STRATEGIES ADOPTED BY NAIROBI WATER COMPANY IN MANAGING ITS COMMERCIALIZATION

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NOVEMBER, 2010
DECLARATION

This research is my original work and has not been presented for a degree in any other university.

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

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ACKNOWLEDGEMENTS

My foremost gratitude goes to God Almighty who renewed my strength at every single stage of doing this proposal. A lot of thanks go to my supervisor Mr. Jeremiah Kagwe who has relinquished without complain many hours of positive criticism, comments and suggestions that have enabled me to come up with a refined project. Lastly I wish to thanks all my family members and friend who in any way assisted me and cheered me on in this very noble endeavour. God Bless you all.
DEDICATION

To my beloved husband and the children, whom without their support I would not have been able to complete this project.
ABSTRACT

The purpose of this project was to determine the strategies adopted by Nairobi City Water and Sewerage Company in its commercialization process and also establish the challenges it faces towards the attainment of the same objective. In pursuit of this objective, the study modeled the research on a case study and as a result data was collected through face to face interview method. The respondents were subjected to open ended questions and the data collected was analyzed using content analysis technique and inferences made based on consistency, credibility and adequacy of data.

The research revealed that privatization of water and sewerage services can help in the attainment of millennium development goals through the increase of provision of clean water to the inhabitants of the city. However, to implement effective commercialization strategy there is need of staff capacity building to fill in gaps posed by the new business process. In addition, for effective monitoring and evaluation of the organisation performance, fully fledged departments that will perform the same function and incorporate the views of all the stakeholders need to be developed. The key stakeholder whose views need to be incorporated is the customer. By meeting the needs of the customer and disseminating of information on any changes was found to go a long way in keeping this group happy while the organization will achieve its objectives. However, the organisation still faces challenges in its commercialization process that include lack of adequate capital, frequent interference political class and old infrastructure system and lack of cooperation from customers.
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CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter presents the background of the study, the statement of the problem, the purpose of the study, the objectives or research questions and the justification of the study is also tackled.

1.1 Background to the Study

Halving the estimated 1.1 billion people without access to safe drinking water and sewerage facilities by 2015 is one of the millennium Development Goals. At the current rate of progress it is unlikely that this target will be achieved in many parts of the developing world. According to the most recent Human Development Report, 2040 is a more likely date for this goal to be achieved in Africa unless there is accelerated investment in the sector (UNDP, 2006). As a result of rapid urbanization within developing countries, pressure on urban services and facilities has become a serious problem, while job opportunities offered by cities are too few for the large numbers of new urban dwellers. Consequently, the numbers of poor people within urban areas are rapidly increasing. In Eastern and Southern Africa, a physical manifestation of this is the growing number of slums and squatter settlements, characterized by appalling living conditions and often accommodating more than 50% of the urban population.

Strategies which are implemented within an organization should support the culture associated with the firm. The proposed strategy should preserve, emphasize, and enhance the culture, in accordance with the culture supporting the proposed strategy. The environment within which companies operate is constantly changing and firms have to respond to these changes. Strategic planning has developed as a response to increasing challenges caused by
high levels of environmental turbulence. Successful firms continually scan their environment in order to identify future economic, competitive, technological and political discontinuities, which could affect its operations (Ansoff and McDonnell, 1990). In every industry a successful firm continuously reassesses competitive factors, which will bring future success. Whenever historical strategies do not match the future success factors, the firm develops new strategies or leaves the industry.

According to Selznick (1999), organizations should match internal factors with external environmental circumstances and create a matching fit. This will enable the organizations to enhance their strengths and take advantage of the opportunities in the environment. They will also be in a position to convert the threats into opportunities. This core idea was developed into what we now call SWOT analysis. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats from the business environment. Miles and Snow (1978) propose that organizations develop distinctive and relatively enduring patterns of strategic behavior to co-align the organization with its environment. The strategic choice perspective of Miles and Snow (1978) suggest that a firm's competitive advantage can be sought through the strategies which it adopts to cope with the environmental changes. This component consists of assessment of the environment to identify changing trends and potential developments, monitoring specific trends and patterns, and forecasting the future direction of these changes and potential developments.

1.1.1 The Concept of Strategy

According to Pearce & Robinson (1997) a strategy is a large-scale, future oriented plan for interacting with the competitive environment to achieve company objectives. It is the company's 'game plan.' While it does not detail all future development of resources,
it provides the framework for managerial decisions. A strategy reflects a company’s awareness of how, where and when it should compete and for what purpose it should compete. The underlying issue of this definition is that the main thrust of strategy is to achieve long-term sustainable advantage over the other competitors of the organization in every business in which it operates. It recognizes that competitive advantage results from a thorough understanding of the external forces that impact on the organization. Porter (1996) asserts that strategy is creating a fit among company’s activities. The success of a strategy depends on doing many things well not just a few and integrating them. If there is no fit among activities, there is no distinctive strategy and hence little sustainability. The company’s activities include its effective interaction with the environment in that these activities are geared towards serving the external environment.

According to Johnson & Scholes (2003), strategy is the process that matches resources and activities of an organization to the environment in which it operates. They argue that strategic fit which involves developing strategy by identifying opportunities in the environment and adapting resources and competencies so as to take advantage of them, is essential and must be maintained at all time. A well-formulated strategy helps to marshal and allocate an organization’s resources into unique and viable posture, based on its relative internal competences and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents.

There are three core areas of corporate strategy which include strategy analysis, strategy development and strategy implementation. Strategic analysis deals with examining the environment within which the organization operates. Strategy implementation is the process of allocating resources to support an organization’s chosen strategies.
This process includes various management activities that are necessary to put strategy into motion and institute strategic controls that monitor progress and ultimately achieve organizational goals. Strategy evaluation includes review of external and internal factors that are bases for strategies formulated, measuring performance and taking corrective action, if necessary. This is important as all strategies are subject to future modification depending on environmental turbulence (Robbins and Coulter 1996).

1.1.2 Commercialization and Management of Water and Sanitation Services

According to World Bank (1994) report, commercialization of water supplies and sanitation services, which are both infrastructure utilities, simply implies running the utilities on business lines characterized by having a clear coherent goals focused on delivering services, management being autonomous, and both managers and employees being accountable for results and enjoying financial independence. The principles underlying these characters come naturally to private business, but by no means always to organizations in the public sector (World Bank, 1994). Governments as well as their agents (local authorities) are forced to balance many economic, social and political objectives while the management of the sector employees is often hampered by numerous restrictions on establishing accountability and rewarding good performance.

Water and sanitation services have been identified as the likely cause/trigger of future wars in the next millennium. Water shortage can be a catalytic factor pushing a poverty-stricken community to disaster and conflict. Water is a fundamental basic need for sustaining human economic activities. Availability of water in the desired quantity and quality, at the right time and place, has been the key to the survival of all civilizations. As human activities expand in scale and diversity, the demands for fresh water resources continue to grow.
Fresh water lakes and rivers, springs, fountains, wetlands etc, which are the main sources of water contain an average of 90,000 m$^3$, or just 0.26 percent of total global fresh water reserves. Water and sanitation services should be viewed as potentially "commercial" because these are services for which it is easy to recover the cost of provision through users charge or tariffs. The basic conditions for this are limited and well focused performance objectives, financial and managerial autonomy, and clear accountability both to customers and to providers of capital (WHO, 1994).

