RELATIONSHIP BETWEEN PORTER'S COMPETITIVE STRATEGIES AND PERFORMANCE OF VALUE ADDED SERVICES BY MOBILE PHONE OPERATORS IN KENYA

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A Research Project Submitted to the Graduate School in Partial Fulfilment of the Requirements for the Award of the Degree of Masters in Business Administration, Faculty of Commerce, Egerton University

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DECLARATION AND APPROVAL

Declaration

I declare that this project is my original work and has not been submitted for examination in any other institution.

Signed.. **Date...**

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CM11/0334/07

Approval

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

Signed.. **Date...**

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DEDICATION

I dedicate my work to my parents, Geoffrey and Agnes Chesire. I also dedicate it to my loving husband Lt. Col. S. K. Koskei and my children, Abigael, Melinda, Amanda and my late son Victor.

ACKNOWLEDGEMENT

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ABSTRACT

The mobile telephony sector in Kenya has seen an unprecedented growth since its liberalization in 1998. Although there has been a huge growth in the mobile subscriber base, the sector has experienced a fierce competition whereby the mobile phone players have engaged in a price war which intensified from the year 2008 to date, following the entry of two new players YU and Telkom Orange. The decline in conventional voice service tariffs has gradually reduced average revenue per user (ARPU), thus decreasing the service providers' profits. 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 create competitive and enhance the performance of MVAS, the firms are adopting competitive strategies. This study therefore sought to investigate the effect of the competitive strategies on the performance of the MVAS in the mobile industry in Kenya. 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 respondents were the senior managers drawn from the marketing, planning and finance departments. Twelve managers from the firms were targeted for the interviews. Three managers from each firm were interviewed. The data obtained was summarized using descriptive statistics such as mean and standard deviation. 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 found out majority of the firms had adopted low cost leadership strategies, differentiation strategies as well as focus strategies to a great extent. The study concluded that the strategies adopted by the telecommunication companies had a positive effect on the performance of the MVAS in terms of growth of sales and market share. The study recommends that the firms should adopt competitive strategies to achieve competitive advantage and enhance their performance.

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LIST OF ABBREVIATIONS AND ACRONYMS

1G - First generation of mobile telephone systems – analogue

2.5G - The generation between 2G and 3G, with speeds enhanced by GPRS and EDGE.

2G -Second generation of mobile telephone systems–digital, the most widely used standard is GSM.

3G- Third generation mobile telephone systems that will combine voice and high speed data services and offer a wide range of multimedia services when fully developed.

ARPU- Average Revenue per Unit is one indicator of a wireless business operating performance. ARPU measures the average monthly revenue generated for each customer unit.

GSM- Global System for Mobile Communication

MVAS –Mobile Value-Added Services

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In today's highly competitive environment, business organizations need to act fast in order to secure their financial situations and their market positions. Firms are continuously striving for ways to attain a sustainable competitive advantage. They need to count more on their internal distinguished strengths to provide more added customer 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 a distinctive 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. In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as: financial performance (e.g. shareholder return),customer service, social responsibility (e.g. corporate citizenship, community outreach), employee stewardship.

1.1.3 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.

Safaricom Ltd is a leading mobile network operator in Kenya. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone group Plc of the United Kingdom, the world's largest telecommunication company, acquired a 40% stake and management responsibility for the company. With a subscriber base of over 14 million and about 2,000 base stations across the country, Safaricom is Kenya's leading total telecommunications services provider with a huge investment and market leadership in both voice and data services.

Formed at the turn of the decade as a joint venture between Vodafone and Telkom Kenya, the firm has built a solid reputation as a hot-house for innovation. Five years ago, it pioneered M-PESA, the first mobile money transfer service, anywhere in the world. Safaricom is a leading provider of converged communication solutions, operating on a single business driver that has a peerless understanding of voice, video and data requirements. Safaricom boasts to be a one stop shop for integrated and converged data and voice communication solutions. Safaricom with its countrywide network was the first network to provide broadband high-speed data to its customers through its 3G network, Wimax and fibre.

Airtel was launched in Kenya in 2000 as Kencell and rebranded to Zain in 2008 and finally Airtel in 2010. Initially it was a joint venture between Vivendi of France and Sameer Investments of Kenya, which has offloaded most of its shareholding. Between 2000 and 2003, Kencell grew faster than Safaricom due to its high quality voice and data networks. When in 2005, Vivendi of France sold its 40 per cent stake in Kencell to Celtel international; the firm adopted a pan-African marketing strategy. This strategy and the per minute billing on the Company's tariffs saw the customers shift to the Competitor Safaricom Limited which had positioned itself as a "cheap" network and billed its customers on seconds rather than per minute. Safaricom also gained advantage over the localized advertisements that helped draw in millions of customers to its network.

Airtel Kenya is the second largest operator after its main competitor Safaricom and it commands 15% of the total market share according to a recent media report. Airtel has had a bias for the high end individuals and corporate segments, which has been saturated. Airtel is known for its flat rate pricing strategy in which it charges the same rates across networks. The stiff competition has seen Airtel reduce their tariffs further. Telkom is the third largest operator in the market currently at 4 percent of the total market share. Orange became the commercial brand for Telkom Kenya on 17 September 2008, the country's historical operator, following France Telecom's acquisition of 51% of its capital in December 2007. Telkom Kenya therefore joined a worldwide community of 115 million Orange customers and became the first integrated operator in the country, proposing fixed and mobile telephony alongside Internet services. The launch of the new GSM network, alongside new mobile and broadband Internet offers under the Orange brand constitutes a decisive step in Telkom Kenya's development.

The historical operator now offers the Kenyan population convergent services in mobile, fixed and Internet telecommunications. Telkom Kenya like the rest availed it’s broadband internet and mobile services in Nairobi and Mombasa but have now expanded and rolled out to the other major towns in the country. Additionally, with the arrival of undersea cables and a pricing policy adapted to the country, Telkom Kenya is setting itself up to adopt a leadership position in broadband Internet. It has been seen to develop its activities and according to a media report, Telkom has invested more than €58 million since 2008 on their network infrastructure. It’s ambition according to the report is to increase the customer base through high quality services and the strength of the Orange brand (www.researchandmarkets.com, 2010).

Econet Wireless Kenya launched operations as the country’s fourth mobile operator at the beginning of December 2008, marking the end of long and twisting journey for the South Africa-based telecoms operator, which was initially issued the licence in 2004. It had been suggested that Econet in its own right could not finance the rollout of the network, and was rescued early 2008 by Indian mobile telecoms company Essar Communication, a subsidiary of Essar Global, which acquired a 49 per cent stake in the Kenyan licensee.

Essar acquired the stake from Econet Wireless International, which held a 70 per cent controlling stake in the licensee, and had been reported to be scouting for a suitable financier since the Communications Commission of Kenya confirmed the award of the licence in September 2007. When Essar acquired its stake in Econet Wireless Kenya, it was reported that the Indian operator would invest as much as US$500 million on the rollout of the GSM network.

Essar Communications has a joint venture with the Vodafone Group, called Vodafone Essar, which is one of India’s largest cellular service providers, with over 55 million subscribers. Essar owns ‘The MobileStore’, India's largest national retail chain of mobile phone stores. It has a major presence in the telecom infrastructure space with one of the largest investments in telecom towers. Essar operates India’s second largest outsourcing services business operating under the Aegis brand, with 31 centres in the Philippines, Costa Rica, USA and India. The Kenyan operation is branded ‘Yu’, and represents the first expansion outside of India for Essar in the communications sector.

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). Since 1999, 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.

Kenyan market is generally price sensitive and as competition increases in the sector price wars are pushing prices down and affecting ARPUs. With the drastic cuts in call rates the Telecom operators are confronted with sluggish user growth rate and a fall in the average revenue per user (www.researchandmarkets.com, 2010). This rivalry has now prompted operators to stake Mobile value-added services (VAS) such as money transfers, video conferencing, Caller Ring Back Tone (CRBT) and Mobile Banking to remain afloat (Ombok, 2009).

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?

1.3 Objectives of the Study

The overall objective of the study was to examine the effect of the competitive strategies adopted by the mobile operators in Kenya on the performance of Mobile Value Added Services to gain sustainable competitive advantage. The specific objectives of the study are to;

i. Determine whether competitive strategies vary with the type Mobile Value Added Services.

ii. Determine the relationship between low cost leadership and performance of Mobile Value Added Services.

iii. Determine the relationship between differentiation and performance of Mobile Value Added Services.

iv. Determine the relationship between focus strategies and performance of Mobile Value Added Services.

1.4 Research Hypotheses

This study sought to test the following hypotheses:

HA_1. The competitive strategies vary with the type of mobile value added service.

HA_2. There is a positive relationship between low cost strategy and performance of mobile value added service.

HA_3. There is a positive relationship between focus strategy and performance of mobile value added services.

HA_4. There is a positive relationship between differentiation and performance of mobile value added services.

1.5 Significance of the Study

The study will be useful to scholars in business management by enriching the literature on the use of competitive strategies .The study will also be useful to the strategic practitioners. The findings and recommendations will enhance the use of competitive strategies to improve performance.

1.6 Scope and Limitations of Study

1.6.1 Scope of the Study

This study sought to examine the effect of competitive strategies on the performance of VAS. It targeted the four mobile operators in Kenya: Safaricom, Airtel, Yu and Orange-Telkom.

