Effect of Corporate Strategy on Financial Performance of Telecommunication Company in Rwanda: A Case Study of MTN-Rwanda

Intwaza Yser Alain¹, Dr. Patrick Mulyungi²

¹Student, Jomo Kenyatta University of Agriculture and Technology
²Lecturer, Jomo Kenyatta University of Agriculture and Technology

Abstract: The purpose of this study was to examine the effect of corporate strategies on financial performance of telecommunication company in Rwanda because corporate strategies have been driving performance of most corporate organisations around the world but however, despite the intensive use of competitive strategy to gain competitive advantage, some corporate companies both have continued to exhibit poor performance in form of profitability and return on investment especially in developing countries where Rwanda is part. The research design was based on qualitative and quantitative approach. The target population was 74 and Primary data was obtained by use of a closed ended questionnaire while secondary information was obtained through review of reports and financial statements. The data obtained was processed by use computer based SPSS software program and analyzed by use a multivariate regression analysis to determine the relationship between the dependent and the independent variables. In findings show that MTN Rwanda use Corporate Operational strategy to maintain profit of MTN-Rwanda. Components of Corporate Operational strategy include Product differentiation strategy, cost leadership strategy, Product innovation strategy and Promotion & advertisement strategy. The results indicate that Corporate Operational strategy has a relationship with financial performance of MTN-Rwanda. This means that there is positive relationship between Corporate Operational strategy, (83.2%), and financial performance of MTN Rwanda. The figure of ratio, show that ROE & ROA are positively related to the operation strategy of MTN-Rwanda. MTN-Rwanda should elaborate tools for monitoring and evaluations of the effectiveness of the different corporate strategies.

1. Background of the study

In order for the corporate organization to improve their performance effectively and efficiently, there must be a corporate strategy. Strategy is the direction and scope of the organization over the long term which deliver a competitive edge for the firm amidst an ever-changing business environment. Effective strategy configures a firm’s resources and core competencies so as to adequately meet the firm’s goals and objectives. Strategy creates a culture in the firm which the firm only focuses on the value adding priorities in its mission and vision (Johnson, Scholes, and Whittington, 2008). Competitive strategy is aimed at creating a goodness of fit between the firm’s internal resources capabilities and the environmental challenges faced (Aosa, 2012). There many types of corporate strategies used by organization ranging from generic to modern strategies which include product differentiations, market focus or growth and price leadership. Other strategy includes corporate culture, structures and many others. The above mention strategies are very important in organization performance in form of service delivery and profitability especially if well planned and implemented.

Strategic management expert Toffler (2013) writes that a company without a strategy is like an airplane weaving through the skies, hurled up and down, slammed by winds and lost in the thunder heads. If lightning or crushing winds do not destroy it, it will simply run out of gas. In a similar line of thought, Ross et al (2010) note that, without a strategy an organization is like a ship without a rudder. It goes round in circles and like a tramp, has no specific place to go. Clearly, these statements emphasize the importance and the need for a comprehensive, systematic and dynamic strategic planning for every company which seeks to survive competition in the ever changing global competitive business environment. Ansoff (2010) argues that a good strategic depends on planning which generally produces better alignment and financial results in companies which are strategically managed cantered than those which are not. This suggests an apparent correlation between strategies and the ultimate performance of a company in terms of its growth, profits, attainment of objectives and sustained competitiveness (Strickland, 2014).

