutional and competitive pressures exert strong influences, the strategic decisions of managers result both in conformity to institutional pressures, which leads to isomorphism and legitimacy, and in differentiation, which, following the resource-based view of the firm, can increase the possibility of creating a competitive advantage through heterogeneity in resources and capabilities (Caroline, 2008). Differentiation will create benefits and dominant positions that will last until competitors imitate a firm's key resources, and will be restored through the creation of new opportunities that result in a new competitive advantage and new entry barriers (Ogbonna and Harris, 2003).

## 2.3 Innovation Strategies

The significance of having an evidently defined innovation strategy directing the innovation process was recognized by Cooper et al. (2003). According to Tushman and Nadler (2006), strategic management in the telecommunication sector demand that the institutions should have effective systems in place to offset unpredictable events that can maintain their operations and reduce the risks implicated through innovations.

According to Davila, Epstein and Shelton (2006) innovation is a necessary ingredient for sustained success and is an integral part of the business. For many firms in Kenya, information and communication technology is viewed as potentially capable of helping achieve innovative strategy. The high rate at which organizations are buying mobile phones, computer hardware and software as well as using the Internet for information and communication is evidence of the increasing awareness of information and communication technology in the Kenyan market (Slater and Olson, 2011). The business benefits of using information and communication technology include efficiency and attainment of increased returns. The vast opportunities brought by the Internet to the telecommunication industry have therefore attracted much attention from researchers whose efforts apparently group on certain areas of interest.

With the use of Information Technology (IT), the firms can use the cross-selling strategies to sell new innovations to their existing customer base (Caroline, 2008). It can be seen that firm’s adoption of technology changes from improving efficiency and also improving the service quality in servicing the customers. Such changing strategy demonstrates the situation where firms compete to own the potential customers.

The adoption of short messages services both from clients will, if effectively implemented, lead to substantial cost savings by insurers in the areas of telephone calls and personnel time (Caroline, 2008). Product innovation provides the most obvious means for generating revenues. Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs. Improved and radically changed products are regarded as particularly important for long-term business growth.

Product innovations enable the firms to increase their brands or products in the market hence create competitive advantage for the organizations; market innovation enables the firms create new markets hence increasing the competitive advantage; process innovation enables the running of the firms' operations thus increasing effectiveness and efficiency while technology innovation will encourage ease of flow of information and fast delivery to the intended persons (Rycroft, 2009).

**2.4 Sustaining Competitive Advantage**

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage. Porter (1985) identified two basic types of competitive advantage namely cost advantage and differentiation advantage.

According to Porter (1985), a competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself. Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation.

Differentiation strategy is usually developed around many characteristics such as product quality, technology and innovativeness, reliability, brand image, firm reputation, durability, and customer service, which must be difficult for rivals to imitate. A firm implementing a differentiation strategy is able to achieve a competitive advantage over its rivals because of its ability to create entry barriers to potential entrants by building customer and brand loyalty through quality offerings, advertising and marketing techniques (Slater and Olson, 2011). Thus, a firm that implements a differentiation strategy enjoys the benefit of price-inelastic demand for its product or service. This would in turn help the firm to avoid potentially severe price competition and allow it to charge premium prices leading to above-normal profits (Porter, 1980). The successful implementation of the differentiation strategy requires resources and skills such as strong marketing capabilities, product engineering skills, creative flare, corporate reputation for quality, reliable and durable products and/or technological leadership, and strong cooperation from distribution channels (Porter, 1980).

In the focus strategy, a firm targets a specific segment of the market (Davidson, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line (McCracken, 2002). Focus also is based on adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements (Caroline, 2008). A successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

Cost leadership strategy is usually developed around organization-wide efficiency. In order for firms implementing the cost leadership strategy to maintain a strong competitive position and sustain their profit margins for a considerable period of time, they have to place a premium on efficiency of operations in all functional areas (Porter, 1980). Firms that implement a cost leadership strategy are able to secure a relatively large market share by being the lowest cost producers or service providers in their industry or market. Thus, firms implementing the cost leadership strategy can obtain above-normal profits because of their ability to lower prices to match or even below those of competitors and still earn profits (Rycroft, 2009). By pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitors' growth in the industry through its success at price war and undercutting the profitability of competitors. If the firm's cost of sale or cost of raw material is lower than its competitors, then the firm can offer lower prices, higher quality, or both (Spulber, 2009).

