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Relationship between Porter"s Competitive Strategies and Performance of Value Added Services by Mobile Phone Operators in Kenya

Becky Jemutai Chesire[1], Henry Kombo[2]

[1, 2]Egerton University, Faculty of Commerce, P.O. Box 13357-20100 Nakuru, Kenya

Abstract: ***The mobile telephony sector in Kenya has seen an unprecedented growth since its liberalization in 1998. In the wake of changing industry markets, telecom operators are looking at Mobile Value-Added Services (MVAS) such as mobile internet and money transfers to survive and succeed in the market. To survive and succeed, the firms are adopting competitive strategies to increase performance of the MVAS. The overall objective of this study was to determine the effect of competitive strategies on the performance of MVAS. Cross-sectional survey was adopted and a census study method was used since the number of firms was small. The research utilized both primary and secondary data. Questionnaires were used to collect the data. The target population of the study was the four mobile operators in Kenya. The data obtained was summarised using descriptive statistics. Pearson's correlation was used to determine the relationship between the variables, and multiple regression was used to determine the effect of the competitive strategies on the performance of MVAS. To determine whether the competitive strategies vary with the type of MVAS, t-test was used.The study concluded that the strategies adopted by the telecommunication companies had an effect on the performance of the MVAS in terms of growth of sales and market share.***

Keywords: Competitive Strategies, Organizational Performance, Mobile Value Added Services

1. Introduction

In today"s highly competitive environment, business organizations need to act fast in order to secure theirfinancial situations and their market positions. Firms are continuously striving for ways to attain a sustainablecompetitive advantage. They need to count more on their internal distinguished strengths to provide more addedcustomer value, strong differentiation and extendibility; in other words count more on their core competences (Prahalad, 1994).Winning business strategies are grounded in sustainable competitive advantage. A company has competitive advantage whenever it has an edge over rivals in attracting customers and defending against competitive forces.Competitive strategy refers to a way to the way a firm competes in a particular business and gains competitive advantage by deliberately choosing adistinctive set of activities. Competitive strategy is taking offensive or defensive actions to create a defendable position in an industry to yield a superior return on investment for the firm (Porter, 1980).

The advances in the mobile technology have substantially increased the number of people using mobile services (Tang, 2008). The growing number of mobile users and the decline in conventional voice service tariffs have gradually reduced average revenue per user (ARPU), thus decreasing the service providers profits (Kuo and Yen, 2009). Gazis et al. (2001) claim that in a 3G market, the major revenue source for telecommunications operators will originate from packet-based value-added services provided by independent value-added service providers, rather than traditional voice telephony. Mobile Value-Added Services (VAS) such as; mobile internet, money transfers/banking, video conferencing etc., is the new frontier for expanding customer base and revenues for mobile phone operators. The drastic price cuts on voice based services has caused a decline on ARPU, therefore competitive strategies are directed towards the increase in the uptake of the VAS. There are many sources of competitive advantage: having the best made product on the market, delivering superior customer service, achieving lower costs than rivals, being in a more convenient geographic location, proprietary technology, features and styling with more buyer appeal, shorter lead times in developing and testing new products, a well known brand name and reputation and providing buyers more value for their money (a good combination of good quality, good service, and acceptable price). To succeed in building a competitive advantage, a company"s strategy must aim at providing buyers with what they perceive as superior value, a good product at a lower price or a better product that is worth to pay more for (Thompson& Strickland, 1996). Porter (1996) claims that a company could only outperform its rivals if it could establish a difference that it could preserve – by delivering greater value to its customers or by creating comparable value at a lower cost, or by doing both.

1.1.1 Competitive Strategies

A competitive strategy is defined as a long term plan that is devised to help a company gain a competitive advantage over its rivals. A firm positions itself by leveraging its strengths. Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation, and focus. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent.Porter"s framework proposes that firms that pursue any of these competitive strategies would develop a competitive advantage that would enable them to outperform competitors in their industry; however a company seeking competitive advantage must choose the type and the scope within which it will attain it.

Cost leadership is reducing the economic costs (such as production, distribution and marketing costs) below all of the competitors (Barney, 2007). Thus, the firm is able to gain more profit margins, or could provide a competitive price to attract more customers for high sales (Jobber, 2004). In order to adopt cost leadership strategy without forgoing profit, a firm should have the internal strengths, such as: Differential access to factors of production, technological software advantage independent of scale (Barney, 2007), sustained access to inexpensive capital, products designed for efficient manufacturing, efficient distribution channels. Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, sales force, advertising (Porter, 1980).