It is important to note that unlike other infrastructure, water and sanitation are listed as natural monopoly. This implies that it is uneconomical to duplicate the water and sewerage networks in the city and town streets, a condition that makes competition difficult. It is therefore important to regulate their prices in order to protect the customer against abuses of monopoly power. The sector although is capital intensive requiring much longer payback period than other infrastructure, it has important externalities, mostly related to public health and environmental effects. The social and economic benefits of full water supply and sewerage coverage or treatment are generally larger than apparent financial benefits of the operation (World Bank, 1994). Commercialization, by definition is having financial sustainability of operations where primary objective is to break even and where possible earn profit (Oxford, 1993).

1.1.3 Nairobi City Water and Sewerage Company Limited

Nairobi City Water and Sewerage Company (NCWSC) was established in December 2003 as the leading provider of quality water and proper sewerage services to the residents of Nairobi and adjoining areas.
The company was formed to provide water and sewerage services to over 3 million residents of Nairobi. Nairobi City Water and Sewerage Company achieves its objectives by proper utilization of available resources in a cost effective manner. Though fully owned by the City council of Nairobi, an independent board comprising of key stakeholders from Nairobi was appointed to run the Company on commercial principles in line with the new Water Act, 2002.

The new company faced a raft of problems: more than 2,000 staff inherited from the City Council; a six month backlog in billing among its consumers; a customer data base that had not been updated for several years. In addition, less than 10% of its operations were computerized. Consumers also frequently faced water shortages and illegal connections were rampant. Few customers had little confidence in the water services. With the adoption of the Water Act 2002, all Kenyan municipalities are obliged to reform their water services along ‘business’ lines. Water is not only a social good but also an economic good and water services have to be managed “in accordance with sound business principles”

1.2 Statement of the Problem

Public sector utilities in developing countries have often not been efficient in providing access to reliable water and sanitation services. Worldwide, over a billion people lack access to improved water sources and 2.6 billion lack accesses to appropriate sanitation. Countries across the world are increasingly looking to the private sector for help in providing needed water services. Towards this end, commercialization of water and sanitation services is viewed to be a cost effective method of service delivery that also enhances quality and performance.
The essence of local authorities commercializing the provision of water and sewerage services is to ensure a better and more efficient management of water and sanitation services. The rapidly growing urban demand for safe and affordable water and sewerage services is already a daunting challenge for many local authorities. Not only are the numbers of people who need better water and sewerage services supplies very large; water and sewerage services itself is becoming scarcer (UN-HABITAT, 2007). The provision of water and sewerage services has thus remained one of the challenges to the government for a long time.

To this end, Nairobi City water and Sewerage Company is considered a prime entity to research on because of the changes it has undertaken since being privatized in commercializing its services.

Several studies on strategies adopted in commercialization have been done; Ringera (2003) undertook a research on the implications of commercialization of micro financing institutions on their client outreach in Kenya. He found out that the social owners who include social entrepreneurs, foundations and donors exclusively own majority of MFIs, indicating a low level of commercialization in MFIs. Majority of MFIs' activities are funded from both market and non-market based sources of funds while some exclusively use funds from market-based sources which include commercial loans; savings and shareholder capital representing a relatively higher level of commercialization. Mukundi (1999) did commercialization process of water supplies and sanitation services in Kenya urban areas, a case of Nyeri Municipal Council and found out that top down approach, unclear strategy, conflicting priorities, ineffective top management, poor vertical communication, weak coordination and inadequate down the line leadership skills were some of the challenges encountered in the process of commercialization. On his part, Aboud (2007) focused on the challenges facing the implementation of strategy for revitalizing agriculture (SRA).
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The findings of the study included the following challenges identified: inadequate staff motivation and poor understanding of SRA by stakeholders and low acceptability of the strategy. During the period the researcher was undertaking the studies, the government was undertaking a deliberate measure to revitalise the agricultural sector after several years of decline. The studies conducted above have not addressed the strategies used by Water and Sewerage Companies in commercialization and management of water supply and sanitation services. This problem statement therefore leads to the following question: what strategies have Nairobi Water and Sewerage Company adopted in commercialization and management of water supply and sanitation services?

1.3 Objectives of the study

The study sought to achieve the following objectives:

(i) To establish the various strategies that were adopted by the Nairobi City Water and Sewerage Company in the commercialization and management of water supply and sanitation services.

(ii) To determine the challenges faced by the Nairobi City Water and Sewerage Company in the process of commercialization.

1.4 Significance of the Study

The study will be useful to various groups in the following ways;

It will provide the useful information to the government and other implementing agents like local authorities on the key factors that affect implementation and management process, and how to identify the intervention points to fasten the commercialization process.
The general public, who are the tax payers will also benefit from the findings of this research study by getting an understanding as to the situation under which the commercialization of water and sanitation services in urban areas is being carried out and the implementation and management of the same in order to improve service delivery to the public. Future researchers and scholars will also get a source of reference from this research study as they embark on their studies and conduct research on related topics.

The study will also act as a useful source of information for strengthening the operational and managerial capabilities required by managers to operate and maintain water and sanitation services according to acceptable norms of quality, sustainability, reliability and costs. Indirectly, the study can be used to improve efficiency in providing adequate and safe drinking water supplies and appropriate sanitation facilities, which forms a sound basis for improvement in community health.
CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter reviews literature related to the study under the concept of strategy, types of strategies, strategic management, strategy formulation, commercialization of water and sanitation services in Kenya, institutional structure of the water sector in Kenya, water balance and supply level alternative management options of water and sanitation services, and the commercialization process theoretical model.

2.1 Concept of Strategy

Strategy can be defined as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of its resources within a challenging environment and geared towards meeting the needs of the markets as it fulfils stakeholder expectations according to Johnson and Scholes (2002). Andew (1980) defined corporate strategy as "the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities." Ansoff (1995) defines strategy as the product market scope of a company. This refers to a decision of what to produce in what market. If the environment is stable, an organization can operate without changing its product-market focus. However, if the environment changes, this would require changes in the organization's product-market focus that is its strategy. Product-market focus relates to conditions of the external environment, which have to be incorporated into strategy.
If the products the company is producing or the markets it is serving are not reflective of the demands of the external environment, then the company's efforts are futile.

Porter (1996) asserts that strategy is creating a fit among company's activities. The success of a strategy depends on doing many things well—not just a few—and integrating them. If there is no fit among activities, there is no distinctive strategy and little sustainability. The company's activities include its effective interaction with the environment in that these activities are geared towards serving the external environment. A strategy reflects a company's awareness of how, where and when it should compete and for what purposes it should compete. The underlying issue of this definition is that the main thrust of strategy is to achieve long term sustainable advantage over the other competitors of the organization in every business in which it participates. It recognizes that competitive advantage results from a thorough understanding of the external forces that impact on the organization. In most large corporations there are several levels of strategy. Corporate strategy is the highest in the sense that it is the broadest, applying to all parts of the firm. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are often functional or business unit strategies. Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, and information technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies (Pearce and Robinson, 2007).
Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or strategic business units (SBUs). A strategic business unit is a semi-autonomous unit within an organization. It is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters. Each SBU is responsible for developing its business strategies that must be in tune with broader corporate strategies.

The "lowest" level of strategy is operational strategy. It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. It must operate within a budget but is not at liberty to adjust or create that budget. Drucker (1954) encouraged operational level strategy in his theory of Management by Objectives (MBO). Operational level strategies are informed by business level strategies, which in turn, are informed by corporate level strategies. Business strategy, which refers to the aggregated operational strategies of single business firm or that of an SBU in a diversified corporation, refers to the way in which a firm competes in its chosen arenas.