According to Lahtinen and Toppinen (2006) the focuser selects a segment of group of segments in the industry and tailors its strategy to serving them to the exclusion of others. By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall (Caroline, 2008). The focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segments and other segments in the industry (Slater and Olson, 2011). The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments (Rycroft, 2009). Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Such differences imply that the segments ate poorly served by broadly-targeted competitors who serve them at the same time as they serve others.

## 2.5 Innovation Strategy and Competitive Advantage

Companies today operate in a very dynamic, uncertain and competitive environment. They compete in "nicety" that are so small but so important. Companies are trying to achieve competitive advantage in order to help them obtain a better and a stable position in the marketplace. The best way for companies to achieve a competitive advantage is through innovation (Slater and Olson, 2011). In order for companies to get the as more innovations as possible it is necessary for them to be familiar with the process of innovation and its principles which innovation was found on. There are several types of innovation or ways in which companies can achieve innovation in a level of whole organization. This paper discusses the ways how that can be achieved-starting from their products and services, ways of selling, supply etc. Innovation can be financed by merit-based awards (grants) and external equity, such as: business angels, venture capital and corporations.

According to Gary Hamel the best strategy it is related with radical changes and creating of a new vision for a new future where you will be a leader instead of being follower of the trends established by others. The winning strategy is a strategy that includes a vision (Dobson et al, 2004). While most of the companies use innovation very rarely some of very successful enterprise already started to use innovation as basic way to relate with their markets. Innovating capacity represents a very important source of achieving of competitive advantage. Innovations are mostly related with (Morden, 2007): Changing of the base of knowledge, Process of managing the knowledge, Changing of the consumer's expectation, Generating value, Product differentiation or achieving of low cots etc.

All above mentioned types of innovation will help organizations in creating competitive advantage on the market that they operate. It is very important that the organizations understand that innovations are part of whole organization and that the organizations should implement innovation in every part of it (Caroline, 2008). It is very important that in the process of innovation enterprise employees should be included in all processes, because companies most of the time get a lot of excellent innovations from their employees. For example, Intel included 8000 employers in the research and development department, that according to Fortune this was the main reason why this company is in the third place on the number of innovation in USA (Thompson, 2007). Organizations also must understand that once implemented innovation doesn't mean final solution to a problem, but that innovations are continuous process that needs to innovate themselves.

In the literature it is noted the dilemma, who is leading in new innovation small and medium enterprises or maybe most of innovation are coming mostly from corporation. To this very interesting question Schumpeter suggested two answer, the first one it was given in the year 1912 when he said that most of the of innovations are coming from small and medium enterprises and the second answer was given in 1942 when he answered that big and powerful labs of corporation bring most of the innovations (Neumann and Weigand, 2004). This question till today stays unanswered in very precise way, the most real answer will be that innovation are related from both small and medium enterprises and big cooperation all over the world.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter provides details of the research design and data collection technique to be employed in the study. It also describes the data analysis approach adopted by the study. This is against the background of the research objective to identify strategic innovation as an approach to sustainable competitive advantage by Safaricom Limited.

## 3.2 Research Design

The research design was a case study of Safaricom Limited. Cooper and Schindler (2005) posit that case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. The merit of using a case study is that it allows an in-depth understanding of the behavior pattern of the concerned unit. Additionally a case study allows a researcher to use one or more of the several research methods depending on the circumstances. The study was used to identify the application of innovation strategy adopted by Safaricom Limited in sustaining competitive advantage.

The study was a case study as a strategic research in order to understand or explain the phenomena, which is the competitive strategies adopted to tackle competition, by placing them in their wider context, which is the specific company within the telecommunication industry. The reason for this choice is based on the knowledge that case studies are the most appropriate for examining the processes by which events unfold, as well as exploring causal relationships and also they provide a holistic understanding of the phenomena (Kitay & Callus, 1998).

### 3.3 Data Collection

The study used primary data which was collected using an interview guide. An interview guide is a set of questions that the interviewer asks when interviewing. The respondents to be interviewed were ; CEO, finance managers, human resource managers, marketing managers and customer relations managers involved with formulation and implementation of the company's strategies who are the top 5 managers in charge of strategy, human resource management, administration, planning, enterprise business solutions, and development. These are considered to be key informants for this research. In addition the departments in which the intended respondents work in are the key developers' and implementers of the company's innovation strategies.