Competitive strategy provides the basic direction and rationale for determining the focus of an organization; and also provides the specification against which any organization may best decide what to do and how to do it. Simply, it is a process for creating and describing a better future in measurable terms and the selection of the best means to achieve the results desired. It is important to note that not all strategies are actually competitive even though they may be termed so. It is said that failure to plan strategically makes organization’s plan to fail. Strategic planning standardizes the processes of goal/objective setting, situation analysis, alternative consideration, implementation and evaluation that enable an organization to attain its goals and objectives (Tapinos et. al. 2015). Sarason & Tegarden, (2013) asserted to the positive correlation between competitive strategies and performance achievements as very beneficial for organizations. In their studies Dyson, (2010); McAdam and Bailie, (2012) further emphasized the need for organizations to align their strategies with their performance measurement systems in form of quality of service, cost incurred, profitability, return on investment, return on equity, return on capital and many other measures.
Report published by Rwanda Development Board revealed that foreign investments worth USD$650.4 million were invested in the year 2016, with 60% from multinational corporate, having corporate structure working in new development with operational decisions to conduct their business. The Rwanda telecom industry is held by multinational corporate companies only, MTN Rwanda, TIGO, AIRTEL, KTR and RWANDATEL, respectively subsidiary of NTN Group, Millicom, Bharti Airtel, Korea Telecom and Liquid Telecom. MTN Rwanda one of the 22 subsidiaries of MTN groups; South African Corporate company follow the same rule as everywhere in the world; by making operational decisions to embrace corporate strategy. MTN group corporate strategy is to; Create and managing stakeholder value, create a distinct customer experience, drive sustainable growth and transforming operating model has in Rwanda.

This study was sought to assess the impact that corporate strategy has on MTN Rwanda financial performance.

2. Corporate Strategy Theory

According to Slack and Lewis (2011) corporate strategy is concerned with the overall scope of an organization and how value will be added to the various parts of the organization. This includes issues of geographical coverage, diversity of products, services or business units, and how resources are to be allocated between the different parts of the organization. Moreover, corporate successful strategies depend to the large extent on decisions which are taken, or activities which occur at the subsidiary level. Slack and Lewis (2011) assert that subsidiary has to satisfy the requirements of the market if their enterprise has to survive in the long term. The clarity of corporate level strategy is important; it is a basis of other strategic decisions. Corporate strategy defines the specific businesses in which the firm will compete and the way in which resources are acquired and allocated among these various businesses (Mintzberg and Quinn, 2009). In general, corporate strategies are the primary concerning to the expectations of owners, the shareholders and the stock market. It may well take form in an explicit or implicit statement of mission and vision that reflects such expectations. Abrahams (2009), state that a Mission statement defines the company business, its objectives and its approach to reach those objectives while a Vision statement describes the desired future position of the company. Combination elements of Mission and Vision Statements are combined to provide a statement of the company purposes, goals and values. However, sometimes the two terms are used interchangeably. Mission and vision both relate to an organization purpose and are typically communicated in some written form. Mission and vision are statements from the organization that answer questions about who we are, what we value, and where we’re going (Mason, Tayla, & Berrin (2010). Using this theory the study will investigate the influence of structure strategy on financial performance of MTN Rwanda.

2.1 Operational strategy theory

Operational strategy is the set of decisions concerned with how operational configure and change their overall capacity in order to achieve a particular level of output potential (Snack & Lewis, 2011). Johnson et al. (2008), assert that operational strategy is the total pattern of decisions that shape the longer term capabilities of any type of operational and their contribution to overall strategy, through the reconciliation of market requirements with operational resources. An operational capacity dictates its potential level of productive activity, which is the maximum level of value added activity over a period of time that the operation can achieve under normal condition (Snack & Lewis, 2011). Using this theory, the study will investigate the influence of operational strategy on financial performance of MTN Rwanda.

2.2 Strategic Goal theory

The strategic goal setting theory suggests that organizational goals have to be communicated clearly and the goals need to be specific enough. Another feature of goal setting is that they need not be too easy or perceived to be impossible to fulfill (Latham & Budworth, 2007). Goals are the ways you measure effectiveness against strategy, and tactics are the actual activities you are going to execute to stay on strategy. As you start completing your goals, you continue down the list of priorities needed to stay on strategy (Musek & Williams, 2008). Robert (2008) believes that goal directedness is one of the major attributes of all living things; however, not all goals directed actions are purposeful. Using this theory, the study will investigate the influence of corporate strategy on financial performance of MTN Rwanda.

2.3 Organizational Culture and values theory

Corporate culture is the personality of the organization, the shared beliefs, values and behaviors of the group. Orla and Richard (2008) also note that it is symbolic, holistic, and unifying, stable, and difficult to change. As per Sandro (2016), organizational culture is a set of symbols, ceremonies and myths that enable participants to understand their underlying organizational assumptions and values. He also defines it as a sort of genetic code of the community, which is in the social awareness and which causes repeatability of both individual and collective behaviors, images, emotions and attitudes.