Differentiation strategy is used for a firm to be unique in its market, and aims to obtain a price premium by its differentiation, which is not easily copied by its rivals (Porter, 1985; Jobber, 2004). It is often associated with a premium price, and higher than average cost for the industry as the extra value to customers often raises costs (Jobber, 2004). If a firm has the following internal strengths, it will be more appropriate to adopt this strategy, corporate reputation for quality and innovation, excellent customer service and management skills, an efficient dealer network and other unique dimensions.

Focus strategy could be divided into cost focus strategy and differentiation focus strategy. This strategy is quite different from the others because it rests on the choice of a narrow competitive scope within an industry (Porter, 1985). Cost focus strategy is used by a firm to seek a cost advantage with one or a small number of target market segments. Differentiation focus strategy is used to seek differentiation advantage with one or a small number of target market segments (Jobber, 2004).

1.1.2 Organizational Performance

Performance is a continuous and flexible process that involves managers and those whom they manage acting as partners within a framework that sets out how they can best work together to achieve the required results (Armstrong, 2006). Performance is the end result of activities; it includes the actual outcomes of the strategic management process. The practice of strategic management is justified in terms of its ability to improve the organization‟s performance (Wheelen & Hunger, 2010). Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al. (2009), organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment) product market performance (sales, market share) and shareholder return (total shareholder return, economic value added).Specialists in many fields are concerned with organizational performance including strategic planners, operations, finance, legal, and organizational development

1.1 Telecommunications industry in Kenya

Telecommunication is one of the most dynamic business sectors worldwide. Mobile telephony has evolved from first generation technology (1G) in early 80s to now third generation (3G). In the last 10 years the sector in Kenya has seen an unprecedented growth in mobile phone ownership and usage. The Kenyan telecommunication sector was liberalized in 1998, following the enactment of the Kenya Communications Act, 1998, the government launched the Telecommunications sector reform and introduced competition in the cellular mobile industry, while at the same time Disbanding KP&TC (CCK, 2001).There are four major players in the Telecommunications industry in Kenya. These are: Safaricom Limited, Airtel Kenya, Telkom Kenya which operates under the Orange Brand and Essar Telecom Kenya which operates under the Brand name Yu Mobile. The Telecommunication industry is very competitive and fast changing.

Since the beginning of the liberalization of the telecommunications sector, Kenya has seen fast internet growth and even faster mobile phone growth. Encouraged by this development, the government has plans to turn Kenya into East Africa's leader in Information and Communications Technology (ICT). Since1999, Kenya has experienced radical changes as the liberalization process of the telecommunications sector began. Of vital importance to the process was the establishment of the Communications Commission of Kenya in February of that same year through the Kenya Communications Act, 1978. CCK's role is to license and regulate telecommunications, radio communication and postal services in Kenya. Since then a visible boost has gripped the industry.The fast-growing mobile sector is characterized by competition between the operators. The companies have made considerable growth and profits since their inception but still there is enormous potential remaining in the mobile phone sector which is fast changing.

1.2 Statement of the Problem

To survive in a competitive environment firms adopt various strategies. Porter recommends basic strategies that companies can use to improve their performance. The mobile phone industry is highly competitive and fast changing. The stiff competition has seen drastic price cuts in the voice segment which is considered the biggest revenue earner for the mobile players in the industry causing a decline on the Average Revenue Per User ARPUs (Ombok, 2009).Ombok observes that the source of revenue from mobile calls is saturated with declining average revenue per user (ARPU) and therefore operators have moved to MVAS to survive and be successful in the market. As a result of the increased competition the mobile operators are expected to adopt various strategies in the provision of MVAS to remain competitive. However, in spite of this development past studies have not examined the competitive strategies adopted by the firms and the effect on the performance of the MVAS. An MVAS study involving the Kenyan market carried out by Dearbhla (2009) largely highlighted the use of MVAS by mobile companies as a strategy to increase revenues but did not bring out on the competitive strategies adopted by different firms in providing the services. This study therefore sought to answer the question: what is the relationship between the competitive strategies and the performance of MVAS?