In-depth interviews reduce the "distance" between interviewer and interviewee. The interviews was a semi-structured so that some questions can be omitted or added if some new and useful information come up through the whole procedure, which was face to face interviews. The order of the questions may also be varied depending on the flow of the conversation. This can have advantages like keeping the interviewer concentrated on listening and allow the formulated of the questions but can distract the interviewee by focusing on the recorder.

### 3.4 Data Analysis

Content analysis was the data analysis technique to be used. According to Mugenda and Mugenda (1999), content analysis involves observations and detailed descriptions of objects, items or things that comprise the study. Content analysis is useful in obtaining new ideas in even what is thought to be unknown.

The research analyzes data from the interview guide to determine the level of emphasis or omission and relationships. This lead to the elementary theory development which focuses on constructs and relationships among the constructs. It’s possible to identify key themes through the choice of words by the respondents. Previous studies of a similar nature have successfully used this method. Examples include: Mulu (2010) Karani (2009) and Ogendo (2010) among many others. Secondary data analysis also gave an overview of the focus of the study.

# CHAPTER FOUR

# DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter presents data analysis and interpretation. The main objective of the study was to establish strategic innovation as an approach to sustainable competitive advantage by Safaricom Limited.

## 4.2 Response Rate

The response rate is the number of people whom answered the survey divided by the number of people in the sample. The respondents comprised of the CEO, finance managers, human resource managers and marketing managers involved with formulation and implementation of the company's strategies. These respondents were purposely selected by the researcher because they were deemed to be dealing in the company with issues relating to development of strategies that aim to tackle competition in the market. In total; the researcher interviewed all the targeted five respondents. This represented 100% response rate.

## 4.3 General Information

### 4.3.1 Level of Education

This is the educational attainment refers to the highest level of schooling that a person has reached. Interviewees were required by the study to give their level of education as a requirement by the study. The findings indicate that 55% of the interviewee have managed the undergraduate level, while 40% have managed a master's degree. Interviewee who managed to attain the diploma and PhD level were represented by 2% and 3% respectively.

### 4.3.2 Length of service at Safaricom Limited

The length of service is the duration in which one has been working in a certain company or organization. Interviewee were required by the researcher to give the duration they have managed to work at Safaricom Limited, the results indicate that 47% of the interviewee have worked for a duration between 5 ton10 years. This was followed by those who have worked for duration between 1 to 5 years with 39%. Employees who worked for more than 10 years came in third with 10%. Only 4% of the interviewees have worked for less than a year.

## 4.4 Adoption of differentiation strategies

Competitive strategy as the distinctive approach which a firm uses or intends to use to succeed in the market. The study indicates that, all the interviewees agreed that Safaricom Limited does adopt the competitive strategies in order to grow. From the study, 52% of the interviewees indicated that, cost reduction, innovation; and quality enhancement at the company. Safaricom Ltd Company can erect strong barriers to entry, through customer captivity, lower production costs, or economies of scale, it can manage and sustain these advantages. This was followed by group of interviewee who indicated that, Safaricom can find a position in the industry where they can best defend itself against competitive forces or can influence them in its favor with 32%. In the third position was group of interviewee who indicated that the company adopts its competitive advantage by positioning its act of design by offering the best image so that it occupies a distinct and valued place in the target customer's mind with 16%.

Interviewee also indicated that the adoption of differentiation will create benefits and dominant positions that will last until competitors imitate a firm's key resources, and will be restored through the creation of new opportunities that result in a new competitive advantage and new entry barriers. Differentiation strategies are marketing techniques used by Safaricom limited to establish strong identity in a specific market.

## 4.5 Product and Service Differentiation

Products and service differentiation is innovating products that appear different from their competitors and is aimed at making them earn a competitive advantage over others. From the findings interviewee mentioned some of the products and services include Roaming services, top-up services, Loyalty programs, Data messaging, M-pesa, Voice services at cheaper and convenient way like postpaid, Sambaza, Okoa Jahazi and Fixed Data Solutions which comprises of Internet, M-shwari services for borrowing loans, Okoa Sim services, Safaricom plus services and Video Conferencing. Interviewees have also mentioned that, the Company has ensures that the employees are continuously trained so as to improve service delivery that is found by the customers to be unique. These features have made the company customers to perceive it to have properties which make it distinct from other mobile telephony players and give it the necessary competitive advantage.