1.6.2 Limitations of the Study

Lack of contact with company personnel acted as hindrance in the study. In some situations the respondents were not available for the study. The sample size is too small looking into the nature of the study in that there were few firms targeted for data collection and this caused limitations in this study. Keeping in mind these constraints, best efforts were made to represent the whole view of competititive strategies prevailing in the telecom sector in the provision of Value Added Services.

1.7 Definition of Terms

3G technology -This refers to the third generation mobile telephone systems that will combine voice and high speed data services and offer a wide range of multimedia services when fully developed.

Average Revenue per Unit (ARPU) - This is one indicator of a wireless business operating performance. ARPU measures the average monthly revenue generated for each customer unit.

Competitive advantage-This refers to superiority relating to competitors.

Competitive strategy- This is a long term plan that is devised to help a company gain a competitive advantage over its rivals**.**

Cost leadership strategy- A pricing strategy in which a company offers a relatively low price to stimulate demand and gain market share

Differentiation strategy- Approach under which a firm aims to develop and market unique products for different customers

Focus strategy- A marketing strategy in which a company concentrates its resources on entering or expanding in a narrow market or industry segment

Mobile Value Added Services- This is a telecommunications industry term for non-core services or, in short, all services beyond standard voice calls.

Performance of MVAS- This is the measurement of how MVAS performs.

CHAPTER TWO

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. Competitive advantage in lower cost or differentiation results in a higher productivity than that of the competitors as illustrated in the figure below.

		COMPETITIVE ADVANTAGE	
		Lower cost	Differentiation
COMPETITIVE SCOPE	Broad Target	Cost leadership	Differentiation
	Narrow Target	Cost focus	Focused differentiation

Figure 2.1: Generic strategies.
Source: Porter (1990).

2.1.1 Low Cost Leadership

Striving to be the industry's overall low-cost provider is a powerful competitive approach in markets where many buyers are price sensitive. The aim is to open up a sustainable cost advantage over competitors and then use the company's lower-cost edge as a basis for either under pricing competitors and gaining market share at their expense or earning a higher profit margin selling at the going market price. A cost advantage generates superior profitability unless it is used up in aggressive price –cutting efforts to win sales from rivals (Thompson & Strickland, 1996). Porter (1980) argues that the cost leadership is suitable when the company has economies of scale and possesses the ability to reduce the costs owing to "experience curve" effect. A relatively high market share or other advantages such as easy access to raw materials or delivering products that are easily manufactured, deploying costs over a wide product line, and serving all major customer. Low-cost strategy focuses on winning through efficiency. The objective is to be low cost leader, which allows the company to have higher margins than competitors and to pass some savings on to customers through lower prices (Gilbert & Harrell, 2009).

Porter (1990) further writes that choosing a lower cost strategy means that the firm is able to produce the product cheaper than its competitors and there can only be one cost leader. The sources of cost advantage depend on the structure of the industry. It is necessary that the firm has a broad target and serves more than one segment. A lot of companies may even operate up or down streams in the industry. The firm often sells standard at acceptable quality and service. The low cost results in a higher output using less input than the competitors require. According to Shapiro and Varian (1999) a firm that is able to sell more than other firms will have the lowest average cost. This allows the firm to make money when others cannot. But to sell more the firm will need to lower the price; this also means that the firm has a smaller profit on each unit sold. If this works out the firm has to make up for the lost revenues in volume.

In traditional industries reducing the average cost of production is focusing on cutting down the unit cost of production. A firm could enjoy low cost leadership through access to raw materials or superior proprietary technology which helps to lower costs (Bauer and Colgan, 2001). Lower prices lead to higher demand and, therefore, to a larger market share (Helms et al., 2007). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market (Hyatt, 2001). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market. With information goods, unit cost of production is negligible. The basic idea of reducing cost of information goods is to increase sale volume. Usually it does not help much to focus on the unit cost of information goods, because the firm produces one copy and sells the same copy over and over again.

It is commonly argued that a company's market share is positively influenced by early entry and cost leadership strategy. An early entrant would probably have the ability to enhance its competitiveness owing to diminishing resource barriers and economies of time. Resource barriers encompass reputation, brand name, economies of scale, production experience, technological lead, close relationships with suppliers and distribution channels, and experience (Wernerfelt, 1984). In case the Mobile Operators competitive strategy is based on offering services with low price, the main competitive advantage must be the ability to keep costs low. All the operations of the company must be aligned to meet this target. The service portfolio is narrow including only the basic services for the selected, rather large customer groups. A low organizational structure, a large customer potential, and a short reaction time to changes in the market are benefits for the Mobile Operators following the 'price leader' strategy. However, in order to survive with this strategy choice, a large customer base is required because of the small profit margins. Also the amount of resources for new service development is minimal and tradeoffs are needed to be able to provide the most cost-effective services (Kiiski & Hammainen, 2007).

Having a low cost position yields the firm above- average returns in its industry despite the presence of strong competitive forces. Its cost position gives the firm a defense against rivalry from competitors, because its lower costs mean that it can still earn returns after its competitors have competed away their profits through rivalry. This is a demanding approach because the company is required to look for how it can reduce costs all the time. This takes a lot of control and time for the manager. Porter's cost leadership strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Hyatt, 2001). 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 (Malburg, 2000). The advantages of having cost leadership offer a defence against mighty suppliers by offering more flexibility towards the increasing cost of input goods. In addition it usually brings the advantage of scale as well. To reach this cost superiority the company needs to have a big market share or other advantages. The factors that lead to a low-cost position usually also provide substantial entry barriers in terms of scale of economies or cost advantages, thus a low cost position places a firm in a favourable position vis-a-vis substitutes relative to its competitors in the industry (Porter, 1980). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage (Malburg, 2000). For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2001). Lower costs and cost advantages result from process innovations, learning curve benefits, and economies of scale, product designs reducing manufacturing time and costs, and reengineering activities. Only one firm in an industry can be the cost leader and if this is the only difference between a firm and competitors, the best strategic choice is the low cost leadership role (Malburg, 2000).

2.1.2 Differentiation Strategy

A firm can outperform rivals only if it can establish a difference that it can preserve, (Porter, 1990).Differentiation strategy seeks to differentiate the Company’s product offerings from rivals’ in ways that will appeal to a broad range of buyers. By choosing a differentiation strategy Porter (1990) argues that the firm is able to provide unique and/or superior value to the product more efficiently through quality, special features or after sale service. There can be many differentiators in an industry. Differentiation allows the firm to add a premium value to the product, which leads to a higher profit than that of the competitors. The differentiated firm makes higher revenue per unit than the competitors, because of the buyer’s special demand. Shapiro and Varian (1999) wrote that if the firm’s strategy is differentiation, the firm must add value to the product, thereby distinguishing the product from the competing products. The firm cannot let the product become a commodity because when that happens the product has lost its value as a differentiated product. Therefore the firm must do everything it can to make sure that there are no close competitors. It can do so by differentiating the product from other available products.

It involves delivering customer value in a way that clearly distinguishes the product from its competitors. This strategy works through effectiveness and is usually achieved by giving superior benefits or reducing customer cost rather than price (Gilbert & Harrell, 2009). The main factor fuelling a successful differentiation strategy is to define needs and demands of the customer accurately and deliver value to them. The firm might differentiate itself in terms of product form, brand image, product features, breadth of product line, technology, customer service and pricing or distribution channels. The main component of a successful differentiation strategy is a loyal customer base. With such a strategy, a firm can increase margins and keep away from intense competition in the low end of the market (Reed, 1990).

Differentiation strategies become an attractive competitive approach whenever buyers' needs and preferences are too diverse to be fully satisfied by a standardized product. To be successful with this strategy, a company has to study buyers' needs and behaviour carefully to learn what buyers consider important, what they think has value, and what they are willing to pay for. Competitive advantage results once a sufficient number of buyers become strongly attached to the differentiated attributes and features. The stronger the buyers appeal of the differentiated attributes and features, the stronger the company's competitive advantage. Successful differentiation allows a firm to command a premium price for its product, increase unit sales, and also gain buyer loyalty to its brand. Thus differentiation enhances profitability whenever the extra price the product commands outweighs the added costs of achieving the differentiation (Thompson & Strickland, 1996).

A Mobile Service Provider can choose to offer differentiated, value added services for demanding customers. Here the service mix should be rather large to attract (especially business) customers. One possibility is to offer bundled services based on the company's earlier core competence (e.g. fixed and mobile subscriptions, office solutions). These 'service leaders' might also have multiple target segments that use the same services with different, customized content. While competing with differentiated services, a Mobile Service provider has the potential to gain a rather high ARPU. Also the ability to develop new services independently (or in cooperation with partners) for the dynamic needs of the customers is an advantage. A major problem with this strategy has been the absence of profitable business models: users are not willing enough to pay extra for the value-added services (only some service concepts, like voice mail and ring tones, have been successful (Kiiski & Hammainen, 2007).

Approaches to differentiating can take many forms: design or brand image, technology, features, customer service or other dimensions. Differentiation strategy does not allow firms to ignore costs, but rather they are not the primary strategic target. Differentiation if achieved is a viable strategy for earning above average returns in an industry because it creates a defensible position for coping with the five competitive forces, albeit in a different way than cost leadership. This strategy provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. Achieving differentiation may sometimes prelude gaining a high market share and the firm that has differentiated itself to achieve customer loyalty should be better positioned vis-a-vis substitutes than its competitors (Porter, 1980).