2. Literature Review

2.1 Competitive Generic Strategies

Porter (1990) points out that a firm‟s long term survival in an industry depends on the pressure from its competitors and their forces. Strategic positions can be based on customer‟s needs, customer‟s accessibility, or the variety of a company‟s products or services (Porter, 1996).

Therefore the firm must choose a market position in which it has a competitive advantage. This position is the `competitive scope` or the firm‟s target area within the industry. The firm must for example choose the variety of products it will produce, distribution channels it will employ, types of buyers it will serve, the geographical areas in which it will sell and mainly compete. One reason why competitive scope is so important is that the industries are segmented. All industries have products that can be differentiated in some sense. If it by some reason is impossible to differentiate the product physically it is always possible to differentiate the service around the product. Serving different segments requires different strategies and different capabilities. Competitive scope is important because firms can gain competitive advantage through competing globally or internationally. There are two basic position identified; lower cost and differentiation.

2.3 Organizational Performance

Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals (Yamin, 1999). Financial metrics have served as a tool for comparing organizations and evaluating an organization‟s behaviour over time (Holmberg, 2000). Any organizational initiative, including provision of MVAS, should ultimately lead to enhanced organizational performance. A number of prior studies have measured organizational performance using both financial and market criteria, including return on investment (ROI), market share, profit margin on sales, the growth of ROI, the growth of sales, the growth of market share, and overall competitive position (Stock,2000; Vickery, 1999; Zhang, 2001)

Researchers among themselves have different opinions of performance. Performance, in fact, continues to be acontentious issue among organizational researchers (Barney, 1997). For example, according to Javier (2002),performance is equivalent to the famous 3Es (economy, efficiency, and effectiveness) of a certain program oractivity. However, according to Daft (2000), organizational performance is the organization‟s ability to attainits goals by using resources in an efficient and effective manner. Quite similar to Daft (2000), Ricardo (2001)defined organizational performance as the ability of the organization to achieve its goals and objectives.Organizational performance has suffered from not only a definition problem, but also from a conceptual problem (Hefferman& Flood, 2000).
They stated that as a concept in modern management, organizational performance suffered from problems of conceptual clarity in a number of areas. The first was the area of definition while the second was that of measurement. The term performance was sometimes confused with productivity. According to Ricardo (2001), there was a difference between performance and productivity. Productivity was a ratio depicting the volume of work completed in a given amount of time. Performance was a broader indicator that could include productivity as well as quality, consistency and other factors. In result oriented evaluation, productivity measures were typically considered.

Ricardo (2001) argued that performance measures could include result-oriented behaviour (criterion-based) and relative (normative) measures, education and training, concepts and instruments, including management development and leadership training, which were the necessary building skills and attitudes of performance management. Hence, from the above literature review, the term “performance” should be broader based which include effectiveness, efficiency, economy, quality, consistency behaviour and normative measures (Ricardo, 2001).

2.5 Conceptual Framework

The framework for this study examines competitive strategies as a key component in affecting firms‟ performance in the provision of VAS. The independent variables are the competitive strategies; low cost leadership, focus and differentiation strategies. The dependent variable is the performance of VAS. The conceptual framework for this study is illustrated in figure 2.1.

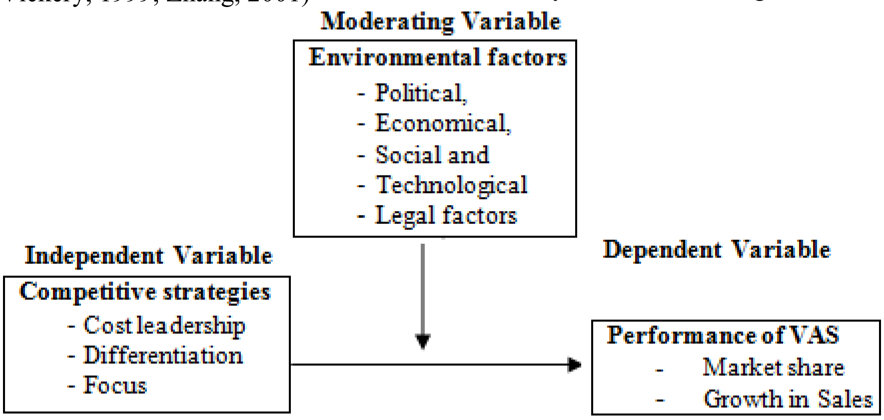

Figure: 2.3: Relationship between competitive strategies, environmental factors and the organizational performance.