From the study, differentiation strategy of products and services aims to build up competitive advantage by offering unique products which are characterized by valuable features, such as quality, innovation, and customer service. A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. Interviewee indicated that, to maintain this strategy the firm should have: strong research and development skills, strong product engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills, and incentives based largely on subjective measures, be able to communicate the importance of the differentiating product characteristics, stress continuous improvement and innovation and attract highly skilled, creative people.

### 4.6 Charging of Premium Price on Products

From the study 72% of the interviewees indicated that, charging of premium price on the products involves technology and innovativeness, reliability, brand image, firm reputation, durability, and customer service, which must be difficult for rivals to imitate. 28% of the interviewees also indicated that the successful implementation of the product differentiation strategy requires resources and skills such as strong marketing capabilities, product engineering skills, creative flare, corporate reputation for quality, reliable and durable products and technological leadership, and strong cooperation from distribution channels.

Charging of the premium price on products is based on lower overall costs than competitors. Firms that achieve low cost leadership generally make low cost relative to competitors the theme of their business strategy. The firm opens up a sustainable cost advantage over competitors and uses that lower cost as a basis for either underpricing the competitors and gaining a larger market share at their expense or earning a higher profit margin by selling at the going price.

From the findings in order to attain such a relative cost advantage, Safaricom limited will put considerable effort in controlling and production costs, increasing their capacity utilization, controlling materials supply or product distribution, and minimizing other costs, including R&D and advertising. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs. All this together will therefore will help Safaricom firm to avoid potentially severe price competition and allow it to charge premium prices leading to above-normal profits.

## 4.7 Creation of Unique Products and Services

The study found out that, the company has majored on provision of unique features to the products that it offers its customers. The introduction of denomination calling cards, Bonga point's redemption to earn goods and services of its equivalent, Okoa Jahazi, as some of the products tailored to meet the lower markets in the industry. Interviewee also indicated that Safaricom targets markets that are less vulnerable to substitutes or where competition is weakest as they will be able to introduce their products to the customers and at the same time preparing themselves for competition in case a new competitor enters the target market.

The study also found out that, the value added by the uniqueness of the products allows the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the products unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily. The study therefore concludes that product differentiation is a common way of differentiating the Safaricom's offerings from those of its competitors.

**4.8 Adoption of the Lowest Product or Service Unit Cost**

The researcher asked the interviewee to indicate of the adoption of the lowest price and services unit cost has helped in retaining its customers. From the study, interviewee indicated that the basic idea of reducing cost of information goods is to increase sale volume. Usually it does not help much to focus on the unit cost of information goods, because the firm produces one copy and sells the same copy over and over again. One interviewee indicated that, "with the venture into offering a variety of products and services we are able to offer a relatively lower price while offering the high quality products hence retaining the customers."

The study found out that, Safaricom limited  do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share. However by postulating that cost leadership creates little customer loyalty and if a firm lowers prices too much, it may lose revenues. The study therefore found out the adoption of low cost of products is an attribute that must be given up or sacrificed to obtain certain kinds of products or services.

**4.9 Advertisement as a Strategy**

From the study all the respondents agreed to the fact that, advertisement has yielded much of the results in the company that have made them very much profitable for the last few financial years. The finding show that 75% of the interviewee indicated that, advertisement promotes the business this is by getting the recognition and attention of your target audience across a wide ranging in the market.  20% of the interviewees have also indicated that, advertisement helps enhances brand recognition. Safaricom for instance have used the green color which means growth, harmony, freshness, safety, fertility, and environment to advertise itself to show growth with its customers.

Towards the same, the company has achieved competitive advantage over its rivals because of its ability to create barriers by building customer and brand loyalty through quality offerings, advertising and marketing techniques. 15% of the interviewee indicated that, advertising at Safaricom Limited increased its goodwill of concern. It introduces the company and its products to the customers. Repeated advertising and better quality of products brings more reputation for the manufacturer and enhances goodwill for the concern.