According to Weis and Wiest (2015) corporate culture is a system of values, norms and symbols typical for a company, which develop over a long time, and its result is the establishment of best practices for the entire social group and the specific hierarchy of values. For the past decades, most academics and practitioners studying organizations suggest the concept of culture is the climate and practices that organizations develop around their handling of people (Schein, 2014). Watson (2006) emphasizes that an important trend in managerial thinking in recent decades has been one of encouraging managers to try to create strong organizational cultures. Schein (2014) suggests that culture and leadership are conceptually intertwined. Schein (2014) highlights the real importance of what a leader need to do, is to create and manage culture. Hansel et al (2016) stated that company leaders should have the ability to understand and work with divers culture therefore gives organisations a
sense of identity and determines, through the organisation’s legends, rituals, beliefs, meanings, values, norms and language, the way in which things are done around here. Using this theory, the study will investigate the influence of cooperate organization culture strategy on financial performance of MTN Rwanda.

2.4 Institutional Theory

The beginning of institutional theory seized roots in the 1970s, raising research questions such as why Organizations of the same type in different locations resemble one another, or why specific structure and practices diffuse throughout different Organizational settings. Since its beginning there are a variety of concepts and arguments that are employed in the institutional context. The common theme is that all place importance on regulative, normative and cognitive norms and value whereby an organization exists. To synthesize the various research streams in this field, one can classify a number of dimensions. One body of research, notably one from the early days is how institutional fields emerge (Meyer and Rowan, 2007). The next dimension would be the source of institutionalization such as regulatory frameworks, professional associations or the organization itself (Zucker, 2007). Other authors concentrate on the dimensions of underlying dynamics such as isomorphism, convergent processes and inertia (DiMaggio and Powell, 2011).

Finally, there is the dimension of the organization itself. An organization can react to its external environment as well as to internal structural changes (Scott, 2007). This is exactly where the process of strategic planning fits in. institutional theory acknowledges the role of internal Organizational processes and actor’s thereby placing emphasis on Organizational practices such as competitive strategy. Using this theory, the study will investigate the influence of corporate organization structure and operation strategy on financial performance of MTN Rwanda.

2.5 Statement of the problem

Corporate strategies have been driving performance of most corporate organisations around the world. The statistics from Harvard Business Review, Corporate between 85% and 90% of companies fail to execute their strategies, those that succeed achieve outstanding results they generally increase their revenue by 80%-120% in a three-year period. While 10% among corporate subsidiary achieve at least two-thirds of their corporate strategy objectives, with 36% achieving between 50%-67% and 54% achieving less than 50%. Despite the intensive use of competitive strategy to gain competitive advantage, some corporate companies both have continued to exhibit poor performance in form of profitability and return on investment especially in developing countries where Rwanda is part.

In Telecom industry, stiff pressures and rapid growth of competition, subsidiaries are challenged to make quick change and appropriate decisions in order to be more competitive, this would conflict with corporate strategy otherwise it can lead to inadequate operational decisions which returns affect profitability and returns on investment of many companies. The gap here is that it has not been established the contribution of different strategies to financial performance of telecommunication companies in Rwanda hence there is need to conduct the research and bridge the gap. It is based on the above problem that is why the researcher is prompted to examine the effect of corporate strategy on financial performance of Telecommunication companies in Rwanda by taking MTN-Rwanda as a case study.

2.6 Objective of the study

To examine the effect of corporate operational on financial performance of MTN Rwanda

2.7 Conceptual framework

The study was used descriptive design basing on both qualitative and quantitative approach. A quantitative approach is linked to deductive method of testing theories while qualitative approach is characterized with inductive testing (Creswell, 2012). The study focused more on the qualitative approach but in some instances, quantitative approach was employed in order to get better understanding and more insightful interpretation of the results. For this study, the quantitative method investigated the impact of corporate strategy on financial performance in telecommunication companies in Rwanda. The qualitative data collection method on the other hand investigated the extent to which the corporate strategy affects financial performance in Rwanda.