3. Research Methodology

According to this framework, competitive strategies constitute independent variable whereas firm"s performance is the dependent variable which is as a result of competitive strategy. The performance of the firms" VAS will be established in regards to the competitive strategies used on the provision of VAS. Macro environment factors may affect the performance of the firms. Macro environment factors involve factors outside the direct control of the business. These factors include competition, Government policies, social changes etc; can be an obstacle to superior performance of the firms.

According to Gillespie (2007), macro factors have the ability to fundamentally change the environment of an organization. A firm may, for example, be influenced by new legislation or taxation policies but the firm rarely has power to shape them itself. The macro factors can be classified into political, economical, social and technological. Understanding changes can be very crucial because it can impact on purchasing behaviour. Advances in technology can have a major impact on business success with companies that fail to keep up often going out of business. Technological changes impacts socio-cultural attitudes.

3.1 Research Design

This study used cross-sectional survey in that it seeks to examine the nature and the strength of the relationship between the competitive strategies adopted by the firms and the performance of the VAS. A census study was done in which opinions of the managers from the four mobile phone companies were sought. This design was chosen because it is an efficient method of collecting data as it sought to determine the strength of relationship between variables (Sekaran, 2008).

3.2Population

Targeted population for the study comprised of the mobile operators in Kenya. There are four mobile operators in Kenya (CCK, 2012).A census study was used since the number of firms was small.According to Cooper and Schindler (2007) a census is feasible when the population is small and necessary when the elements are quite different from each other; when the population is small and variable, any sample we draw may not be representative of the population from which it is drawn.

3.3 Data Collection

Both primary and secondary data was collected for this study. The respondents were the firms" top level managers from the marketing and finance departments. The primary data was collected using closed-ended questionnaires

Table 3.1: Total Number of Respondents

Target Group	Safaricom	Airtel	YU	Orange	Total
Strategic planning	1	1	1	1	4
Marketing	1	1	1	1	4
Finance and Administration	1	1	1	1	4
Total number					12

3.4 Validity and Reliability

Reliability of an instrument is the degree of consistency with which it measures a variable (Mugenda&Mugenda, 1999). The Cronbach"s Alpha coefficient was used to determine the reliability of the instrument. Where a coefficient of at least 0.7 is achieved then the instrument was considered reliable. The results of the test were used to enhance the reliability and effectiveness of the data collection tool before their administration to the respondents. From the reliability test results, the Cronbach Alpha coefficient for the instrument was 0.75 and therefore the instrument was considered reliable.

3.5 Data Analysis

Descriptive statistics, that is, the mean scores and standard deviations were used to describe the variables. To determine whether the competitive strategies vary with the type of VAS, t-test was conducted. Pearson correlation analysis was conducted in order to establish the nature and strength of the relationship between the competitive strategies adopted by the firms and the performance of the VAS.

4. Results and Discussion

Table 4.1: Low cost leadership strategiesadopted for VAS by the firms

Strategies of low cost leadership	Money transfer services		Mobile internet services	
	Mean	Std. Deviation	Mean	Std. Deviation
Maximize economies of scale	4.20	0.789	4.50	0.527
Cost reduction especially through tight control of overheads and administrative expenses	4.40	0.699	4.30	0.675
Implementing cost cutting technologies	4.20	0.789	4.30	0.483
Unique access to a large source of lower cost materials	3.90	0.738	4.60	0.699
Making optimal outsourcing	3.60	1.430	3.60	1.430

As presented in the table 4.3,the results show that majority of the respondents revealed that they maximized economies of scale and adopted cost reduction in money transfer services especially through tight control of overheads and administrative expenses to a great extent; this is presented by a mean score of 4.20 and 4.40. The study also found out that the companies implemented cost cutting technologies and made optimal outsourcing to a great extent; this is presented by mean score of 4.20 and 3.60.

On the provision of mobile internet services the study established that majority of the companies adopted to a great extent strategies such as unique access to a large source of lower cost materials and maximizing economies of scale; this is presented by a mean score of 4.60 and 4.50 respectively. Moreover, the firms adopted operating efficiency strategies by stressing cost reduction especially through tight control of overheads and administrative expenses; implementing cost cutting technologies and making optimal outsourcing as shown by mean scores of 4.30 and 3.60 respectively.