### 4.10 Cost Strategy

The study did find out the impact of cost strategies as required by the researcher. The findings from the interviewees indicated that by pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitors' growth in the industry through its success at price war and undercutting the profitability of competitors. If the companies' cost of sale or cost of raw material is lower than its competitors, then the firm can offer lower prices, higher quality, or both. The study also found out that, a low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors (Mobile telecommunication firms).

Safaricom Company has access to raw materials or superior proprietary technology which helps to lower costs. The study also found out that, lower prices lead to higher demand and, therefore, to a larger market share. As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market. The study also found out that, the company has employed the outsourcing strategy to accelerate re-engineering benefits, to focus on core competence, to increase flexibility, and to facilitate market penetration and cut its cost. One of the respondent indicated that, transport and cleaning services are the major services being outsourced by the Safaricom Limited.

The study also found out that, geographic locations of some outsourcing services partners like the use of M-shwari services in rural areas were not convenient to many customers who have to travel over long distances to access communication services and also since there is less economic activities in such areas. Most of the marketing staff explained that low sales turnover was experienced in areas where distribution stations were not strategically outsourced.

### 4.11 Focus Strategy

From the study the Safaricom firm targets a specific segment of the market. 69% of the interviewees indicated that, the firm can focus on a select customer group, product range, geographical area, or service line. Focus based on adopting a narrow competitive scope within an industry came in second with 20% while focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors came in third with 11%. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements. Interviewee indicated that a successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies.

The success of Safaricom Ltd Company is leverage competitive advantages in the market place to achieve high levels of performance. They either attain overall market leadership by differentiating themselves from competitors or dominate market segments where they focus their efforts. Focus strategy identifies the market segments where the company can compete effectively. The strategy matches market characteristics with the company's competitive advantages to select markets where a focus of the company's resources is likely to lead to desired sales volumes, revenues and profits.

**4.12 Challenges for Strategy Implementation**

The study did find out some of the challenges being faced by the company as they try to apply the strategies put in place to boost its competitive advantage. The interviewees noted that Safaricom still faces several challenges in implementing its strategies at certain geographic locations. All the respondents identified different factors that have hindered effective implementation of the strategy in the organization and how the same factors impacts on strategy implementation in the organization.

From the study, organizational change is a socially constructed reality with negotiated meaning as outcomes of power relationships and struggles for supremacy. Between the lines a particular strategy is primarily about power and control, dominance and supremacy, whose access to resources will be enlarged or reduced, who can stay and who has to go. On the one hand, this struggle for supremacy, power and control is about personal interests. For example, senior managers are well aware of the fact that initiating a new strategic change initiative can, irrespective of the factual outcomes for the organization, increase their credibility and their market value outside the organization as well as their position and influence inside the organization.

These challenges ranged from: organizational culture, organizational structure, leadership and management and inadequate resources. Interviewee have noted out that the current structure provides managers with a vehicle to exploit fully the skills and capabilities of the employees with minimal costs and as a result lead to the enhancement of the organization capacity to achieve superior efficiency, quality, innovation and customer responsiveness. Lack of appreciation by the respondents was also mentioned by most interviewees. Therefore adequate rewards in recognition of the achievement of the targets is required as a motivating factor.

### 4.13 Additional Competitive Advantages

The study found out that majority of the interviewees indicated that, Safaricom's penetration of the market include offering incentives such as bundling services that are more cheaper to its customers compared to other telecommunication networks, giving devices tied to services and also recent rolling out retail shops and partner with device manufactures like Samsung and Sony just to mention a few, which is focused to availing access of devices to customer to help them enjoy the network earn revenue from increased usage. Other interviewees mentioned that, the company should consider categorizing clients according to their needs and tailors the firm's products to meeting these needs. This includes the talk time awarded in post-pay service, internet bundles as well as variety of goods like internet modems, phones amongst other electronic devices.

Innovation strategy is to leapfrog other market players by the introduction of completely new or notably better products or services. This strategy is typical of technology start-up companies which often intend to “disrupt” the existing marketplace, obsoleting the current market entries with a breakthrough product offering. It is harder for more established companies to pursue this strategy because their product offering has achieved market acceptance.

Interviewee mentioned on technology innovation as of vital importance for firms to survive and develop in a market under intense competition. Safaricom Limited decision-making of technology innovation strategy involves two phases. Firstly, a firm decides whether to innovate. With the influence of market structure, scale, intensity of competition, and other factors, different firms show clear distinctions in their motivation to innovate; many researches have centered on this.