When using differentiation strategy, a company focuses its efforts on providing a unique product or service (Bauer and Colgan, 2001). Since, the product or service is unique this strategy provides high customer loyalty (Hlavacka et al., 2001).Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price. The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's (Reilly, 2002). When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2001). This is not to suggest costs and prices are not considered; only it is not the main focus. However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products (Hlavacka et al., 2001).

The benefits of differentiation require producers to segment markets in order to target goods and services at specific segments, generating a higher than average price. For example, British Airways differentiates its service by providing focus on exceptional good quality of service rather than focusing on low price. The differentiating organization will incur additional costs in creating their competitive advantage. These costs must be offset by the increase in revenue generated by sales. There is also the chance that any differentiation could be copied by competitors. Therefore there is always an incentive to innovated and continuously improve

2.1.3 Focus Strategy

Porter (1983) suggests that firms in the same industry can choose different competitive scopes in the same segment. The basic choice is between a broad target and a narrow target within the same segment. The narrow target is a well defined market and the broad target is a larger market defined in a wider perspective. In 1990 Porter further writes that it is difficult, however not impossible, to have both lower cost and to stay differentiated relative to the competitors. It is hard to provide unique performance, quality or service and at the same time have lower costs when the products are costly to produce. The worst scenario is to get stuck in the middle or to have more than one type of strategy at the same time, because then the firm is unable to reach the right target of buyers.

According to Shapiro and Varian (1999) focus is achieved by personalizing the product.
If a company succeeds in creating a unique product it will have breathing room to both personalize the pricing and to design the product. There are two ways of adding more value to a unique product and thereby being able to focus on a narrow target. The first one is to personalize or customize in order to generate more value for the customers, offer value adding services to achieve a closer relationship between the customer and the personalized product.
The second one is to establish pricing arrangements that capture as many of the values as possible. An example of a personalized product or service can be when a customer is interested in mobile phones, music and technical gear. Personalized media can show news and headlines on those topics. What is even more interesting is that this media can show ads that are closely related to these topics, for example memory sticks which are used for the music player in phones, new downloads of music or other accessories.

Focus strategy concentrates on a narrow buyer segment and outcompeting rivals on the basis of lower cost or differentiation. The focuser firm chooses a specific segment or group of segments in the industry. A firm that does not have an overall competitive advantage optimizes its strategy in order to serve the needs of the target segments and achieve a competitive advantage in them. The focus types, those are cost focus and differentiation focus, rely on the differences of the given segment from the other segments in the industry, i.e. differences in cost behaviour or the unique needs of a segment. It means that tailoring the activities to a specific segment exclusively which is not served properly by broadly-targeted competitors. The advantages of pursuing a generic focus strategy cannot be usually achieved if a firm tries to pursue two broad strategies at the same time. However, sometimes firms choose to create separate business units under the same corporate entity (Porter, 1985).

A focused strategy based on low cost depends on there being a buyer segment whose requirements are less costly to satisfy compared to the rest of the market. A focused strategy based on differentiation depends on there being a buyer segment that demands unique product attributes. A focused strategy becomes increasingly attractive if; the segment is big enough to be profitable, has a good growth potential, the segment is not crucial to the success of major competitors, the focusing firm has the skills and resources to serve the segment effectively, and/or the focuser can defend itself against challengers based on the customer goodwill it has built up and its superior ability to serve buyers in the segment (Thompson & Strickland, 1996). Mobile Service providers that select to focus on one customer segment typically cannot achieve business volumes big enough to justify investments on own service platforms. Tailored marketing and customer care for the chosen segment allows setting the expected ARPU high (Kiiski & Hammainen, 2007).

Focus strategy is built around serving a particular a particular target very well, and each functional policy is developed with this in mind. The strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors than competitors who are competing broadly. The firm achieving focus may also potentially earn above average returns for its industry. Its focus means that the firm either has a low cost position with its strategic target, high differentiation, or both. Focus may also be used to select targets least vulnerable to substitutes or where competitors are the weakest (Porter, 1980).

A niche strategy is often used by smaller firms. A company could use either a cost focus or a differentiation focus. With a cost focus a firm aims at being the lowest cost producer in that niche or segment. With a differentiation focus a firm creates competitive advantage through differentiation within the niche or segment.

2.2 Competitive Strategies

Porter (1983) points that every company has a competitive strategy; either it is official or unofficial to the market. There is a frame with four key factors that the companies can formulate into a competitive strategy. The first one is based on the company's strengths and weaknesses and describes its assets and skills in comparison to its competitors. Financial resources and technical skills are included in this key factor. Another key factor is the value of the company's employees. This factor gives the company the motivation and need to actually take the strategy in to action. Together with the strengths and weaknesses it decides the inner boundaries for which strategy the company successfully can adapt. The external conditions are decided by the branch and the surroundings. The possibility of development and threats for the company settle the competition with the risks and possibilities. The last key factor includes the expectations from the society, the policy of the government, social commitments and development of the norm. To get a successful business the company needs to take these four factors into consideration. Porter (1990) points out that the competition in a branch reduces the demand of profit in the investment minimum. The five forces of competition together settle the insensitivity in the competition to a branch and the profitability, and that force which is the strongest decides which strategy it is going to be.

According to Davidson (2001), a company's competitive strategy is choosing a favorable industry. There are two main questions and they both have to work, otherwise there is no meaning for the company to go in to the industry. The first one is the profitability in long term and which factors that determine that. The second one is which components that are affecting the companys' position in the market. This question is important to ask no matter if it is a local or a global company. To be able to see if the industry is profitable, the company has to do some research in the in to the industry's competitors, suppliers, buyers, potential entrants and substitutes for the product or service. These are factors that determine the company's required revenue in the end because they are all factors that affect the prices, costs and the demanded investments. According to Davidson the next step is to decide which strategy to use. If this does not happen the company will be stuck-in-the-middle and often become a failure. Davidson also says that a company can work to have more than one strategy but it is risky, because having both a cost leadership and differentiation is expensive.

The field of strategic management presents various typologies to describe the generic competitive strategies of firms. The strategies indicate how firms compete in specific businesses or industries by exploiting their competitive advantage in order to realize their goals (e.g., Ham brick, 1983; Miles & Snow, 1978; Porter, 1980). The typologies all focus on a firm's relative emphasis on operational efficiency and low cost or uniqueness in the market. The focus on Porter's (1980) typology of generic competitive strategies which is made up of overall cost leadership, differentiation and focus (cost or differentiation in a narrow market segment) for a couple of reasons. First, Porter's typology overlaps with other competitive strategy typologies. For example, Porter's strategy of cost leadership resembles Miles and Snow's (1978) defender strategy and Hambrick's (1983) efficiency strategy. Porter's differentiation strategy is also similar to Miles and Snow's prospector strategy. Second, Porter's typology has been linked to many organizational, environmental, and performance-related variables (Campbell-Hunt, 2000; Dess & Davis, 1984; Kotha & Vadlamani, 1995).

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, for a firm to earn superior profits and outperform its competitors, it must make a clear choice between a cost leadership and differentiation strategy in order to avoid the inherent contradictions of different strategies (Porter, 1996).

Many authors have refined and conceptualized Porter's differentiation strategy along several dimensions such as product differentiation, marketing differentiation, quality differentiation, image differentiation, service differentiation, and innovation differentiation strategies (Miller, 1988; Mintzberg, 1988; Kotha & Vadlamani, 1995; Beal & Yasai-Ardekani, 2000). Cost leadership and differentiation strategies are commonly used strategy dimensions in the literature (Dess & Davis, 1984; Nayyar, 1993). Furthermore, firms in most developing economies implementing the differentiation strategy do not focus on a single dimension but emphasize several dimensions such as image, gaining customer loyalty, quality, innovation and level of service, at the same time (Kim et al., 2004). Thus, a differentiation strategy in a developing economy environment may be based on simultaneously creating customer loyalty by generating differences in product image through intensive marketing and image management (Miller, 1988), creating products that are innovative, dependable, durable, and serviceable (Beal & Yasai-Ardekani, 2000).

The cost leadership strategy represents attempts by firms to generate competitive advantage by achieving the lowest cost in the industry. The focus of firms implementing a cost leadership strategy is on stringent cost controls and efficiency in all areas of operation (Porter, 1980). A study by Kwasi (2009) in Nigeria examining the effect of competitive strategy on firm performance in a developing economy environment found out that firm's performance is directly affected by competitive strategy (cost leadership and differentiation, focus strategy). This relationship is proposed because it has been argued that for firms to be successful in improving their performance there must be a consistency between competitive strategy and business strategy, with the former driving the latter (Miller & Roth, 1994; Ward & Duray, 2000).

A popular argument in the strategy literature is that the pursuit of cost leadership requires a particular kind of organizational structure and culture that is very different from the one that would be appropriate for innovation or differentiation (Porter, 1980; Bowman, 1990). According to this view, it is not feasible to pursue both strategies simultaneously. It is argued that the skills and resources, the structure and systems and the culture, style and overriding values of the organization needed to best deliver low cost products are quite unique and distinct from those required by a firm to achieve superior profit performance and a sustainable competitive advantage through a strategy of differentiation (Bowman, 1990). While cost strategy requires skills in controlling the raw materials, power, components, labour, machinery or storage space, as well as a heavy investment in training to help reduce the costs of scrap and reworking, product differentiation requires a clinical skill that predisposes a firm to a deeper understanding of its customers' requirements than could be done by its competitors. A product differentiation strategy thus requires a high degree of competence in a wide area of management and organization and a labour force that is highly trained, experienced, self-motivated and able to work together as a team. People are the key resource in this organization and are thus expensive. While cost leadership requires extensive effort to improve the efficiency of the firm, the quality of the products or services carries a greater emphasis under a differentiation strategy.