Corporate strategy answers the questions of "in which businesses should we compete?" and "how does being in one business add to the competitive advantage of another portfolio firm, as well as the competitive advantage of the corporation as a whole?" Since the turn of the millennium, there has been a tendency in some firms to revert to a simpler strategic structure. This is being driven by information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process. Most recently, this notion of strategy has been captured under the rubric of dynamic strategy, popularized by the strategic management textbook authored
by Carpenter and Sanders (1998). This work builds on that of Christensen (1997) and portrays firm strategy, both business and corporate, as necessarily embracing ongoing strategic change, and the seamless integration of strategy formulation and implementation. Such change and implementation are usually built into the strategy through the staging and pacing facets.

2.2 Types of strategies

2.2.1 Cost Leadership Strategy

This strategy emphasizes efficiency. By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features. To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labor, or some other important input.

A firm attempts to maintain a low cost base by controlling production costs, increasing their capacity utilization, controlling material supply or product distribution and minimizing other costs including advertising (Prajogo 2007). Mass production, mass distribution, economies of scale, technology, product design, learning curve benefit, work force dedicated for low cost production, reduced sales force, less spending on marketing will further help a firm to main a low cost base (Trogovicky et al. 2005). Decision makers in a cost leadership firm will be compelled to closely scrutinize the cost efficiency of the processes of the firm. Maintaining the low cost base will become the primary determinant of the cost leadership strategy.
For low cost leadership to be effective a firm should have a large market share (Robinson and Chiang 2000). New entrants or firms with a smaller market share may not benefit from such strategy since mass production, mass distribution and economies of scale will not make an impact on such firms.

According to Kim et al. 2004 a low cost may act as entry barriers since new entrants require huge capital to produce goods or services at the same or lesser price than a cost leader. Further some factors such as technology which may be developed through innovation (mentioned as creative accumulation in Schumpeterian innovation) and some may even be resources developed by a firm such as long term healthy relationships build with distributors to maintain cost effective distribution channels or supply chains. Similarly economies of scale may be an ultimate result of a commitment made by a firm such as capital investments for expansions. Also raising barriers for competition by virtue of the low cost base that enables the low prices will result in strong strategic positioning in the market. Low cost leadership could be considered as a competitive strategy that will create a sustainable competitive advantage.

**2.2.2 Differentiation Strategy**

Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique. The company or business unit may then charge a premium for its product. This specialty can be associated with design, brand image, technology, features, dealers, network, or customer's service. Differentiation is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Increased costs can usually be passed on to the buyers. Buyer's loyalty can also serve as an entry barrier-new firm must develop their own distinctive competence to differentiate their
products in some way in order to compete successfully. A successful differentiation strategy may attract competitors to enter the company’s market segment and copy the differentiated product (Lynch, 2003). The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments. The emphasis can be on brand image, proprietary technology, special features, superior service, a strong distributor network or other aspects that might be specific to an industry. (Vokurka and Davis 2004).

2.2.3 Focus Strategy

This strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. It is hoped that by focusing its marketing efforts on one or two narrow market segments and tailoring its marketing mix to these specialized markets, a firm can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through product innovation and/or brand marketing rather than efficiency. It is most suitable for relatively small firms but can be used by any company.

A focus strategy should target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment. Organizations can make use of the focus strategy by focusing on a specific niche in the market and offering specialized products for that niche. This is why the focus niche is sometimes referred to as the niche strategy (Lynch, 2003).
2.2.4 Niche market competition strategy

A niche market strategy is defined as an emphasis on a particular need, or geographic, demographic or product segment” (Teplensky et al., 1993). Shani and Chalasani (1992, pp. 44-5) characterize market segmentation as a top-down approach, stating that it is “the process of breaking a large market into smaller and more manageable submarkets.” By contrast, niche marketing is a bottom-up approach, meaning that “the marketer starts from the needs of a few customers and gradually builds up a larger customer base. Kotler (2003) describes five key characteristics of niche markets as the customers in the niche have a distinct set of needs; they will pay a premium price to the firm that best satisfies their needs; the niche is not likely to attract competitors; the niche marketer gains certain economies through specialization and the niche has size, profit, and growth potential.

This is competing on the basis of market performance in tune with prevailing strategies of market competition, when the firm perceives its comparative power to be lower than that of its competitor. That is, firms may believe that the discrepancy in comparative power between itself and its competitor is such that attempts to increase the firm’s level of support or standards of governance may not be efficient in bridging the gap, especially given the resources required for the task. Such firms may also compete based on more traditional strategies, in order to ensure their own survival. Such a firm may attempt to create a niche for itself, rather than compete directly, Whitley (2002).

2.2.5 Dominant market competition strategy

According to Wee (2001), firms within the same quadrant are not likely to have a difference in comparative power that is large enough to give one firm a significant competitive edge over another. This is because by definition, comparative power is based on measurement
relative to the environmental average. Therefore as the comparative power of a firm increases, it also pushes up the environmental average, causing a marginal decrease in the comparative power of firms in more preferred quadrants. For this reason, firms which perceive themselves as being higher or equal in comparative power, are likely to pursue traditional competitive strategies and not aim to compete on the basis of increasing their comparative power, Peng & Luo (2000). These firms follow a strategy of dominant market competition. DMC is a strategic initiative followed by firms towards taking in a competitive lead in the market, usually through aggressive business tactics.

Firms aiming to secure the benefits of institutional support or to specifically increase their comparative power on the institutional support axis are likely to follow a strategy aimed at changing the status quo of support in the competitive institutional environment. According to Zucker (1997), firms may attempt to do the latter by reducing the overall levels of support available to all firms. While this may reduce the comparative power of competitors, it is equally detrimental to the interests of the firm in question. Such a reduction of overall institutional support requires commitment of large resources on the part of the firm, and has the effect of reducing the firm’s own level of support.

2.3 Alternative Management Options of Water and Sanitation Services

The following are the various management options of water and sanitation services that an agency or the local authority can adapt.

2.3.1 Option A: Public Ownership and Public Operation

This is the first alternative of institutional options suggested to implement commercialization process (World Bank, 1994). This option can be implemented by applying three core instruments to reinforce commercial operation in public sector: corporatization establishes the
quasi independence of public entities and insulates infrastructure enterprises from noncommercial pressures and constraints. Corporatization gives an enterprise an independent status and subjecting it to the same legal requirement as private firm. This means that the enterprise is subjected to standard commercial law, accounting criteria, compensation rules, labor laws and is less susceptible to government interference.

In practice, this transformation is not always complete because public organizations do not face adequate competition and at times no competition at all especially for services provided listed under natural monopoly like water supplies. Explicit contacts between managers or private entities involved in infrastructure services, which increases autonomy and accountability by specifying performance objectives that embody government – defined goals. This provides a pricing strategy designed to ensure cost recovery, which creates a desirable form of financial independence for public utilities and even at times for public works.

2.3.2 Option B: Public Ownership and Private operation

This option falls under the second category of the World Bank suggested institutional options and it’s based on the fact that water being a natural monopoly, the involvement of public sector is very important, so as to regulate quality, performance monitoring and tariff setting. In this option, the agent, local authority, still maintains the ownership of the water facilities and assets but enter into contracts with the private sector (Rodney, 1995). This option includes performance agreement, management and service contracts, leases and concessions.
Performance agreements retain all the decisions in the public sector. They try to increase the accountability of employees and managers and try to improve the focus of operations by clarifying performance expectation and the roles, responsibilities and rewards of all the public entity. In performance agreements, the local authority has to promise and increase managerial autonomy for the enterprises as well as rewards for workers in exchange for fulfilling agreed performance (World Bank, 1994). The duration of the agreement should be short. Short agreements of one year, are more effective because they allow more frequent assessment. The common incentive is the weight attached to various performance indicators after careful negotiation between the managers and the local authority. The weights will give a sense of priorities so that the managers can concentrate on what matters most and not what might be easier to achieve.