**4.15 Discussion of the findings**

Competitive strategy as a process whereby a firm’s portfolio of products and services is designed to bring together its unique resources and capabilities to gain advantage in the market place. According to Porter (2000), the myriad activities that go into creating, producing, selling, and delivering a product or service are the basic units of competitive advantage. In the study, the level of competition in the Kenyan telecommunication industry has been found to have increased especially in the last ten years. From one dominant player in the 1990s, the number of players has increased to four at present which has meant that the firms have had to come up with new strategies that will give its products competitive edge over the competitors. This position is similar to that posited by Kim et al., (2004) who pointed out that business firms need to consider the overall strategy and provide unique products that will help it capture a particular segment of the market. Safaricom Limited has had to employ different competitive strategies to face off the market competition. These strategies include market segmentation in which it has developed products that meet the needs of various markets such as the youth and clients with low income.

In addition, the company has employed cost leadership in order to counter the high marketing cost that are being incurred to inform the customers on the company's products, Safaricom has put in place a myriad of measures tailored to cut cost and this include restructuring the organization and reducing the operational cost. This line of strategy was advocated by Porter (1980) who observed that in order for a firm to implement the cost leadership strategy and maintain a strong competitive position and sustain their profit margins for a considerable period of time, they have to place a premium on efficiency of operations in all functional areas. This strategy came out strongly to indicate that Safaricom strategy on this has yielded positive results and help in maintaining the organizational competitive advantage. What the findings of this study show is that a company should not rely in only one strategy in the present day business environment. Instead, a firm should combine the several strategies and identify the one that gives it the upper hand in the market against other players. In the implementation of an organization strategy, a firm should also be aware of challenges that might affect the success of the strategies.

In the case of Safaricom, the findings show that the company has been able to reduce challenges relating to organizational structure, leadership, lack of adequate resources and also its culture. The findings show that on the challenges relating to culture, the present day management has really strived to make it less of a hindrance to successful implementation of the organizational strategies. The management is cognizant of the challenges and the need to reduce their effect on the success of the adopted strategies and have come up with several mitigating factors.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents summary of findings as discussed in chapter four and interpretations of the data analysis, conclusions and recommendations based on the findings.

## 5.2 Summary of findings

As one of the market leaders in the Kenyan telecommunication industry, Safaricom Limited has made great efforts in its bid to continue being a market leader in the country through employment of appropriate competitive strategies. The study found out that a number of competitive strategies are being employed by the firm. These competitive strategies include focus, penetration, and product differentiation, pricing and cost leadership.

The findings on the usage of differentiation strategy by the company were that the company uses the strategy mostly on its calling products and offering of superior quality services. Some of the products that have been developed and differentiated from the other players include, roaming services, Loyalty Programs, Data, messaging, M-pesa, voice services, Sambaza, Okoa and Fixed Data Services. Price differentiation also came out strongly as a method employed by the company and aims in categorizing its customers according to their needs, market segmentation and engaging in infrastructure development. Towards the same, the company has achieved competitive advantage over its rivals because of its ability to create barriers by building customer and brand loyalty through quality offerings, advertising and marketing techniques.

The low cost strategy has been similarly been employed by Safaricom Limited and it has taken the form of tight control of costs and overhead, minimization of operating expenses, reduction of input costs, tight control of labor costs, and lower distribution costs. Further, the company has segmented the local market according to their various needs and wants and by so doing the company tailors their products to these unique markets.

However, Safaricom faces a number of strategy implementation challenges. These factors hinder the success of implementing the competitive strategies and include organizational culture, organizational structure, leadership and management and inadequate resources. The findings were that the organization has adopted a proactive approach in tackling these challenges since the management realizes that for the company to succeed in its strategies, it needs to address the same.

## 5.3 Conclusions

The choice of a company's competitive strategy is concerned with choosing a favorable industry to operate is concerned with achieving profitability in the long term and which factors determine that, as well as establishing the factors that affect the company's position in the market. Competition is at the core of the success or failure of firms since it determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture and good implementation.