Table 4.4: Differentiation strategies adopted by the firms

Aspects of differentiation strategy	Money transfer services		Mobile Internet services	
	Mean	Std. Deviation	Mean	Std. Deviation
Product differentiation	4.60	0.516	4.40	0.699
Unique characteristics	4.40	0.516	4.30	0.483
Create difficulties of imitation	4.10	0.876	4.00	0.667
Niche-offers(Special offers for specific groups)	4.50	0.972	4.20	1.033
Differentiation through services (Additional services for a product to motivate consumers)	4.50	0.527	4.60	0.516
Product differentiation through direct communication	4.30	0.675	4.40	0.699
Product differentiation through packaging	4.10	0.568	4.30	0.675

As shown in the table 4.4, on the provision of money transfer services, results show that majority of the companies adopted to a great extent strategies such as product differentiation, niche-offers, differentiation through services. The study further shows that the companies adopted unique characteristics as presented by a mean score of 4.40 and also product differentiation through direct communication and packaging as shown by mean scores of 4.30 and 4.10 respectively.

On the provision of mobile internet services, results show that the telecommunications firms in Kenya adopted to a great extent differentiation through services; additional services for a product to motivate consumers; product differentiation and product differentiation through direct communication; this is presented by a mean score of 4.60, 4.40 and 4.40 respectively. The companies also adopted niche-offers; special offers for specific groups and created difficulties of imitation to a great extent; this is shown by mean scores of 4.20 and 4.00 respectively.

Table 4.5: Focus strategies adopted by the firms

Segment markets	Money transfer services		Mobile internet services	
	Mean	Std. Deviation	Mean	Std. Deviation
Unique product attributes for chosen segments	4.10	0.994	4.10	0.994
Products or services for high priced market segments	3.40	1.430	3.30	1.337
Products or services for low priced market segments	4.00	0.943	4.00	0.667
Customized/tailor service for chosen segments	3.30	1.337	4.10	0.876

On money transfer services, the findings shows that the companies adopted to a great extent strategies such as unique product attributes for chosen segments and products or services for low priced market segments; this is presented by mean scores of 4.10 and 4.00 as shown in the table 4.5. However, the results shows that the companies adopted to a moderate extent strategies such as products or services for high priced market segments and customer service for chosen segments as presented by mean scores of 3.40 and 3.30.

On the mobile internet services, the results shows that the firms adopted to a great extent strategies such as unique product attributes for chosen segments, customer service for chosen segments and products or services for low priced market segments; this is presented by the mean score 4.10, 4.10 and 4.00 respectively. However, the study found out that the firms adopted to a moderate extent strategies such as products or services for high priced market segments.

4.5 Competitive strategies across value added services

The study further sought to determine whether the strategies vary with the value added services. T-test was used. The results are presented in Table 4.7.

Table 4.7: Competitive Strategies across MVAS

	Paired Differences						Df	Sig. (1-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper	t		
Pair 1 Competitive Strategies- Money Transfer Services	3.92	4.72	0.479	1.068	2.973	4.211	9	0
Competitive Strategies- Mobile Internet Services	1.08	4.53	0.453	0.18	1.979	2.383	9	0.019

There is a significant difference between the competitive strategies (M = 3.9, SD = 4.7) and money transfer services; t= 4.211, p=0.000<0.05. Further with a 95% confidence interval from 1.06816 to 2.97307; the t-test statistic was 4.211 and an associated P value =0 .000. There is also a significant difference between the competitive strategies and performance of mobile internet services t = 2.383, p =0.019<0.05 with a 95% confidence interval from 0.18075 to 1.97925; the t-test statistic was 2.383 and an associated P value = 0.019.

4.6 Relationship between the competitive strategies and performance of VAS in Kenya

The study sought to determine the relationship between the competitive strategies and performance. The analysis was done using Pearson correlation analysis.The results are presented in the Table 4.8 and 4.9.