Management contracts; transfer to private providers the responsibility of managing water and sanitation utilities. They give responsibility for a broad scope of operation and maintenance to the private sector, usually for three to five years. This method has been used where performance agreement has failed. However, when the local authorities service quality—such as staffing, procurement are in adequate, the contractor cannot be held accountable for overall performance, and generally the contract does not succeed (Dominique, 1995). Management contracts increase autonomy of management and reduce political interference in the day-to-day operation of the service provision.

Service contracts; transfer to private providers the responsibility for delivering a specific service at lower cost or obtaining specific skills or expertise lacking in the local authority such as design, engineering or account preparations. Contracting provides a flexible and cost effective toll for increasing responsiveness of users and tap expertise too expensive to
maintain permanently on Public (Local authority) payroll. It also permits competition among multiple providers each with short and specific contracts. Contracting out is most common for maintenance (World Bank, 1994).

Under a lease, the local authority supplies the major investment for production facilities and a private contractor then pays for the right to use the public facilities providing services. A lease generally awards the contractor, exclusive rights to the streams of revenue for a period of six to ten years (Browns and Jackson 1990, World Bank, 1994). The contractor bears most of all the commercial risks, but not the financial risks associated with large investment. Lease allows a mix of ownership where the local authority owns the infrastructure facilities—water and sewerage utilities—while a private firm owns and operates the superstructure. Concession incorporates all the features of the lease but gives the contractors the added responsibility of investment such as for specified extension of expansion of capacity or for replacement of fixed assets.

23.2.1 The “Natural Monopoly Problem” and Franchise Bidding
As noted earlier, a water supply and sanitation services industry is usually said to be a natural monopoly if the production can be conducted most effectively by a single entity. This will be the case if the unit costs are declining over the entire relevant range of market demand for a product—that is, there are massive economies of scale in the production of a good. Under this condition, having two firms operating side by side would be undesirable and unlikely in the long run, since either of the rival could expand output, experience lower unit costs, and drive the other from the market; a monopoly situation would “naturally” result. The field data analyzed by Hanke and Roland (1980) strongly supports this theory.
On the other hand, any firm that is the sole producer of a commodity enjoys some measure of market power, and the fear has long been unregulated natural monopolies would reduce output, charge prices substantially above costs, and thereby misallocating resources. To deal with the problem, governments have generally recognized and licensed a single producer in market identified as natural monopolies and the regulated the prices (or rates of return) received by these firms to forestall monopolistic conduct.

Harvey and Leland (1973) noted that the rate regulation itself involves several problems since most rate regulation involves enforcing some sort of “Cost –Plus” pricing rule, regulated firms tend to allow their cost of drift upward-since, in most cases, they can reasonably be confident that rates will be set high enough to cover these costs and provide a “Normal” return on capital. Obviously, it will be difficult for even a well-intentioned regulatory authority to determine which costs are legitimate. Chardwick (1998), noted that the crucial point is that bidding for monopoly franchise, should not be in terms of the sum to be paid for the franchise, but in terms of the price that the franchise would charge and the services the franchisee would provide the public on ward of the right to be exclusive seller. If the franchise were merely awarded to the bidder willing to pay the highest price for this exclusive right, competition would drive bids up to an amount equal to present value of the expected future monopoly profits in the market. This would filter the profit where the net result would be underproduction and overpricing of the product. Chardwick (1998), proposed that an auction be held in which franchise is awarded to whichever the bidder promises the best combination of price and quality to customers. This theory was best applied by France in as early as 1782.
2.3.3 Option C. Private ownership and Private Operation (Full privatization)

This is the third option suggested by the World Bank (1994). Privatization transfers assets out of the public sector to private companies or individuals. Privatization is spreading rapidly in developing countries in provision of infrastructure. The sale and private ownership of water supply and sanitation systems may be prompted by desire to separate completely between ownership and operation and maintenance. The attractiveness to private buyers depends mainly on the rates they would be permitted to charge, because installation themselves have no alternative value. For example, Argentina, Chile, Hungary, Jamaica have all undertaken substantial privatization of telecommunication services. Ivory coast has an excellent example of private company providing water services to Abidjan, the capital city.

It is important to note that regardless of the option adopted, the objective is to achieve commercialization of the services. Commercialization can be viewed as a continuum (Ramanadham, 1991) as noted earlier and therefore at whatever level, there are key issues of management that each of the institutional options has to observe and one of the most important is tariff design.

Tariff is the price charged for water sanitation services provided. Tariff design must be seen in terms of criteria of financial viability and social acceptability. In commercialized sector, the basic aim should be the tariff that covers full costs; this applies to water supplies and sewerage disposal. In order to cater for the objective of social acceptability, a cross-subsidizing effect by means of progressive tariff for water supplies and sewerage disposal is acceptable (Lotz, 1995). When designing tariffs, special attention should be paid not only to the charge made for consumption but also to be “conditions of access” to water supplies and sanitation for poorer population groups.
The design of water utility tariffs plays a central role in the implementation of the objective of the organization. The price of water and sanitation services not only makes it possible to steer demand, both as regards the quantitative aspect of demand and the question of access to water supplies for poorer section of the population. Thus water tariff design must consider the following three aspects. The water tariff must (at least in the medium term) ensure the financial autonomy of water utilities, the water tariffs must create incentives to conserve resources and the design of the tariffs must be socially acceptable (Moigne, 1994 and World Bank, 1994).

Unregulated market systems may generate outcomes that do not satisfy a country’s social goals in terms of poverty alleviation, income distribution and public health. Although tariff design that creates appropriate incentive structure from a macroeconomic point of view and calculated on the basis of macroeconomic cost (including opportunity cost) could be regarded as the best under prevailing market condition, such a demand can only, if at all, be achieved in the long term (Moigne, 1994). In such a case, care should be taken not to set the consumption limit for the first progression stage too high and to ensure that communal connection of the kind common in quarters where poorer population group live are not subjected to the same progression as individual connections.

Terms of payment for water and sanitation services are in general, an important criterion of target-group appropriate pricing. A frequent reason for delayed payment by a customer is not unwillingness to pay or inability to pay, but simply inability to pay at the time in question. Experience has indicated that even population groups with low incomes have capacity to pay. Part of the problem of delays in payment in the case of water and sanitation is explained by
insufficient flexibility in terms of payment offered. Making the terms of payment more flexible, therefore increases target group orientation and at the same time has a positive impact to the customers payment habits. Nevertheless, decision by water utility to introduce more flexible terms of payment is based on economic criteria. One of the biggest challenges of implementing full cost recovery tariffs is the high level of inefficiency in water distribution process.

In many cities especially in developing countries, more than half the water supply is unaccounted for. This loss is normally attributable to leakages, metering errors or non-recoverable uses of water (WHO, 1994). Leakages represent loss due to spillage of water from the overflow devices of the services reservoirs and leakage from pipes or other parts of the distribution system including house connections up to the meter leaks and overflow inside the properties where consumption is not metered are included under this heading.

Metering errors account for a substantial part of total losses. These losses are caused by inaccuracy in macro metering and metering equipment that measures flow. This category of loss is an indication of the efficiency of metering systems. It has to do with the errors in the metered quantities of water rather than with actual loss of water. Non-recoverable uses present losses from quantities of water that are not accounted for in the supplier's invoices. This category includes operational consumption (washing and disinfection of pipes and services reservoirs). Water loss control programs should be devised. The overall objectives of a program to control water loss, is to diagnose how loss is caused and to formulate and implement action to reduce it to technically and economically acceptable minimum. Thus, a water loss control program should aim at reducing the water loss to an acceptable level of the organization (WHO 1994).
2.4 Commercialization Process

Commercialization process as indicated in the model begins by identifying institutional option. There are three institutional options as explained earlier in this chapter and the local authority can select any of the three options. The stakeholders, both external and internal, play an important role in identifying the option to be adopted (World Bank, 1994).