Competitive strategy helps to search for a favorable competitive position in an industry, aims to establish a profitable and sustainable position against the forces that determine industry competition. The analysis of Safaricom is that it is trying to differentiate itself with the other players in the market. Porter's differentiation strategy is frequently used within the company and it has been noted to be working. The cost strategy was visible in the company and the company kept on changing this strategy when it was no longer successful. However, the problem with Porter's Generic strategy in Safaricom and in the telecom industry is that it is a high-speed changing market and it is impossible to stick to only one strategy which Porter requests. Thus in order to succeed a company has to use more than one strategy or at least have a backup strategy in case the first one is a failure. They probably have to combine the differentiating strategy with the cost leader strategy because of the more decreasing prices in the Kenyan market. Having only a cost leader strategy is more or less impossible because all the operators are forced to keep the cost low and to be cost effective. The focus strategy was used to a lesser extent since it seem to demand too much effort and being too risky.

### 5.4 Recommendations

The study found out that the company has created a unique position in the market through provision of goods and services, it is therefore recommended that they continue investing in coming up with unique products so that they can differentiate themselves. The company should at the same time continue innovating products which will compete with other companies' products and at the same time they should do aggressive marketing in order to change the perception which the customers have regarding the pricing of the company's products. The study found out that the company does not consider other mobile telecommunication companies prices when setting the prices to charge on their products. It is recommended that although the company is a market leader they should consider other competitors prices as the customers are conscious about the lowest rates they are offered and not the necessarily the value. These would ensure that the company maintains its market share which is under threat from other competitors. Although the company has managed to differentiate themselves from other competitors, differentiation alone without marketing of the products will not attract sufficient customers and it is recommended therefore that the company markets their products so that they can attract more customers.

### 5.5 Limitations of the Study

The study was aimed at establishing the competitive strategies adopted by Safaricom Limited. The advantage was that the study was detailed and specific. However the limitation therein lies with the fact that due to the nature of fierce competition within the industry, there was need to compare with the various competitive strategies adopted by mobile operators within Kenya

## 5.6 Suggestions for Further Studies

The study confined itself to Safaricom Limited, however the competition in the mobile telecommunication industry has become intense and this therefore necessitates the study to establish the competitive strategies used by the mobile telephone companies to tackle competition in Eastern Africa.

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# APPENDICES

## APPENDIX I: LETTER OF INTRODUCTION

**UNIVERSITY OF NAIROBI**
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 02/09/15

**TO WHOM IT MAY CONCERN**

The bearer of this letter JAMES MUTUA MUTISYA

Registration No D61/64699/2013

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
02 SEP 2015
P.O. Box 30197 – 00100, NAIROBI

**PATRICK NYABUTO**
**MBA ADMINISTRATOR**
**SCHOOL OF BUSINESS**

# APPENDIX II: INTERVIEW GUIDE

1) What is your highest level of education?
2) Please indicate the duration you have held the current position?
3) Does your company adopt differentiation strategy to tackle competition?
4) Does your company focus its efforts in providing a unique product or service in order to differentiate itself with other companies?
5) Does the creation of unique product or service give the company an opportunity to charge a premium price to capture market share?
6) How does the company create a unique position in the market through provision of goods or services that are valued for their uniqueness or fit to the needs of customers?
7) Has the adoption of the lowest product or service unit costs by the company withstood competition thus attracting and retaining customers?
8) Does the company innovative advertising persuade the public to use the facilities and products being offered thus attracting customers?
9) Does your company adopt a low cost strategy to tackle competition?
10) Does your company focus on providing goods or services at a lower cost than the competitors, or superior goods or services at an equal cost in order to tackle competition?
11) Does the company have a workforce committed to the low-cost strategy aimed at tackling- competition? Elaborate.
12) Has the company outsourced or discontinued any services which they do not have a low cost strategy in order to tackle competition?

13) How has the adoption of the lowest product or service unit costs by the company withstood competition?
14) Does your company identify a particular customer segment or geographical market and come up with products suitable for the segment? Does it tackle competition?
15) Does your company pursue either cost or differentiation strategies once the segment is identified?
16) What does the organization focus strategy depend upon in your company?
17) What are the challenges you have encountered when focusing on a target segment?
18) Does your company adopt pricing strategy to attract customers?
19) Do you assess each competitor's cost structure and relate this to their prices when setting the prices to charge on your products?
20) Do you provide unique or superior value to the customer through product quality, features, or after-sale support in order to tackle competition?
21) What other strategies have you adopting for tackling competition?