Table 4.8: Correlation matrix for competitive strategies and performance

		Low Cost Leadership	Differentiation	Focus Strategy	Performance
Low Cost Leadership	Pearson Correlation	1	0.240(**)	-0.0206	0.155
	Sig. (1-tail)	.	0.001	0.005	0.000
	N	10	10	10	10
Differentiation	Pearson Correlation	0.240(**)	1	-0.076	-0.210
	Sig. (1-tail)	0.001	.	0.307	0.560
	N	10	10	10	10
Focus Strategy	Pearson Correlation	-0.0206	-0.076	1	0.436
	Sig. (1-tail)	0.005	0.307	.	0. 027
	N	10	10	10	10
Performance	Pearson Correlation	0.155	-0.210	0.436	1
	Sig.(1-tail)	0.000	0.560	0.027	-
	N	10	10	10	10

** Correlation is significant at the 0.05 level

As presented in the table 4.8 for money transfer services, the study found out that there was a low but significant relationship between low cost leadership, focus strategy and performance of money transfer services (r=0.155, p=0.000); (r= 0.436, p=0. 027). However, the study found a negative and insignificant relationship between differentiation strategy and performance of money transfer (r=-0.210, p=0.560).

Table 4.9: Correlation matrix for competitive strategies and performance

		Low Cost leadership	Differentiation	Focus strategy	Performance
Low Cost Leadership	Pearson Correlation	1	-0.207(**)	-0.025	0.220
	Sig. (1-tail)	.	0.005	0.741	0.001
	N	10	10	10	10
Differentiation	Pearson Correlation	-0.207(**)	1	0.195	-0.039
	Sig. (1-tail)	0.005	.	0.008	0.916
	N	10	10	10	10
Focus Strategy	Pearson Correlation	-0.025	0.195	1	0.312
	Sig. (1-tail)	0.741	0.008	.	0.030
	N	10	10	10	10
Performance	Pearson correlation	0.220	-0.039	0.312	1
	Sig. (1-tail)	0.001	0.916	0.030	-
	N	10	10	10	10

** Correlation is significant at the 0.05 level

As shown in the table 4.9, the study found a low, but significant relationship between low cost leadership strategy, focus strategy and performance of mobile data services (r=0.220, p=0.001); focus strategy (r=0.312, p=0.030). However, the study found a negative, low and insignificant relationship between differentiation strategy and performance of mobile data services (r= -0.039, p= 0.916).

5.3 Conclusions

The study pointed out that as a result of the stiff competition amongst the telecommunication firms in the Kenyan market, the firms are expected to adopt various strategies in the provision of mobile value added services to remain competitive. The study sought to answer the question: what is the effect of the competitive strategies on the performance of MVAS? In relation to this aspect therefore the study made various conclusions.

From the findings the study concludes that the strategies adopted by the telecommunication companies had enhanced competitiveness in the industry. Moreover, this could further be attributed to the growth of sales and market share growth of these companies. A review of the findings shows that majority of the companies" market share and sales both in money transfer services and mobile data had increasingly grown in the last three years.

The study also concludes that there is a significant relationship between cost leadership and the performance of money transfer services and mobile internet services. It also concludes that cost leadership affects performance of the MVAS services. This is because this strategy focuses on gaining competitive advantage by having the lowest cost in the industry. In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy.

The study further concludes that there is a significant relationship between focus and the performance of money transfer services and mobile internet services. Focus affects performance through aspects such as the having unique product attributes for chosen segments, products for high and low priced market segments and customized services for chosen segments, The focus strategy, whether anchored in low-cost base or differentiation base, attempts to attend to the needs of a particular market segment. The focusing firms profit from their willingness to serve otherwise ignored or underappreciated customer segments. The study also concludes that there is a significant relationship between differentiation and the performance of money transfer services and mobile internet services. Differentiation takes place through aspects such as the product differentiation, unique characteristics, creating difficulties of imitation, product differentiation through direct communication and packaging.

The telecommunication companies applied competitive forces strategies that is, focus strategy, differentiation and cost leadership strategy to a great extent. To excel in low cost leadership, the companies maximized on economies of scale, implemented cost cutting technologies and also applied cost leadership by enhancing a tight control of overheads. In differentiation, product differentiation is adopted to great extent with companies seeking also to make unique characteristics of their products and further trying to make sure that their competitors do not imitate their products. On focus strategy, have greatly made unique product attributes for chosen segments, introduced customer service for chosen segments and also products and services for low priced market segments.

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