On identifying the institution option to be adopted, the necessary strategic management levels are established to undertake the managerial aspect of the organization. Three levels of strategic management, namely the corporate (organization) level, functional level and operation level. Each level of strategic management formulates and implements various strategies aimed at achieving the overall organization objectives. To facilitate strategy formulation systems, decision support systems and goodwill from both internal and external stakeholders (Moigne, 1994 and World Bank, 1994).

To guarantee the success of effective commercialization, the organization must have adequate tariff design system that will ensure financial autonomy of the organization, conserve water resources and socially acceptable tariffs. The organization must also ensure that operation and maintenance of both water sewerage systems that will guarantee adequate water distribution and sewerage services at the minimum cost. The organization must also have well trained and motivated employees to undertake all the activities in providing drinking water and sewerage services (Moigne, 1994 and World Bank, 1994).
2.5 The Conceptual Model

Commercialization Process Theoretical Model

- Institutional options
  - Option A
  - Option B
  - Option C

- External Stakeholders
  - Central Government
  - Public
  - Business community

- Internal Stakeholders
  - Town management
  - Policy makers
  - Employees

- Strategic management
  - Organization Level
  - Functional level
  - Operation level

- Information System
  - Information demand
  - Information supply
  - Information technology

- Decision Support System
  - Custom made reports
  - Support information System

- Tariff Design
  - Financial autonomy
  - Conserve water resources
  - Socially acceptable
  - Tariff

- Operation and maintenance
  - Sufficient distribution process
  - Minimum cost production
  - Full cost recovery

- Personnel
  - Training
  - Motivating
  - Retaining

Effective commercialization
- Improved management
- High quality services
- Low priced services
- Profitable projects
- High maintenance and expansion of services
- High investment and sustained economic growth

Source: Author (2010)
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design, data collection and the techniques for data analysis that were used.

3.2 Research Design

The research was a case study. This method was used to describe the area of interest by bringing out the facts on the ground as they were without alterations. The case study also provided information on the status of the organization under study and also a description of the organization as far as strategies adopted in the commercialization and management of water supply and sanitation services is concerned.

3.3 Data Collection

The study used both primary and secondary data. Primary data was collected through a face to face interview with the researcher. An interview guide was used to collect data on revenue collection challenges. The respondents consisted of 6 members of management team. Two of the respondents came from the Commercial department since they are engaged in the day to day operation of the department and two technical staff in charge of operations, maintenance and water distribution activities of the firm. In addition two members of staff came from the HR department. The respondents were expected to give an insight into strategies used in commercialization and management of water supply and sanitation in the firm. Secondary data was collected from organization’s reports such as annual reports company magazines, strategic plans and Service charter.
3.4 Data Analysis

The data collected was qualitatively analyzed by use of content analysis techniques. The information was analyzed and evaluated to determine its usefulness, consistency, credibility and adequacy. The content analysis technique was used because it allows researchers to understand the social reality in a subjective but scientific manner and addresses some of the weaknesses of the quantitative approach and assists in making inferences by systematically and objectively identifying specific messages and then relating them with their occurrence trends. (How will the past tense apply here?)
4.1: Introduction

The research objective was to determine the strategies adopted by Nairobi City water and Sewerage Company in managing its commercialization. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 The Respondents Profile

The respondents comprised the top management of Nairobi Water Company. In total, the researcher interviewed six respondents as was intended in the research design. Three of the respondents were engaged in the actual commercialization process in the organisation while the other three were senior management staff that was engaged in the formulation and implementation of the firm’s strategies. All the respondents interviewed had university degrees with four of them having a Master in Business administration degree as well. All the respondents had worked in the organisation for over five years with two of them having been with the organisation since it was privatized in 2003. The other respondents were recruited from the private sector assist the new firm to commercialize its operations and at the same time help in formulating and implementing its strategies. This group of respondents was found to be knowledgeable on the subject matter of the research and thus of help in the realization of the research objective.

In addition, the views of both genders were represented in the respondents interviewed because one female was interviewed in the management team and one of them again in the commercialization department. From these, the data obtained was felt not to have gender biasness. Further, the respondents indicated their satisfaction with their current duties, highlighting various opportunities available within and without the organisation such as
career development, interaction and solving customer complains, and the new challenges that come in the course of their duties. All these helped in personal development of the respondents and thus creating a motivated workforce.

One set of the interview guide was developed to be filled by each of the respondents and aimed to establish the strategies adopted by the organisation in commercializing its process.

4.3 Commercialization Process of Nairobi Water and Sewerage Company.

Provision of safe water has been one of the challenges for the Kenyan government and a target towards the attainment of the Millennium development goals. In addition, it was noted that Nairobi city has been experiencing an increase in growth in population due to the urbanization process. As a result of the above the government realized that if the trend was not checked, the demand for water was going to surpass the supply not only due to the growing needs of the increasing population but due to the limited natural endowment of fresh water.

The respondents indicated that, prior to privatization of the water services; the water resource was managed by local authorities. The Nairobi City Council was found to be overwhelmed by the rapid and unplanned development of towns and also lacked the capacity or resources to address the widening demand-supply gap of water services. They further observed that these local authorities were found to suffer from inability to attract and retain skilled manpower; inadequate allocation of resources; poor, inefficient and unreliable service delivery; low coverage of water supply; dilapidated water supply and sewerage infrastructure; high level of unaccounted-for-water and also there was a low revenue
collection including corruption. With these challenges, there was a need to delink the provision of water services to an independent body that will manage it privately.

The NCWSC was set up along the normal lines of a private company, with shareholders, a Board of Directors and a corporate management team (the latter consisting of a Managing Director, a Commercial Director and a Technical Director). The City council is the sole owner of the company as it owns all shares, thus exercising control over the company (officially through the annual general meeting). The ultimate authority, however, lies with the Board of Directors, as it reviews the overall strategy, monitors and controls, considers significant issues and fulfils statutory duties.

The respondents further indicated that with the privatization of the water services, with the clear roles and responsibilities defined to the sector actors, this will result in improved water sector performance in the Nairobi City. This improvement will be in form of a better and well coordinated system in the water sector, enhance clear policy accountability, and give more attention to water resources management. In addition, they observed that with the privatization of water services, there will arise a clear regulatory framework, enhance monitoring and evaluation and improve performance of water undertakers. Generally, the respondents observed that this measure was going to improve management of water resources and infrastructure.

The creation of an autonomous water and sewerage company was made to be an all inclusive process in order to ensure that the resultant firm was to be acceptable to all the stakeholders as much as possible. Towards this end a tripartite agreement was made between NCC, Athi Water Board and the NWSC. In addition, both internal and external customers of the services
were incorporated in the commercialization of the water services and further through the
issuance of Kenya gazette. With the commercialization of the water service, changes were
made in the form of staff rationalization, employment of new staff to boost capacity,
adjustment of salaries to meet the current staff expectations, staff placement, renaming of key
functional areas and setting up of a commercialization. The firm also enhanced its capacity
through acquisition of new equipment and staff training and hiring of specialized skills not
available in the previous structure.