A study done by Kim, Nam and Stimpert (2004) found that firms employing only one of Porter´s generic strategies outperformed companies that applied elements from different strategies into their company. Companies who tried to achieve two or more different strategies at the same time also failed to perform at their best, depending on the lack of clear directions. Several other studies argue, however, that the development of any successful business strategy has to reflect the larger competitive environment. Since industry environments do not specifically prescribe the need for cost leadership or differentiation, there is little reason to believe that one strategy is the best choice in any given environment. The fast changing environment in which companies operate today demands flexible combinations of strategies. Kim, Nam and Stimpert conclude that integrated strategies combining elements of cost leadership and differentiation will result in higher performance than cost leadership or differentiation do individually. But still, as Porter wrote, stuck-in-the-middle has to be avoided; the integrated strategy is to be seen as a new generic strategy.

Other scholars Wright and Parsinia (1988) also did studies on Porter's generic strategies. They found out four main reasons to criticise Porters generic strategies. They are following; choice, only one strategy, focusing and generic strategy in fragmented business. The first criticism of Porter, also by these authors, is that the company has to choose only one of the three strategies. How often can a company choose their own strategy? It depends on what kind of resources the company has access to, the size of the company and what kind of industry it is working in. Larger companies often have access to better resources and can compete with lower costs or differentiating, while the smaller companies are forced to compete with the focus strategy. The second criticism is that Porter says that a company would choose one of the strategies. Wright and Parsinia (1988) viewed Philip Morris and Holiday Inn Corporation as examples in their studies that, with great success, have used multiple strategies. The third criticism is the focus strategy. With a focus strategy a company can either choose to have cost focus or differentiation focus. The strategy is based on the difference between the segment that the focus company has and that of the other segments in the industry.

Porter (1983) argues that the focus company has advantage over other companies, because other broad target companies cannot successfully serve one segment at the same time as they serve other. Focus strategy can only be successful for smaller companies. Wright and Parsinia (1988) argue that the larger companies cannot adopt the focus strategy alone because serving a small segment cannot be worth the big effort in marketing and research for the segment and generate big revenues. The fourth criticism concerns the market. The three generic strategies might be successful if the market consists of some market leaders and some small businesses. Then they clearly can be the cost leaders and smaller companies can use the focus strategy. In a more fragmented industry there has to be more than one strategy operating because the size and position of the companies are not clear.

Powers and Hahn (2004) looked into whether or not there are any links between competitive methods, generic strategies and firm's performance. Porter's definition means that a company has to choose one of the three strategy types otherwise the company will be stuck in the middle and not perform to its capacity. The article shows that in financial businesses a cost leadership strategy did perform better than company that had differentiation and focus. However, those, which have chosen differentiation and focus, performed better than the company that was stuck-in-the middle. Day and Wensley (1998) also say that choosing a strategy based on the positional advantage in the market will make a firm successful, because it is dependent upon which resources are available to them.

In developing its strategy, a firm often implements a strategic management process which has an ultimate objective to enable a firm to choose and implement a strategy that generates and sustains a competitive advantage (Barney, 2007; Teece, 1997). Competitive advantage is the ability of a firm to create more economic value than its competitors; and this economic value can be simply defined as the difference between the perceived benefits gained by a customer who purchase a firm's products or services and the full economic cost of these products or services (Barney, 2007).

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)

Organizations have an important role in our daily lives and therefore successful organizations represent a key ingredient for developing nations. Thus many economists consider organizations and institutions similar to an engine in determining the economic, social and political progress. Continuous performance is the focus of any organization because only through performance organizations are able to grow and progress. Performance evaluation during this time was focused on work, people and organizational structure. In the '50s organizational performance was defined as the extent to which organizations, viewed as a social system fulfilled their objectives (Georgopoulos & Tannenbaum, 1957). Thus, organizational theories that followed supported the idea of an organization that achieves its performance objectives based on the constraints imposed by the limited resources (Lusthaus & Adrien, 1998). In this context, profit became one of the many indicators of performance.

In the 60s and 70s, organizations have begun to explore new ways to evaluate their performance so performance was defined as an organization's ability to exploit its environment for accessing and using the limited resources (Yuchtman & Seashore, 1967).The years 80s and 90s were marked by the realization that the identification of organizational objectives is more complex than initially considered. Managers began to understand that an organization is successful if it accomplishes its goals (effectiveness) using a minimum of resources (efficiency).

Researchers among themselves have different opinions of performance. Performance, in fact, continues to be a contentious 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 or activity. However, according to Daft (2000), organizational performance is the organization's ability to attain its 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). Thus, organizational performance is one of the most important variables in the management research and arguably the most important indicator of the organizational performance. The authors Lebans & Euske (2006) provide a set of definitions to illustrate the concept of organizational performance: Performance is a set of financial and nonfinancial indicators which offer information on the degree of achievement of objectives and results (Lebans & Euske 2006).

Performance is dynamic, requiring judgment and interpretation. Performance may be illustrated by using a causal model that describes how current actions may affect future results. Thus, organizational performance is one of the most important variables in the management research and arguably the most important indicator of the organizational performance. Performance may be understood differently depending on the person involved in the assessment of the organizational performance (e.g. performance can be understood differently from a person within the organization compared to one from outside). To define the concept of performance is necessary to know its elements characteristic to each area of responsibility. To report an organization's performance level, it is necessary to be able to quantify the results. of any organization because only through performance organizations are able to grow and progress. Thus, organizational performance is one of the most important variables in the management research and arguably the most important indicator of the organizational performance.

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).

The next issue that was always asked about organizational performance was what factors determine organizational performance. According to Hansen and Wernerfelt (1989) in the business policy literature, there were two major streams of research on the determinants of organizational performance. One was based on economic tradition, emphasizing the importance of external market factors in determining organizational performance. The other line of research was built on the behavioural and sociological paradigm and saw organizational factors and their ‘fit’ with the environment as the major determinant of success. The economic model of organizational performance provided a range of major determinants of organizational profit which included: Characteristics of the industry in which the organization competed, the organization’s position relative to its competitors, and the quality of the firm’s resources. Organizational model of firm performance focused on organizational factors such as human resources policies, organizational culture, and organizational climate and leadership styles.

Another study by Chien (2004) examined and found that there were five major factors determining organizational performance, namely: Leadership styles and environment, Organizational culture, Job design, model of motive, and human resource policies. Organizational culture and competitive intensity in addition to organizational innovativeness are used in the current study. The economic factors and organizational factors model was supported by many researches including Hansen and Wernerfelt (1989) who found in their study that economic factors represented only 18.5% of variance in business returns, while organizational factors contributed 38 % of organizational performance variance. This research focused more on organizational factors that determine organization's performance. Organizational factors were found to determine performance to a greater extent than economic factors (Trovik & McGivern, 1997).

2.4 Competitive Strategy and Organizational Performance

Porter's cost leadership and differentiation strategies have been linked to the achievement of superior performance by many studies. A firm that successfully pursues a cost leadership strategy emphasizes 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, service, sales force, advertising, and soon (Porter, 1980). A firm can, therefore, gain a competitive advantage over its rivals by having significantly lower cost structures in an industry without ignoring other areas such as product and service quality. Thus, the maintenance of a strong competitive position for an organization pursuing a cost leadership strategy places a premium on efficiency of operations and scale economies that enable them to achieve and sustain their performance for a considerable period of time.

A differentiation strategy can be based on many dimensions such as brand image, innovativeness and design features, product quality, reliability, durability, customer service and firm reputation. But a successful differentiation strategy must be based on features that are difficult for rivals to imitate. A firm that pursues a differentiation strategy may attempt to create a unique image in the minds of customers that the firm or its products are superior to those of its competitors (Miller, 1988). A firm creates these perceptions through advertising programs, marketing techniques and methods, and charging premium prices. Moreover, a firm may pursue a differentiation strategy by creating a perception in the minds of customers that its products possess characteristics that are unique from those of its competitors in terms of differences in design, physical attributes/features, and durability. A firm focusing on these characteristics performs innovative activities to constantly improve upon the design and physical attributes and performance of its products. A firm may also offer superior customer service or create the perception that it pays attention to and empathizes with customers' needs and desires so as to differentiate itself from competitors. This enables a firm implementing a differentiation strategy to create a positive reputation, brand image and customer loyalty.

Thus, the pursuit of a differentiation strategy helps firms to avoid potentially severe price competition because of their ability to offer products with greater reliability, greater durability, greater features and aesthetics, superior performance (Mintzberg, 1988; Dean and Evans, 1994), creating customer and brand loyalty (Porter, 1980). Differentiators are thus able to generate competitive advantage over their rivals and achieve superior performance.

Research on competitive strategy and performance impact; a focus on SMEs by Oyedijo, (2012) recognized that there exists a relationship between the performance of the firm's products and competitive strategies used. Performance variables were regressed against Differentiation strategy, Low cost strategy and focus strategy. The findings showed that three samples, sales growth, total income/revenue growth, incidence/frequency of customer complaints and growth in customer base are significantly affected by differentiation, low cost and focus strategies. The result also showed that there was a significant difference between the performance of companies that are using Differentiation strategy or Low cost strategy alone and the performance of companies that are using the two strategies together. Result of the analysis showed that the performance of firms that were using Differentiation, Low cost as standalone strategies was lower than the performance of the firms that used mixed strategies.