2.8 Population of the Study

The total population was 74 staff. The survey research design is a very valuable tool for assessing opinions and trends because it involves the collection of information from a sample of individuals through their responses to questions.

2.9 Sample size determination

The availability of data, the potential ability to conduct further comparisons by future researchers, if desired, are the two reasons assisting in the decision to utilize the stated target population as the data base for this research project. Since the population’s size is small and accessible by the researcher, all 74 staffs were selected for this research.

2.10 Data Collection Procedures

A self administered questionnaire was designed as the primary instrument for this study, which helped to get information from respondents. The questionnaires were provided to selected staff accompanied by the company approval cover letter. Recipients were requested to complete the questionnaire after which researcher were collect it for analysis.
3. Research Findings and Discussion

3.1 Regression Analysis on Operational strategy and financial performance of MTN

A multivariate regression analysis was used to establish the relationship between the dependent and the independent variables. The multivariate regression model was:

\[ Y = \beta_0 + \beta_1 X_1 + \epsilon \]

Where; \( Y \) = Financial performance; \( \beta_0 \) = Constant Term \( \beta_1 \), \( \beta_2 \), and \( \beta_3 \) = Beta coefficients \( X_1 \) = Operational strategy; \( \epsilon \) = Error term

R-square =0.931(93.1%). 93.1% variations in financial performance have been captured by the model used. Since the p-value is of 0.000, the model performance is statistically significant /very good.

**Table 1: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.965</td>
<td>0.931</td>
<td>0.930</td>
<td>0.32671</td>
</tr>
</tbody>
</table>

Table 2: ANOVA*

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>103.355</td>
<td>1</td>
<td>103.355</td>
<td>968.279</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>7.685</td>
<td>72</td>
<td>0.107</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>111.041</td>
<td>73</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Coefficients*

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td>0.122</td>
<td>0.309</td>
<td>2.66</td>
</tr>
<tr>
<td>Operational strategy</td>
<td>0.832</td>
<td>0.018</td>
<td>0.965</td>
</tr>
</tbody>
</table>

From the table the researcher deduces the regression equation

Where; \( Y \) = Financial Performance; \( B_1 \) = Constant Term \( B_2 \) = Beta coefficients \( X_2 \) = Operational strategy \( Y = 0.122 + 0.832X_2 \) (Operational strategy) Equation (ii)

The results indicate that Operational strategy system has relationship with financial Performance OF MTN Rwanda. The significance is 0.000 which indicates that there is positive relationship (0.832) between Operational strategy and financial Performance. These results provide reasonable evidence to the consistent view that, there is increase in profitability hence improved financial Performance. The beta of Operational strategy is .965 with a t-statistic of 31.117. The positive coefficients mean a unit change in Operational strategy leads to a 0.832 units increase in financial performance while keeping Organization structure and Corporate Culture Strategy constant and since the P-value = 0.000 < 0.05 the positive t-statistic value indicates that the effect is statistically significant at 5 % test level. The effect of Operational strategy on financial Performance is statistically significant.

4. Conclusion

In conclusion, it was established that MTN Rwanda have different corporate strategies which consists of Corporate Structure strategy, Corporate Operational strategy and Corporate Culture Strategy. Operation strategy has improved financial performance of MTN Rwanda inform of profitability. In establishing the relationship between operation strategy and financial performance of MTN Rwanda, the results show that operation strategy has been contributed to the financial performance of MTN. This means that there is a significant relationship between operation strategies and financial performance of MTN Rwanda. We can therefore conclude operation strategies highly contribute to positive financial performance of MTN Rwanda.

5. Recommendations

The researcher has identified the following recommendations in order to promote financial performance of MTN Rwanda:

1) There should be effective and comprehensive planning by consulting all the stakeholders in the organization.
2) There should an effective tools for monitoring and evaluations of the effectiveness of the different cooperate strategies
3) Staff should be provided with reasonable rewards in order to implement the strategy effectively and efficiently.

References