In the question of what benefits and improvement has been registered by the firm since its
commercialization, the respondents did indicate that the firm has really registered improved
quality of the provision of services and revenue collection of the firm. According to two of
the respondents that are engaged in the commercial division of the firm, there has been
increase revenue from an average 40M per month in 2005 to the current collection of 350M
in 2009. Despite such increase in revenue collection, the respondents observed that the
organization could still improve further its income because there were still many loopholes in
the collection of income. In addition, there has been an improved service delivery by 30%
based on an evaluation by external consultant, improved billing system and customer service
centers in estates as well as use of collection agents such as Banks, M-PESA and Zap.
Further, due to the improved revenue collection, the firm has increased its CSR programs in
the water sources and catchment areas. One area that the organization has registered positive
results as well is increasing the number of paying customers and achievement of timely and
measurable service delivery to customers.
4.4 Management and Institutional changes for Sustainability

The researcher also wished to identify from the respondents what additional changes might be required to move the organization from its current state to a more adaptable one that will be able to meet the changing customer demands. To this extent, the respondents identified that the current organizational structure is still rigid with large vertical layers such that decision making takes a while to be addressed by the decision making organ of the organization. At this point in time, the respondents identified that the opportunity arising will have been missed. Hence, the organizations structure should be streamlined to a horizontal one that will be responsive to the changes and opportunities from the business environment.

The respondents also observed that the organization needs to improve on the existing infrastructure and expand on the current network. It was observed that majority of the current infrastructure was put in place before and immediately after independence. Their capacity was to serve a population of one million inhabitants of the city. However, with the current population, the infrastructure in place is over-stretched and this can be evidenced by the frequent burst up of the system as well as water shortages in most parts of the city.

In terms of the management system in the organization, the current structure which it is monopolized by a few of the stakeholders by virtue of their shareholding was found to be limited in terms of their capacity to introduce new ideas. As a result, the respondents noted that there is need to incorporate more stakeholders especially the consumers as well as private sector practitioners who are hoped will inject more better and different ideas to the management of the organization. The board of directorship was also observed to be controlled by political appointees who in some cases have had to pledge their allegiance to the politicians. As a result, there is need for the board of directorship to be controlled by people who are well versed with matters in the water sector and thus be able guide the
organization through the turbulences in the market. Another step taken by the organization was to decentralize its services into four regions in Nairobi region. This decentralization was meant to hasten decision making process and improve provision of services in the organization to its customers. However, it has been observed that the head office has not ceded adequate control to the units leading to slow decision making process. As a result of this, the respondents suggested for full decentralization to be undertaken and which they believe will lead to better services being offered to the customers. The staff on their part was noted to require more training and career development to prepare them to serve the customers more effectively and also motivate them in performing their work much more effectively.

The respondents in addition noted that if the organization improves its efficiency, then it can spread its shareholding by listing in the Nairobi stock exchange. This privatization of the firm will also help it to be independent financially by sourcing the funding from the public. In relation to increasing the operations of the firm, the respondents also indicated that the organization currently operates under a limiting legislation and for the firm to capture fully its operation, then the Act creating it need to be reviewed to facilitate the same.

4.5 Challenges in Commercializing NWSC

The objective of the government’s move to privatize or delink the provision of water services from the local authorities was to ensure that this vital service is accessed affordably by majority of people in Nairobi city. However, seven years down the line the respondents noted that the vital service has not yet been accessed by many people especially those ones in the informal settlements. It was also noted by the respondents that even among these residents who receive the service, perennial water rationing and low quality of water supplied is still a major problem experienced. A number of reasons were identified by the respondents as a major contributor to the challenges faced by the organization.
A major challenge that was identified to face the organization is the inability of the staff change with the expectation of the market. The present day customers have been found to be very much enlightened and expect high quality of service. However, majority of the NWSC staff were inherited from the Nairobi City Council and were slow or unable to adjust to the requirement of the new work place with its expectation. A number of staff was found to have a mindset that is rigid. The management has also been found not to be democratic and accommodative of other divergent fears from members of staff. This autocratic management style was identified as a cause of demotivation among the staff. With such style of leadership among some managers, employees have developed an attitude of not being innovative for fear of losing their jobs.

The water body has not privatized fully and in some instances the parent ministry and local authority have interfered with the management and selection of top managers in the organisation. This has resulted in bad publicity of the firm which has at the same time discouraged senior managers in the organisation from working extra hard to take over the helm of managing the organisation. With frequent changes of management there have been continued complains from the staff concerning their salary levels. Various plans were cited where a management team initiated a salary increase for staff but with a change of management, the plans are shelved and in most cases, the new team do not pick from where the earlier team had left. With these level of salary that as resulted, employees have been known to solicit for bribes to bridge this gap.

The firm inherited a huge debt portfolio from the NCC when it was established. As a result, the organisation has had a huge task servicing the debt and as a result scaled down its
infrastructure upgrade programs. With the problems of servicing the debt, the firm has over time applied to the shareholders to increase its capital base but has been unsuccessful in this regard.

4.6 Factors Limiting Implementation of commercialization at NWSC

The respondents were to give their independent opinion on the factors limiting implementation of commercialization of water supply and sanitation services at NWSC. The range was ‘most influence (5)’ to ‘least influence’ (1). The scores of least influence have been taken to present a variable which had mean score of 0 to 2.4 on the continuous Likert scale ;(0 ≤ S.E <2.4). The scores of ‘moderate influence’ have been taken to represent a variable with a mean score of 2.5 to 3.4 pm on the continuous Likert scale: 2.5≤ M.E. <3.4) and the score of most influence have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; 3.5≤ L.E. <5.0). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formation of water and Sewerage company (NCWSC)</td>
<td>1.3333</td>
<td>.5164</td>
</tr>
<tr>
<td>High influence by Central Government</td>
<td>2.8333</td>
<td>.9832</td>
</tr>
<tr>
<td>Lack of clear policy guidelines</td>
<td>2.8333</td>
<td>1.4720</td>
</tr>
<tr>
<td>Lack of employee motivation</td>
<td>3.0000</td>
<td>1.4142</td>
</tr>
<tr>
<td>Lack of commitment by stake holders</td>
<td>2.8333</td>
<td>.7528</td>
</tr>
<tr>
<td>Lack of adequate organization structure to effectively carry out the activities of W&amp;S</td>
<td>2.3333</td>
<td>1.0328</td>
</tr>
<tr>
<td>Interference by civic leaders</td>
<td>3.5000</td>
<td>1.3784</td>
</tr>
<tr>
<td>Poor team work between relevant government Ministries, Local authority and community</td>
<td>3.5000</td>
<td>1.3784</td>
</tr>
</tbody>
</table>
The findings show that, the respondent’s were of the opinion that there are some factors which limit the implementation of commercialization of water supply and sanitation services. These factors include the formation of water and sanitation company (mean 1.3333), the adoption of ICT in the company (mean 2.1667) and lack of adequate organization structure to effectively carry out the activities of water and sanitation company (mean 2.3333). However there was a high degree of variation among respondents, an indication that some factors do affect commercialization of water supply and sanitation services. This is indicated by standard deviation of 0.5164, 1.6021 and 1.0328 for formation of water and sanitation company, adoption of ICT in the company and lack of adequate organization structure to effectively carry out the activities of water and sanitation company respectively.

On the other hand all the other factors affect commercialization of water supply and sanitation either moderately or to a greater extent. Misappropriation of revenue collected...
from water supply and sanitation service (mean 4.1667) was rated as the factor contributing greatly to commercialization followed by high levels of unaccounted for water (mean 3.6667) then resistance to change by employees, poor team work between relevant government Ministries, Local authority and community and Interference by civic leaders all with a mean of 3.500. The difference in standard deviation is due to variation in the respondents views. Specifically factors with mean of 4 and above are considered to have a great influence on commercialization of water supply and sanitation. The findings indicates that majority of the factors highlighted affects the commercialization of water supply and sanitation.