A study by Ombui (2013) on the effects of competitive strategies on the performance of mission hospitals in Kenya revealed that competitive strategies affect performance. This research revealed that cost leadership affects performance in the hospital. This is consistent with other previous studies that observed that a cost leadership strategy is designed to produce goods or services more cheaply than competitors by stressing efficient scale of operation. The study deduced that the management level employees were in agreement with the aspects of cost leadership. They include: the hospital observed economies of scale (cost advantages that the company obtains due to expansion); that the hospital focused on lower cost of purchase of equipment and that the hospital used many suppliers to hedge on cost exploitation. The study also deduced that the hospital focused on reducing costs related to regulation levies; that the hospital focused on reducing overhead expenses; formed linkages with service providers; practiced cross selling; conducted all the services on its own; had partnership agreements with other hospitals; shared cost across functions maximized on capacity utilization (extent to which the hospital actually uses its installed productive capacity), had formed linkages with customers; focused on lower installation costs i.e. entry into service and that the hospital had formed linkages with other financial/supplementary institutions. The study also established that market focus affects performance in the hospital through aspects such as the hospital practicing segmentation based on age of the customers; the hospital practicing segmentation based on social class of the customers; the hospital practicing segmentation based on benefit sought by the; the hospital practicing segmentation based on education level of the customers and the hospital practicing segmentation based on physiological aspects of the customers e.g. lifestyle and that the hospital practiced segmentation based on income level of the customers. This is consistent with a previous study that who observed that Successful market focus strategies create a competitive advantage for the seller, as customers view these products as unique or superior (Ombui, 2013).

The study further established that differentiation affects performance in the hospitals. This is mainly through aspects such as the employees reliability, the hospital's offering low prices/premiums ;the hospital's conducive working environment the hospital's employees credibility ; the hospital's courteous staff, the hospital's service assurance; the hospital's empathetic staff; the hospital's tangible services, the hospital's creative advertising therefore superior brand personality; the hospital's employees good communication skills ;the hospital's service delivery guarantees, the hospital's reliable services; the hospital's participation in events such as shows and exhibitions ;the employees close hospital-customer relationships, the hospital's well trained agents; price quality match; the hospital's competent employees; the hospital's quality and attractive symbols, low interest, hospital's fast complaint handling system ;the hospital's fast accurate quotes; the hospital's employees who are responsive to customers' needs ;the hospital's readily available agents; the hospital's comprehensive written/ audio visual media; the hospital's convenient location; the credit (Ombui, 2013). The findings further revealed that cost leadership had the greatest effect on the performance of the institution, followed by focus strategy. Differentiation strategy had the least effect on the performance.

2.4.1 Competitive Strategies and Performance of Telecommunication Companies

Corporations naturally need to upgrade their capabilities in response to changes in their environment (Kodama, 2006). For high-tech firms like those in mobile telecommunication industry, capability upgrading as their efforts to respond to changes in their environment, that is, customer needs and advance in technology, is imperative; and as they seek future innovation, they also need strategies to follow up their upgrading process since they must continue to introduce new products and services for their customers (Kodama, 2006).

The cost leadership strategy actually emphasizes efficiency in which the firm produces a high volume of standardized products or services at a low cost, so that it have a possibility to offer them with lower price compared to its competitors. Conversely, differentiation strategy emphasizes in producing a unique products or services that creates a high value to customers. With this uniqueness, it is hoped that the customers willing to pay a premium price. Differentiation may take many forms such as in design, brand image, technology, features, customer service or other dimensions. If the cost leadership and differentiation strategies have target to industry wide, the final generic strategy i.e. focus strategy is focusing on a particular segment only and within that segment applies either cost leadership or differentiation (Porter, 1980). Michael Porter argued that a firm must concentrate on a single generic strategy. Adopting two strategies at the same time is rarely possible and can lead to a firm being "stuck in the middle" and "almost guaranteed low profitability" (Porter, 2004). While Porter suggested picking only one single generic strategy, some scholars argued that a mixing of Porter's generic strategies will be more effective and preferable for today's environment. For example, recent study on the applicability of Porter's generic strategies in the digital age by Kim (2004) also concluded that integrated strategies that combine elements of cost leadership and differentiation will outperform cost leadership or differentiation strategy.

Considering strategy in mobile telecommunication industry, Ahonen and Barrett (2002) proposed almost the same concept as Porter's and they called it "Competition Triangle" among mobile operators. In this triangle, the mobile operators were suggested to pick only one dimension; price leader, technical innovator, or customer excellence. They argued that "while every operator of course has to be reasonably good at all of the three dimensions, in true competition, only one player can be the best at any one of the three" (Ahonen & Barrett, 2002). They also mentioned that operators must ensure that they do not fall into the "zone of mediocrity" – the same as "stuck in the middle" situation in Porter's theory – since companies can end up making losses in this position.

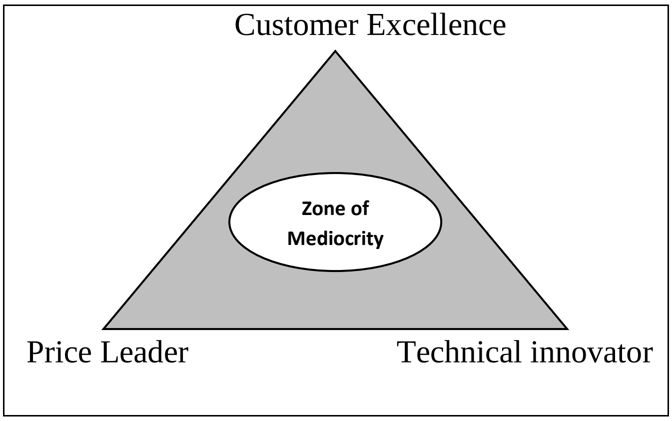

Figure 2.2: Competition triangle among mobile operators.

Source: Ahonen and Barrett (2002).

As the contrary to competition triangle concept, Heuermann (2004) suggested that operators have to concentrate on both differentiation and cost leadership strategies at the same time. Heuermann proposed that different strategies are applied for different parts of the mobile network system. The cost leadership strategy is mainly applied into the network platform such as applying maintenance cost reduction and efficiency, while the differentiation strategy is applied into service provisioning part such as creating innovative services.

Research conducted by Fernandez and Usero (2009) on competitive behaviour between pioneers and followers in the European mobile telecommunications industry found that “price reduction actions represent the best approach for followers, while differentiation actions (such as launching new products and services or enlarging and upgrading networks) are the most effective strategy for pioneers”. This finding was actually the same as the situation in Indonesia. All of new comers who entered the market in the past several years such as Bakrie Telecom, Hutchison (Three) and Natrindo came by offering very low tariff for voice and SMS, in order to gain new subscribers and market share. However, this action has been being followed as well by some of the old players such as XL and Indosat, because they do not want to loose their subscribers. As the result, price war indicating the fierce competition in the industry. Price war reduces all players’ profitability, which means decrease ARPU. Besides that, the low price actually does not guarantee the customers’ loyalty, especially in the environment where the market is dominated by prepaid or pay-as-you-go users. In price war situation, the prepaid users can easily change their operators by following the one that offers the cheapest tariff at that time; and this situation will increase the subscriber churn rate. Once this happens, then it is a must for the operators to create new services that can differentiate them from others and also can compensate for the declining income from basic voice service. Fernandez and Usero (2009) in their study therefore points out that all the operators in the Indonesian mobile market focused on both strategies at the same time.

A study by Arbin and Holmberg, (2006) on Strategies in the Colombian Telecommunication Market studied the strategies in which the telecommunication companies implemented in their companies. Their intention was to investigate if the generic strategies which Porter developed with were applicable in such an industry as the telecommunication sector. In order to find out if the Porter's strategies were applicable in the telecommunication sector the researchers investigated two of the players in the Colombian market, OLA and Comcel and find out what the strategies of the Colombian mobile operators were and how they had developed in order to be successful in the market. The findings were that Porter's differentiation strategy was frequently used in the Colombian market and it worked. OLA´s strategy was to differentiate themselves through their low prices, and entered the market very aggressively with the penetration strategy. The meaning was to attract a large volume of subscribers to be able to keep the cost low, maintain the low prices and to get a piece of the market share. Thereby their aim was to achieve the cost leader advantages. Their strategy was a success in the beginning; they got their brand well known and their volume of subscribers heavily grew. This depended on that they were the only operator that offered better services within a new technology to a lower price and to a better quality. This strategy was a success only for a short period of time because Comcel saw the advantages and invested in the new technology as well. Therefore OLA lost their cost leadership and could no longer stick out as they did when first entering the market.

In this case Porter's cost leadership strategy was applicable on the operator OLA. But after the entering stage they had to change their strategy when the other operators started to adopt their strategies according to the new conditions in the market. The mistake OLA did was that it should not have been such a surprise to them that the other operators started imitating them and invested in the same new technique when they saw the success OLA achieved. OLA should have had a second strategical plan, in case the first strategy would fail and this was exactly what happened. When the competitors started competing on the same conditions as OLA, the success of OLA started to decrease (Arbin and Holmberg, 2006). This resulted in that they no longer had a strategy which made the subscribers confused of what the company had to offer. OLA became stuck in the middle between cost leadership and differentiation strategy. According to Porter a company has to choose one single strategy to become successful. The cost leader strategy was visible in OLA´s initial strategy but they had to change it when it no longer was successful.