4.7 Discussion and Findings

Various studies ranging from Bateman and Zeithaml (1993) and Johnson and scholes (1993) have reinforced the importance of a firm having a strategy in cognizance of the importance it plays in the current competitive business environment and utilize effectively the resources at its disposal. This is because a firm’s strategy will give it the direction over the long term and attempts to match the organisation resources to its changing environment and in particular its markets, customers or clients so as to meet stakeholder expectations. Water service provision firms need to formulate strategies that help them adapt to the changing needs of their consumers as well as climatic conditions as a result of global warming.

The findings of this research reinforce the importance of a firm adopting strategies that will help it achieve its mission and vision and since the operating environment is turbulent, organizations should develop a flexible strategy in consultation with the stakeholders. These findings similar to those made by Mori and Munisi (2009) who noted that there is high success rate in a firms strategies that are developed in consultation with other stakeholders of the firm and not only by the organizations technocrats. The research also found out that the
rapidly growing urban demand for safe and affordable water and sewerage services is still a daunting challenge to NCWSC. However, with the change of strategy by the company to commercialize its services, the research found out that the organisation has been able to grow its customer base in terms of increased connections, service delivery quality and performance.

In addition, the research found out that for effective monitoring, control and corrective action, a firm should have shorter period of evaluating the path the current strategy is taking. This findings are similar to the ones found by Mwanzia (2009) when he observed that for proper control of the activities based on the strategic plan, there is need for more frequent analysis and suggested that a quarterly analysis will be preferable.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS
In summary, the study shows that the interviewees are aware of the strategies adopted by NCWSC in its commercialization process and the challenges that the organization is facing in the process of achieving its objectives. The knowledge about the operations of the organization has been experienced by the respondents by virtue of having worked in the firm for more than five years and also due to the fact that all of the interviewees were engaged in the day-to-day management and operations of the firm. As a result of the above, the researcher felt that the results obtained from the respondents reflects the true position as in the organization.

The underlying objective of the firm is providing water and sanitation services to the residents of Nairobi. Towards the attainment of this objective, the firm has endeavored to commercialize its services, modernize its infrastructure and maintain a workforce that is motivated and willing to steer the organization towards the attainment of the same objectives. To this end, the firm enhanced its capacity through acquisition of new equipment, staff training and hiring of specialized skills not available in the previous structure. The organization took a positive step to sensitize the residents of Nairobi that for effective provision of water services, they had to timely pay for the same services. This was followed by the firm setting up a separate revenue collection division to enhance the collection of the revenue. From an initial revenue of 50M per month in 2003, the organization has been able to increase its revenue collection to the current 350M that its earning per month. Despite this great growth in revenue base, the organization still considers that there is room for revenue
growth. This is reflected in their 2008-2013 strategic plan, they have target a collection of over 500M per month by the end of 2012. Despite the targets seeming over ambitious, the company feels that with greater efficiency injected in the commercialization process, the company is capable of even surpassing the target.

The commercialization process undertaken by the firm was aimed at enhancing its revenue collection. However, the organization realized that for the same objective to be attained, the customer had to be satisfied with the level of services offered. As a result, the organization initiated a customer service department that all the clients' complaints could be channeled to. The body also ensured that the customers complain were addressed to within seven days. With the improvement in customer service, more customers registered with the firm and this led in the increase in the revenue collected. Further, the organization has been able to partner with local communities to help in conservation of the water catchment areas that will ensure the sustainability of the flow water to Nairobi residents. The organization also introduced a balance inquiry system that the customers could inquire their water bill balances and make payments without having to wait for the monthly statement. This move also helped in increasing the speed of collecting the revenue.

Before the initiation of NCWCS, payments for water and sewerage services were made at the City Hall banking hall only. This process created avenues of corruption and delays in making payments. Towards the elimination of this problem, the new body opened up collection points in various parts in the city which aimed at speeding up the revenue collection process. In addition, the organization partnered with Zain and Safaricom mobile providers to allow its customers to pay their bills using the firms Zap and M-PESA services.
growth. This is reflected in their 2008-2013 strategic plan, they have target a collection of over 500M per month by the end of 2012. Despite the targets seeming over ambitious, the company feels that with greater efficiency injected in the commercialization process, the company is capable of even surpassing the target.

The commercialization process undertaken by the firm was aimed at enhancing its revenue collection. However, the organization realized that for the same objective to be attained, the customer had to be satisfied with the level of services offered. As a result, the organization initiated a customer service department that all the clients’ complaints could be channeled to. The body also ensured that the customers complain were addressed to within seven days. With the improvement in customer service, more customers registered with the firm and this led in the increase in the revenue collected. Further, the organization has been able to partner with local communities to help in conservation of the water catchment areas that will ensure the sustainability of the flow water to Nairobi residents. The organization also introduced a balance inquiry system that the customers could inquire their water bill balances and make payments without having to wait for the monthly statement. This move also helped in increasing the speed of collecting the revenue.

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This payment system have enhanced collections and reduced incidences of the two parties colluding to defraud the firm its income.

Further, due to the improved revenue collection, the firm has increased its CSR programs in the water sources and catchment areas. One area that the organization has registered positive results is an increase in the number of paying customers through formulation of service delivery standards with specific Key performance indicators. From an initial paying customer portfolio of around 350,000 in 2003, the body has increased the number of paying customers to a total of 760,000 that it currently has in its books. In terms of its water infrastructure, it was found out that the organization has replaced and expanded most of service lines that kept on experiencing frequent water bursts.

Despite the positive results registered so far by the organization, there exist challenges that it needs to overcome if it has to achieve the overall objective of providing the water and sewerage services to the residents of Nairobi. Incidences of illegal connections; old and leaking infrastructure; vandalism of the same infrastructure and well established cartels have kept the firm down. However, the organization has kept on rectifying these problems and addressing the challenges in its own way and in the current strategic plan, they have come up with ways of further reducing the identified challenges.

5.2 CONCLUSION
From the research findings and the answers to the research questions, some conclusions can be made about the study:
The NCWSC has been able to a moderate extent achieved the objective of its commercialization process which was to increase its revenues from the provision of the water and sewerage services. However, it is acknowledged that there is room of improvement on the same revenue collection. The other important conclusion that can be derived on the same point is the ability of these water authorities to be self-sustaining if they are left to manage their own activities without interference from the parent ministry and local authorities. Recruitment of staff from the private sector who will inject more professionalism to the running of these water bodies will equally enhance their service delivery because until a customer is recognized as a King in any service delivery, no much growth can be experienced in the firm. What this means is that privatization of services if done in a proper way is able to generate enough revenue to sustain it and also achieve its target objectives.

Another important conclusion from the study is that for an effective revenue collection, an organization needs to automate its revenue collection process. Manual process of collecting revenue creates leakages in form of corruption and reducing the speed of serving the same customers. Automation and maintenance of a payment process has equally been found to be cheap than the manual system because of the small number of staff involved. In addition manipulation of the same system is hard to do and this will safeguard loss of the organization income.

Employees of the firm were found to be dissatisfied with their remuneration and benefits they get in consideration of the much they have put individually and collectively in growing the organizations’ revenue to what it currently generates. A satisfied workforce should ordinarily with all factors remaining constant be less tempted to engage in inappropriate activities of stealing from the employer.
Despite the great strides that the firm has achieved since its inception, there is still room of improvement considering that there are still many Nairobians who do not have access to clean drinking water and sanitation services. The organization should thus improve its infrastructure and seal the loopholes in which it has been losing water.

5.3: RECOMMENDATIONS

The government of Kenya should urgently review the water Act 2002 to ensure full commercialization of the Water and Sanitation services is achieved as per the vision 2030 requirements. Increased autonomy of operation leads to improved, less bureaucratic and more transparent management. This step will result to a more effective and equitable use of resources leading to a much higher efficiency and service delivery. Nairobi Water Company being the Largest WSP in Kenya requires massive support from the government, non governmental organizations, banks, development partners and, civil society to enable it execute its mandate and hence achieve its intended goals and objectives.

The salary scheme should also be reviewed to attract and retain good managers and also helps curb corruption incidences amongst staff. Motivation, recognition and reward system should be adopted to enhance performance. A fully reformed Water sector will lead to a conducive business environment for investment that attracts increased support from development partners and establish potential for private sector investment.
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In addition, political interference through appointment of the senior managers from the outside should be discouraged in order to ensure that succession process can be guaranteed within the organization.

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Adequate facilitation of resources from the government, non governmental institutions and
the business community is needed to ensure the supply networks are extended and maintained
to counter non revenue water losses.

In addition, the Corporate Management teams (CMT) of Water Service Providers should be
recruited through a transparent and competitive process as they should possess all skills
required to set the strategic vision, give direction to the firms drive the process of good
governance and social responsibility. To improve on performance NCWSC should strive to
improve on automation. This can be achieved by installing prepaid meters and ensuring tasks
are interlinked to enhance contracting, metering, billing and revenue collection. Customer
awareness and sensitization will be a key step to the company's operations as customers are
made aware of their roles and obligations towards NCWSC. The recently launched service
charter which is a milestone in service delivery should be implemented and proper
monitoring and reviews done to ensure compliance.

Continuous improvement techniques should be employed to better the services by reviewing
the workflows. This includes TQM, re-engineering the business processes, benchmarking
with other Africities, Rapid results initiatives, Management by objectives etc. Performance
contracting and formulation of achievable targets is prime to the success of the entity. The
company should be focused and invest on reducing the elements of commercial losses by
improving the customer base and customer metering, control meter reading to minimize
billing corruption, communicate with customers and reduce wastage at public taps. This
requires technical and financial support hence calls for a lot of management support, political
will for unpopular decisions and creative solutions.
The organisation, should also take into consideration the informal settlements where 50% the urban slum dwellers live. An informal settlement social connection policy should aim at providing safe drinking water to the areas in a cost effective manner. NCWSC should also ensure that its consumers are responsible and in charge of their own connections by coming up with a slogan and rewarding customers who confidentially report the existence of illegal connections corrupt deals and cartels in the city. This is the case with KPLC "mulika mwizi".

5.4 Recommendations for further Research

As the research design was a case study of NCWSC, It is recommended that more research be done to establish reasons why commercialization has not been fully achieved in the Water Sector in Kenya and when exactly it is likely to occur. This would be achieved by focusing on the WSP's in Kenya and the challenges they experience in relation to other countries. More research is also needed to establish the strategies used in the privatization process by Company's like Telkom Kenya in managing change to enhance performance and service delivery in relation to Nairobi Water Company.

The pro poor approach is inbuilt in the tariff design in addition to promoting appropriate outlets for the poor to access safe and affordable water. As water utilities are expected to utilize commercially viable and acceptable business practices that do not disadvantage the poor, more research should be done to establish if installation of prepaid meters can indeed be a remedy to curb non revenue water in the informal settlements.
5.5 Limitation of the study

The research design of this project was a case study. As such, since only six respondents were interviewed, their observations might not represent all the views of the organisation. It is possible that certain views might not have been represented. A much more detailed research encompassing the views of most of the staff of NCWSC might be needed to get more representative views. In addition, the views of more stakeholders such as customers, NCC, Athi Water Services Board, and the parent ministry would have been important in this research considering the critical role they played in the commercialization process of the organisation.
I thank the Almighty God for seeing me through the course and special thanks to my family for the overwhelming moral support and encouragement that has taken me this far.


Gakuria, F. (2008), Water sector reforms. Guest lecture presented to the University of Nairobi, Department of Geography and Environmental Studies students, Mombasa, December 9, 2008.


Ringeera, R.K., “Implications of commercialization of micro financing institutions on their client outreach in Kenya”. Unpublished MBA Project University of Nairobi


TRANSMITTAL LETTER

Sophia Kibere
P.O Box 32-00200
NAIROBI

RE: REQUEST TO RESPOND TO QUESTIONS

I am an MBA student at The University of Nairobi carrying out a research on Strategies adopted by Nairobi Water Company in managing its commercialization process.

This is to request your co-operation in answering the questions on the attached interview guide. Information gotten will assist the researcher in making important conclusions about the subject matter under study. The information will be treated with utmost confidentiality.

Thanking you in advance.

Yours faithfully,

Sophia Kibere
Goals of the interview process
To determine strategies adopted in the commercialization process at the NCWSC

Background Review
The following questions are designed to confirm the ability of the respondent to answer the research questions adequately.

Educational Background
- What is the highest level of education you have received?
- How long have you worked in this organization?
- What do/did you like best about the position/s you have held?
- What do/did you like least?

Strategies adopted in the commercialization process - Following is a list of questions designed to gather information relating to Strategies adopted in the commercialization process at NCWSC

SECTION A
1. What prompted the NCWSC to start implementing commercialization process?
2. How did the NCWSC start to implement commercialization process?
3. Were all the stakeholders' views taken into consideration before commercialization process was implemented?
4. What institutional changes did NCWSC adopt to facilitate implementation?
5. To what extent has the NCWSC implemented commercialization process?
6. Which are the key management and institutional changes that need to be made to effectively commercialize these services?

7. How does the NCWSC intend to implement the above mentioned management and institutional changes?

8. Was the public informed about commercialization of the water supply and sanitation services?

9. Has the revenue collection improved since the commercialization of water supply and sanitation services?

10. Does the company have good infrastructure to offer its services to its customers?

11. Did the commercialization of the water supply and sanitation services lead to the availability of the services to all the residents?

12. What are the major problems encountered when implementing commercialization Process?

13. On water loss, what lead to the above-mentioned rate of unaccounted for water?

14. What are the other uses of water revenue, which are not related to water?

15. Will Commercialization solve all the current existing problems? If so, how?

SECTION B
Several factors have been identified that affects implementation of full commercialization of water supply and sanitation services in Nairobi. Please indicate to what extent you consider each of the following factors to have contributed to limiting implementation of the
commercialization process. A score of (1) will imply least influence while a score of (5) will imply most influence.

Q1. To what extent do you consider each of the following factors to have contributed to limiting implementation of the commercialization process?

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<tbody>
<tr>
<td>1. Formation of water and sanitation (W&amp;S) service.</td>
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<td>2. High influence by Central Government</td>
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<td>3. Lack of clear policy guidelines</td>
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<td>4. Lack of motivation of employees</td>
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<td>5. Lack of commitment of both chief officers and company management</td>
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<td>6. Lack of adequate organization structure to effectively carry out the activities of W&amp;S</td>
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<td>7. Interference by civic leaders</td>
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<td>8. Poor team work between relevant government ministries, local authority and community</td>
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<td>9. Personal interest of the chief officers for example job security.</td>
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<td>10. Lack of trained personnel.</td>
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<td>11. Misunderstanding of the concept of commercialization</td>
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<td>12. Tariffs that don't cover full cost of W&amp;S services.</td>
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<td>13. High levels of unaccounted for water.</td>
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<td>14. The adoption of the new billing systems</td>
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<td>15. Poor revenue collection process.</td>
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<td>16. Misappropriation of revenue collected from W&amp;S services</td>
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<td>17. Lack of computerizing information system</td>
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<td>18. Insufficient flexibility in bill payments offered</td>
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<td>19. Poor public relations</td>
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THANK YOU FOR YOUR TIME.