The study concluded that problem with Porters generic strategy in the telecom industry is that it is a high-speed changing market and it is impossible to stick to only one strategy which Porter requests. In order to succeed a company has to use more than one strategy or at least have a back up strategy in case the first one is a failure. They probably have to combine the differentiating strategy with the cost leader strategy because of the more decreasing prices in the Colombian market. Having only a cost leader strategy is more or less impossible because all the operators are forced to keep the cost low and to be cost effective. The researchers did not find that any of the two operators in the Colombian market using the focus strategy.

Along with the global economic downturn, the fierce competition has challenged the mobile operators to be efficient in spending their expenses, i.e. applying the cost leadership strategy. However, it is worth noted that offering the cheapest price is not the key to be a market leader (Grant, 2008). For telecommunication industry, network quality and coverage are still the main factors that make customers loyal to their operator. In Indonesia, it has been proven by Telkomsel. As the operator with the largest network coverage in the country, Telkomsel has not involved too far in the price war, but still they gained the highest number of new customers and the biggest revenues as well.

Although it is difficult to achieve, implementing the cost leadership strategy with minimum impact into network quality is inevitable for the mobile operators. One example of his implementation is by cutting the costs of non-core functions. For example, it can be done through outsourcing non-core functions such as outsourcing contact services management, as has been implemented by XL since 2008. By outsourcing noncore functions, not only the overhead costs can be reduced, but also the mobile operators can better focus on and further develop their core business competencies.

Grant (2008) argued that low cost offers a less secure basis for competitive advantage than does differentiation and is also vulnerable to unpredictable external forces. In mobile telecommunication industry, the differentiation can be gained through several ways such as expansion of network capacity and coverage, improving customer service delivery, creating attractive pricing schemes, and also innovation in mobile value-added services (MVAS) creation.

2.4.2 Competitive Strategies and Performance of Mobile Value Added Services

A mobile value-added service (MVAS) is popular as a telecommunications industry term for non-core services or, in short, all services beyond standard voice calls and fax transmissions but, it can be used in any service industry (e.g. Web 2.0) for the services providers provide for no cost to promote their main service business. In telecommunication industry on a conceptual level, value-added services add value to the standard service offering, spurring the subscriber to use their phone more and allowing the operator to drive up their average revenue per user (ARPU). For mobile phones, while technologies like SMS, MMS and GPRS are usually considered value-added services, a distinction may also be made between standard (peer-to-peer) content and premium-charged content (en.wikipidea.org).

The value added services are characterized as under: - Not a form of core or basic service but adds value in total service offering, stands alone in terms of profitability and also stimulates incremental demand for core or basic services, can sometimes be provided as stand alone, do not cannibalize core or basic service, can be add-on to core or basic service and as such can be sold at premium price, and/or may provide operational synergy with core or basic services. A value added service may demonstrate one or more of these characteristics and not necessarily all of them (en.wikipedia.org). MVAS benefits different categories of stakeholders in the market; Mobile operators as a source of revenue, to application developers it helps them continuously develop new applications, Media companies get an opportunity to host new services, Retail outlets benefit from increased sales and customers benefit from a broader range of services where they get what they want and literally the world is at their fingertips, (Ashish, 2010). Value addition according to Michael Porter is an effective strategy used by Companies in different industries to enhance product differentiation hence higher margins that cannot be achieved on the basic product or service. Value added services may include activities like providing more service with sale, or engaging in final fabrication of the product. Value added can also sometimes be enhanced by forward integration from manufacturing into distribution and retailing. This step may neutralize buyers' power or allow greater product differentiation by better controlling the conditions of sale (Porter, 2004).

All the value added services address some need of the end consumer whether it is psychological, monetary or convenience. Based on the need fulfilment of the end user, Mobile

VAS is mainly grouped into three broad categories: Entertainment VAS, Info VAS and Mcommerce VAS (transactional services).Entertainment VAS - The key differentiating factor of Entertainment VAS is the mass appeal it generates. These provide entertainment for leisure time usage. These not only generate heavy volume (owing to its mass appeal) but also heavy usage. An example of these kinds of services is Jokes, Bollywood Ringtones, CRBT (Caller Ring Back Tone) and games. These services continue to be popular and have been key revenue generators for the mobile VAS market and is considered to be a high value MVAS. Other popular Entertainment VAS driving the market are dating and chatting services. This service is not only growing fast but also witnessing less churn as compared to other MVAS. Owing to its sticky nature, it requires comparatively less marketing efforts and cost. Entertainment VAS has the potential to remain a key contributor to Mobile VAS industry. To sustain the MVAS growth, it is the responsibility of the industry to keep discovering/innovating killer applications like Caller Ring Back Tone at regular intervals (en.wikipidea.org).

Another category is Info VAS- These services are characterized by the useful information it provides to the end user. The user interest comes in from the personal component and relevance of the content. Apart from mobile, alternate modes are available to access Information VAS like Newspaper, TV, and Internet. e.g. of Info VAS is information on movie tickets, news, banking account etc. They also include user request for information on other product categories like real-estate, education, stock updates, etc. Information VAS needs to target the right person at the right time with the right content. The third category of MVAS is M-Commerce VAS (Transactional services) are services which involve some transaction using the mobile phone. An example of this kind of service is buying movie tickets using mobile phone or transfer of money from one bank account to the other. These can broadly be classified into two types - Mobile banking and Mobile payments.(en.wikipedia.org). The newly Kenyan innovated money transfer services also fall in this category.

It is estimated that mobile value added services revenue will reach $170billion by 2012.The US leads the developed markets in mobile data revenue growth. Furthermore, data Average Revenue Per User doubles with 3G.SMS is estimated to continue driving VAS ARPUs in emerging markets but less in developed one (Pyramid research, 2008). In mobile telecommunication industry, VAS is defined as services that are not part of the basic voice offer and are availed off separately by the end user. They are used as a tool for differentiation and allow the mobile operators to develop another stream of revenue (IAMAI & IMRB, 2008).

Mobile data Operator best practices studies of cases involving US, Australia, Philippines and Malaysia indicated that in the USA aggressive 3G strategy helped Verizon wireless beat its competitors in data and other non-voice services. Australia's case with expanding 3G adoption along with more plans and option for households grew revenue significantly (Pyramid research, 2008) by Telesfra. Celcom of Malaysia adopted aggressive data strategy by using innovation, first to market and differentiate of data service to raise earnings despite aggressive marketing tactics. Pricing strategies included differentiation with convergent service, value and options based on usage. Paradis (2007) argued that mobile broadband will continue to be the fastest growing telecoms sector at an expected global average of 14% coming mainly from low broadband-penetration regions such as Middle East and Africa, Latin America and Eastern Europe.

Mobile VAS studies of cases involving the Indian market indicates that the present Average Revenue Per User(ARPU) stands at 8-9% with a growth expectation of 12-13% in the following years.SMS constituted the major portion of the VAS market at 35% followed by caller Ring Back Tone(CRBT). In the Indian market the leading mobile companies have adopted new technologies such 3G to differentiate their VAS services. The new technologies is expected to have a positive impact in the growth of VAS especially the data services as 3G enhances the data speeds (IAMAI, 2008).

A study on comprehensive strategic analysis of the mobile value added services business in china by Cheng, (2006) revealed that the mobile value added services provided included short message services (SMS), multimedia messaging (MMS) and mobile internet services. The service providers adopted the Porter's competitive strategies in the provision of the MVAS to gain competitive advantage in the market. To differentiate its VAS services, Tiros has employed highly skilled personnel, good customer service and established a call center specifically for VAS queries. The company also used centralised structure in order to reduce costs. In regards to the technology used in provision of MVAS in the Chinese market the results of this study showed that the revenue on MVAS on 3G technology was higher compared to the revenue collected on 2.5G platform.

Technology has a significant impact over competitive advantage if it influences the relative cost position or differentiation (Porter, 1985). It also has an important role in industrial structure shift and it might alter the competitive forces. In some cases, the technological change might necessitate a reconfiguration in the overall value chain. A technological change which is beneficial to a firm must: reduce costs or enhance differentiation, change cost or uniqueness drivers in favour of a firm, transfer first-mover advantages if the new technology is pioneered, develop the overall construction of the industry (Porter, 1985). Technology shift usually changes the definition of the boundaries of an industry. Consequently, competitive strategies implemented should be examined and adapted to the changing environmental conditions (Dodourova, 2003).

Technology leadership is favourable when first-mover advantages that can be exploited are present in the industry. The most important first-mover advantages are reputation, pre-empting a positioning, switching costs, channel selection, proprietary learning curve, and definition of standards, institutional barriers, and early profits. Some first-mover disadvantages such as pioneering costs, demand uncertainty, changes in buyer needs, specificity of investments to early generations and factor costs, technological discontinuities, and low-cost imitation also exist (Porter, 1985).As a general rule, if a firm has the ability to possess and take advantage of proprietary technology in a particular industry, that means less diffused technology, more benefits could be exploited (Teece, 1986).

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.

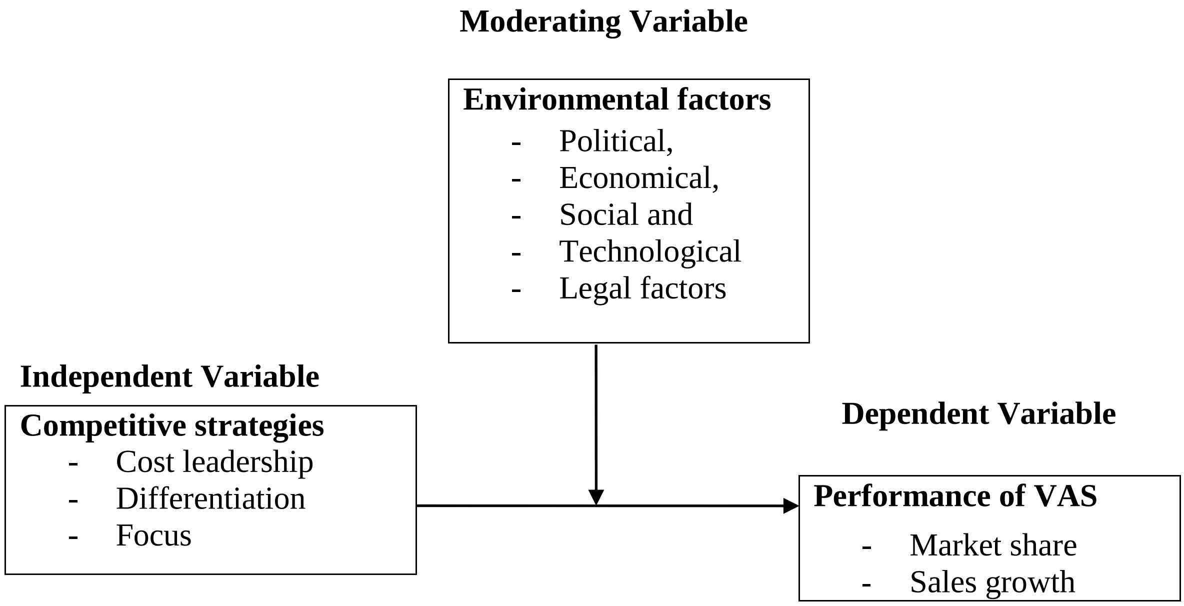

Figure: 2.3: Relationship between competitive strategies, environmental factors and the organizational performance.

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. Political factors include laws relating to the industry such as restriction on tariffs, internet regulations, Base stations, political stability while economical factors include tax, infrastructure, inflation levels, income growth, debt & saving levels, consumer and business confidence. Social factors influence people's choices and include beliefs, values and attitudes of society. 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.

CHAPTER THREE

RESEARCH METHODOLOGY

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).

3.2 Population

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 primary data, which forms the bulk of the data for this study, gives first-hand information on the operations of these companies and was supplemented by the secondary data. The respondents were the firms' top level managers from the marketing and finance departments.

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

The primary data was collected using closed-ended questionnaires. Questionnaires were used to collect primary data. The questionnaires were administered to the target respondents who were the managers in charge of Strategic planning function, and in their absence, persons in charge of the marketing function. Secondary data was extracted from the respective companies' internal reports.

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.

Validity involved how accurately the data obtained represented the variables of the study. The validity of the instrument was established by experts in strategic management.

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.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study based on the data collected from the field. The study sought to examine the effect of the competitive strategies adopted by the mobile operators in Kenya on the performance of Mobile Value Added Services to gain sustainable competitive advantage. The responses from the subjects were compiled into frequencies and converted into percentages and presented in charts and tables. This was to facilitate easy analysis. The analysis and interpretations were done on the basis of study objectives.

4.2 Descriptive Statistics

4.2.1 Company Profile

The study targeted three managers from each of the four major telecommunication companies in Kenya; they include Safaricom, Airtel, Essar (Yu) and Telkom Kenya (Orange). Out of the 12 respondents, 10 responses were successfully received. The study therefore had a response rate of 83%; according to Mugenda and Mugenda (2003) a 50% response rate is adequate. Therefore, the response rate was adequate for the study.

4.2.1.1 Mobile Value Added Services available

In this section, the study sought to establish the mobile value added services available in the four telecommunication companies. The results are as shown in Table 4.1.

Table 4.1 Value Added Services available

Value Added Services Available	Frequency	Percent
SMS	4	100.0
Mobile internet/Data Services	4	100.0
MMS	3	75.0
Money transfer services	4	100.0

As shown in the Table 4.1 the study found out that all the telecommunication companies had value added services such as SMS (100%), mobile internet/data services (100%) and money transfer services (100%). Moreover, 75% of the respondents also indicated that they had MMS services.

4.2.1.2 Market Served

The study sought to find out the various markets that the telecommunication sampled served. The results are presented in Table 4.2.

Table 4.2 Market Served

Market Served	Frequency	Percent
Local	4	100.0
Regional	4	100.0
International	2	50.0

As shown in the table 4.2, it was established that 100% companies served the local market and regional market respectively. Moreover, 50% of the respondents revealed that they served the international market.

4.2.2 Competitive Strategies Adopted by the Firms

The study sought to establish the extent to which the telecommunication companies in Kenya adopted competitive strategies.

4.2.2.1 Low Cost Leadership in Provision of VAS in Kenya

The study sought to establish the extent to which the telecommunication companies in Kenya adopted low cost leadership strategies. Descriptive statistics were used. The results are presented in Table 4.3.

Table 4.3 Low Cost Leadership Strategies Adopted 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 revealed 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.

4.2.2.2 Differentiation Strategy in Provision of VAS in Kenya

The study also sought to find out the extent to which the firms adopted differentiation in provision of value added services in telecommunications companies in the major Kenya. Descriptive statistics were used. The results are presented in Table 4.4.

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.

4.2.2.3 Focus Strategy in Provision of VAS in Kenya

The study also sought to find out the extent to which the firms adopted focus strategy in provision of value added services in telecommunications companies in the major Kenya. Descriptive statistics were used. The results are presented in Table 4.5.

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.

4.2.3 Performance of the Value Added Services

In this section, the study sought to establish the extent to which the performance of money transfers services and internet services had changed for the last three years.Descriptive statistics were used. The results are presented in Table 4.6.

Table 4.6 Performance of VAS

	Money transfer services		Mobile internet services	
Performance Indicators	Mean	Std. Deviation	Mean	Std. Deviation
Growth of market share	4.60	0.699	4.50	0.527
Growth of sales	4.50	0.527	4.60	0.516

As shown in the table 4.6, results show that majority of the respondents revealed that growth of market share had increased as shown by a mean score of 4.60. On the other hand, the respondents also agreed that growth of sales had increased in the last three years; this is shown by a mean score of 4.50. On the performance of data services, majority of the respondents revealed that their company's growth of sales had increased; this is shown by a mean score of 4.5. Moreover, the respondents reported that their company's growth of market share had increased as shown by a mean score of 4.60.

4.3 Hypothesis Testing

4.3.1 Competitive Strategies across Value Added Services

The study further sought to determine whether the strategies vary with the value added services. It was hypothesized (HA_1) that the competitive strategies vary with the type of mobile value added services. The hypothesis was tested using T-test and the results are presented in Table 4.7.

Table 4.7 Competitive Strategies across MVAS

		Paired Differences							
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	Df	Sig. (1-tailed)
Pair 1	Competitive Strategies-Money Transfer Services	3.920	4.726	.479	1.068	2.973	4.211	9	.000
	Competitive Strategies-Mobile Internet Services	1.080	4.532	.453	0.180	1.979	2.383	9	0.019

As shown in table 4.7, there is a significant difference between the competitive strategies and money transfer services; t= 4.211, $p < 0.05$. 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 < 0.05. Therefore, the result supports the hypotheses 1; namely, the competitive strategies vary with the type of value added services.

4.3.2 Relationship between the Competitive Strategies and Performance of Mobile Transfer Services (MTS) in Kenya

To test the hypotheses of the study (HA_2-HA_4) Pearson correlation analysis was used. The results are presented in the Table 4.8.

Table 4.8 Correlation Matrix for Competitive Strategies and Performance of MTS

		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 shown in the table 4.8 for money transfer services, the study found out that there was a weak but significant relationship between low cost leadership, focus strategy and performance of money transfer services (r = 0.155, p<0.05); (r = 0.436, p<0. 05). However, the study found a negative and insignificant relationship between differentiation strategy and performance of money transfer (r = -0.210, p>0.05).

4.3.2.1 Low Cost Strategy and Performance of Money Transfer Services

This study sought to examine the relationship between the low cost strategy and performance of mobile value added services. It was hypothesized (H2) that low cost strategy positively affects the performance of mobile value added services. Hypothesis 2 revealed that there is a positive and significant relationship between low cost leadership and the performance of the money transfer services therefore the data supports hypothesis.

4.3.2.2 Focus strategy and performance of Money Transfer Services

This study sought to examine the relationship between the focus strategy and performance of mobile value added services. It was hypothesized (H3) that focus strategy positively affects the performance of mobile value added services. Hypothesis 3 revealed that there is a positive and significant relationship between focus strategy and the performance of the money transfer services, therefore the data supports hypothesis.

4.3.2.3 Differentiation Strategy and Performance of Money Transfer Services

This study sought to examine the relationship between the differentiation strategy and performance of mobile value added services. It was hypothesized (H4) that differentiation strategy positively affects the performance of mobile value added services. Hypothesis 4 revealed that there is a negative and insignificant relationship between differentiation strategy and the performance of the money transfer services, therefore the data negates hypothesis.

4.3.3 Relationship between the Competitive Strategies and Performance of Mobile Data Services

To test the hypotheses of the study (HA_2-HA_4) Pearson correlation analysis was used. The results are presented in the Table 4.9

Table 4.9 Correlation matrix for competitive strategies and performance of Mobile Data Services

		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 weak, but significant relationship between low cost leadership strategy, focus strategy and performance of mobile data services ($r = 0.220$, $p < 0.05$); focus strategy ($r = 0.312$, $p < 0.05$). However, the study found a negative, weak and insignificant relationship between differentiation strategy and performance of mobile data services ($r= -0.039$, $p > 0.05$).

4.3.3.1 Low Cost Strategy and Performance of Mobile Data Services

This study sought to examine the relationship between the low cost strategy and performance of mobile value added services. It was hypothesized (H2) that low cost strategy positively affects the performance of mobile value added services. Hypothesis 2 revealed that there is a strong and significant relationship between low cost leadership and the performance of the mobile data services, therefore the data supports hypothesis.

4.3.3.2 Focus Strategy and performance of Mobile Data Services

This study sought to examine the relationship between the focus strategy and performance of mobile value added services. It was hypothesized (H3) that focus strategy positively affects the performance of mobile value added services. Hypothesis 3 revealed that there is a positive and significant relationship between focus strategy and the performance of the mobile value added services, therefore the data supports hypothesis.

4.3.3.3 Differentiation Strategy and performance of Mobile Data Services

This study sought to examine the relationship between the differentiation strategy and performance of mobile value added services. It was hypothesized (H4) that differentiation strategy positively affects the performance of mobile value added services. Hypothesis 4 revealed that there is a negative and insignificant relationship between differentiation strategy and the performance of the mobile value added services, therefore the data negates hypothesis.

CHAPTER FIVE

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Introduction

This chapter is a synthesis of the entire report and contains summary of findings, conclusions arrived at, policy recommendations and recommendations for further research.

5.2 Summary of Findings

The study found out that all the telecommunication companies had value added services such as SMS, mobile internet services and money transfer services and MMS services. On the market served, majority of the telecommunication companies served the local market while a few also served the regional market.

The study further found out that there is a significant relationship between the competitive strategies and the mobile value added services. This study used t-test and found out that the competitive strategies vary with the type of the value added services. This is in regards to the objective one which sought to determine whether competitive strategies varied with the type of the mobile value added service.

As per objective two, the study revealed that there is strong and significant relationship between low cost leadership and the performance of the money transfer services and mobile data services.

The study also found out that there is insignificant relationship between differentiation and the performance of mobile value added services. On the differentiation strategies majority of the respondents reported that their firms adopted to a great extent strategies such as: differentiation through services through additional services for a product to motivate consumers, product differentiation and product differentiation through direct communication, niche-offers and also created difficulties of imitation. As per objective three there was a negative relationship between low cost strategies with performance of money transfer services and mobile data services.

On the value added services performance, majority of the respondents reported that that their market share and sales of their money transfer services had increasingly grown in the last three years while on the performance of data services, majority of the respondents also revealed that their company's sales and market share had increasingly grown in the last three years.

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 work force 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.

5.4 Recommendations

5.4.1 Recommendations for Management Practitioners

From the findings and conclusions, the researcher recommends that the competitive strategies are very important for the telecommunication companies to remain competitive in the market. However, it is also recommended that the government should step in and ensure that there is fair competition and business practice among these industry players since some companies may adopt unethical strategies for instance in product imitation which may bring poor business practices.

The researcher recommends that the firms should adopt market penetration, strategies and the best way to achieve this is by gaining competitors' customers. Other ways include attracting non-users of the product or convincing current clients to use more of the product/service, with advertising or other promotions.

To remain competitive or for any new entrant in telecommunications industry; they should also be able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage) to gain a competitive advantage over other firms. Thus, a competitive advantage would enable the firm to create superior value for its customers and superior profits for itself.

5.4.2 Recommendations for Further Research

The researcher suggests that for effective conclusive study on competitive strategies adopted by telecommunication companies to gain competitive advantage, a replicate study be carried out in other industry for comparison of results.

Semi structured questionnaires targeting one management staffs in each company were used to collect data. The researcher suggests that future studies be conducted using an interview guide and involving the respondents into discussions. This would help the researcher direct the conversation toward the topics and issues on competitive strategies adopted and the challenges faced. The sample size should also be increased to cover more management staff.

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APPENDICES

Appendix I: RESEARCH QUESTIONNAIRE

Section A: Background of Mobile Phone Companies

1(a) Company Name ____

(b)Position in the Company ______________________________________

2. Value Added Service offered

(a) Indicate which Mobile Value added Services are available in your network today ? (Tick all options that apply)

i. SMS ☐

ii. Mobile Internet/Data Services ☐

iii. MMS ☐

iv. Money transfer services ☐

Any other (Please specify)..

3. Market served

(a) Local ☐

(b) Regional ☐

(c) International ☐

(d) Local and international ☐

SECTION B

I: STRATEGIES USED IN PROVISION OF MONEY TRANSFERSERVICES

3. The following are strategies adopted by firms to enhance their competitiveness. Using the key(where 1-Not at all, 2-To a little extent, 3-To moderate extent,4-To a great extent, 5-To a very great extent) tick as appropriate to indicate the extent to which your firm has adopted the strategies.

	Low Cost Leadership	1	2	3	4	5
1	Maximizing economies of scale					
2.	Cost reduction especially through tight control of overheads and administrative expenses					
3.	Implementing cost cutting technologies					
4.	Unique access to a large source of lower cost materials					
5.	Making optimal outsourcing					
	Differentiation					
7.	Product differentiation					
8.	Unique characteristics					
9.	Create difficulties of imitation					
10.	Niche-offers(Special offers for specific groups)					
11.	Differentiation through services(Additional services for a product to motivate consumers)					
12.	Product differentiation through direct communication					
13.	Product differentiation through packaging					
	Segment market and Focus	1	2	3	4	5
14.	Unique product attributes for chosen segments					
15.	Products or services for high priced market segments					
16.	Products or services for low priced market segments					
17	Customized/tailored service for chosen segments					

SECTION B

II: STRATEGIES USED IN PROVISION OF MOBILE INTERNET SERVICES

3. The following are strategies adopted by firms to enhance their competitiveness. Using the key(where 1-Not at all, 2-To a little extent, 3-To moderate extent,4-To a great extent, 5-To a very great extent) tick as appropriate to indicate the extent to which your firm has adopted the strategies.

	Low Cost Leadership	1	2	3	4	5
1	Maximizing economies of scale					
2.	Operating efficiency(stressing cost reduction especially through tight control of overheads and administrative expenses)					
3.	Implementing cost cutting technologies					
4.	Unique access to a large source of lower cost materials					
5.	Making optimal outsourcing					
	Differentiation					
7.	Product differentiation					
8.	Unique characteristics					
9.	Create difficulties of imitation					
10.	Niche-offers(Special offers for specific groups)					
11.	Differentiation through services(Additional services for a product to motivate consumers)					
12.	Product differentiation through direct communication					
13.	Product differentiation through packaging					
	Segment market and Focus					
14.	Unique product attributes for chosen segments					
15.	Products or services for high priced market segments					
16.	Products or services for low priced market segments					
17	Customized/tailored service for chosen segments					

SECTION C

I: PERFORMANCE OF MONEY TRANSFER SERVICES

5. The following are measures of Organizational product performance. Using the key (where 1-Very much decreased, 2-Decreased, 3-Not changed, 4-Increased, 5-Very much increased). Indicate extent to which the performance of money transfer services has changed for the last three years.

Growth of market share	1( )	2( )	3( )	4( )	5( )
Growth of sales	1( )	2( )	3( )	4( )	5( )

SECTION C

II: PERFORMANCE OF INTERNET SERVICES

5. The following are measures of Organizational product performance. Using the key (where 1-Very much decreased,2-Decreased,3-Not changed,4-Increased, 5-Very much increased). Indicate extent to which the performance in regards to internet services has changed for the last three years.

Growth of market share	1( )	2( )	3( )	4( )	5( )
Growth of sales	1( )	2( )	3( )	4( )	5( )

Thank you for taking your time to respond to this questionnaire.

Appendix II: Mobile Phone Operators in Kenya

1. SAFARICOM
2. AIRTEL
3. YU
4. ORANGE-TELKOM

Appendix III: WORK PLAN

The research is expected to take 14 weeks scheduled as follows;

Activity	**Duration in Weeks**	**Cumulative(Time)**
Preparation and approval of proposal; Topic identification, Literature Review, submission of proposal	4.5	4.5
Preparation for field work such as printing of questionnaires	1	5.5
Data Collection	4	9.5
Data recollection in case of inadequacy	1	10.5
Data Analysis	1	11.5
Report Writing	1	12.5
Report submission	1.5	14

Appendix IV: RESEARCH BUDGET

Expenditure	**Amount(Kshs)**
1.Printing services	
a) Proposal	4,000
b) Research report	7,000
2. Photocopying services	
a) Proposal 7 copies @ 520	3,640
b)8 questionnaires @ 10*2	820
c) Project 7 copies @520	3,640
3. Data Collection	
a) Travelling expenses	12,000
b) Subsistence 500*60 days	30,000
4. Stationary	
a) Photocopying papers	3,500
b) Writing papers	1,500
c) Binding 100*7	700
Total	**73,180**
Add contingencies (10%)	7,418
GRAND TOTAL	**80598**