International Journal of Multidisciplinary and Current Research ISSN: 2321-3124
Research Article Available at: http://ijmcr.com

Effect of Differentiation Strategies on the Performance of Mobile Phone Service Providers in Kenya

Dr. Shitseswa E. Ayub*, Dr. Evans Kwendo and Chiseno Sharon Liyayi

Masinde Muliro University of Science and Technology, Kenya

Received 10 Feb 2019, Accepted 11 April 2019, Available online 13 April 2019, **Vol.7 (March/April 2019 issue)**

Abstract

Mobile phone service providers play a vital role in the dissemination of information that facilitates to better economic performance. Despite this contribution, mobile phone service providers face the problem of loss of the customers, loss of market share and a decline in profit margins. This study sought to determine the effect of focus strategy on the performance of mobile service providers in Kenya.

Keywords: *Focus strategy, competitive advantage, differentiation*

Background of the Study

Telecommunications are one of the most important and most competitive industrial sectors of the future. The global Telecom Industry revenue is predicted to be in the order of US$1,800 billion by the year 2017. The era of industrialization and information age has made the telecommunication industry expand into diversified functions to support the growth of technological advancement for better services demanded by any nation (Essays, UK. (November 2013). However, in this new millennium, this industry has to face with the increasing level of unpredictability of business environment and competitiveness of market due to the globalization of business, the shift from production to a knowledge-based economy and the growth of information communications technology. The demands and needs of the environment are constantly evolving and management is about adjusting the company according to the needs and demands of the environment. Increased competition threatens the attractiveness of an industry and reducing the profitability of the players. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment (Waithiru and Harrison K, 2013). Firms, therefore, focus on gaining competitive advantage to enable them to respond to and compete effectively in the market. (Thompson and Strickland 2005) argue that a company has a competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces. The sustainable competitive advantage is born out of core competencies that yield long-term benefit to the company. To succeed in building a sustainable competitive advantage, a firm must try to provide what buyers will perceive as superior value.

Porter (2010) proposes a strategy that requires a firm to identify growth segments, work at achieving operational efficiency and continuously enhance the quality of its products and services. It is the continuous measurement of these performance indicators and their management that determines the long-term direction of the firm and its survival. In the telecommunication industry in Kenya, not only is the continuous measurement of the key performance metrics important to achieve and maintain competitiveness, but also the strategy formulation and implementation process as well. Currently; the Kenyan telecommunication industry has three main players that include; Safaricom, Airtel, and Telkom Kenya. The main players are the Safaricom, Airtel, and Telkom Kenya mobile with a market share of 62.5%, 18.75% and 18.75% respectively. The sector has over 19 million active subscribers. The industry in Kenya is going through profound changes. In the past decade, technological advancement and regulatory restructuring have transformed the industry (CCK, 2016). To measure Performance, Weidinger and Platts (2014) explain that it involves a process of collecting, analyzing and/or reporting information regarding the performance of an individual, group, organization, system or component. Du Randt (2015) indicated that performance measurement should eventually lead to performance management, which is a tool of transforming ideas, vision and mission of senior managers into actions that can be planned for, measured, modified and corrected.

*Corresponding author's ORCID ID: 0000-0002-3340-7064
DOI: https://doi.org/10.14741/ijmcr/v.7.2.5

Effects of Focus Strategy on Firm Performance

According to Porter (2001), focus strategy implies pursuing specific market segments through overall cost leadership and or differentiation as opposed to engaging in the whole market. It involves, first, market segmentation and then specialization in the chosen segment which is useful in gaining a competitive advantage. The firm can choose to focus on a selected customer group, product range, geographical area or service line (Darrow *et al*., 2001). The focus is based at growing market share through operation in a niche market, in markets not attractive to or overlooked by larger competitors.

A successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Focus strategies are most effective when customers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

The disadvantage of this strategy is that it may put an organization in danger if the focused segment is too small to be economical, or if it declines. The focus strategy differs from the other strategies in one aspect. While in the differentiation and cost strategies wide fractions of customers are being appealed to, the firms that follow a focus strategy prefer to appeal to a certain geographical area or a certain fraction of customers. To capture those markets, firms may use cost focus or differentiation focus strategy.

Different cost structures in different market segments allow a firm to use cost focus strategy. Meanwhile, different market segments also have different wants and needs; therefore, a firm takes the opportunity by designing products or services to satisfy customer wants and needs in a specific market segment. The focus on costs can be difficult in industries where economies of scale play an important role. There is also an evident danger that the niche may disappear over time, as the business environment and customer preferences change Lynch (2003).

According to recent scholars, the success in any of these strategies is achieved through having effective and clear objectives. However, others also argue that firms cannot succeed by only employing a single strategy and that the success currently experienced is due to the effective application of multiple strategies notably low cost in addition to differentiated services or products. It is worth noting that Porter (1980) has been criticized in relation to the dynamics of the generic strategy framework.

Grimm (2005) as well states that one problem with Porter's framework is that it tends to view industries as in equilibrium and competitive advantage as sustainable. However, today's environment is fast changing and dynamic. Companies need constantly to reassess their strategic position and adapt their strategies. Thus, some scholars have argued that using Porter's framework with the purpose of committing in the longer term may lead firms to a poor position with lower than average performance. Abidin *et al*., (2011) also warn that focus strategy will hinder the firm movement if they have the vision to internationalize their firms.

This strategy is based on the selection of a market niche where buyers have distinctive preferences. The niche is defined by geographical uniqueness, specialized requirements in using the product or by special attributes that appeal to members (Stone, 2005). Focus aims at growing market share through operating in a niche market or in markets either not attractive to larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements. A successful focus strategy (Porter, 2001) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. The most of the telecommunication companies in Kenya that have applied market focus strategies has contributed significantly towards improved firm performance. The most important market focus strategies utilized are, customized services to a niche market, better services attributes to niche and market segmentation respectively. To achieve efficiency in market focus strategies telecommunication companies in Kenya uses various promotion strategies such as mass media, print media, outdoor marketing and also interpersonal communication approaches.

Methodology

The study considered using correlational research design. The study took place at the headquarters of the communications companies in Nairobi, Kenya. Nairobi is the capital city of Kenya and the Hub to all these telecommunications companies that is Safaricom, Airtel and Telkom. The correlation sampling method was used and simple random sampling was used to pick samples per state. Questionnaires with both open and closed-ended questions were used to collect data. To test the validity of the research instruments will be pre-tested through a pilot study in Kakamega commercial bank Kenya Commercial Bank, Cooperative Bank, Barclays Branches to ascertain their effectiveness in soliciting information regarding the study and their clarity to respondents. The respondents used during piloting did not constitute the final sample population.

Descriptive Analysis of the Variables in the Study

Descriptive analysis included an assessment of focus strategy, cost leadership, differentiation strategy, environmental factors and performance. The statements were anchored on a five point Likert-type scale ranging from 5= Very Large Extent; 4= Large Extent; 3= Moderate Extent; 2 = Little Extent; 1=Not at all and sampled respondents were asked to indicate the extent to which they agreed to the statements. Descriptive measures included minimum, maximum, mean and standard deviation. Mean is a measure of central tendency used to describe the most typical value in a set of values. Standard deviation shows how far the distribution is from the mean.

Focus Strategy

Table 1 Specific market segments

	Focus Strategy	N	Min	Max	Mean	STDEV
1	The Company has chosen specific market segments for some of its products	200	1.00	4.00	3.27	.665
2	Focusing on specific market segments enable our company to deliver high-quality products/services	200	1.00	4.00	3.30	.687
3	The Company focuses on differentiating its products from those of its competitors	200	1.00	4.00	3.34	.684
4	The Company focuses on competitive pricing to remain competitive	200	1.00	4.00	3.24	.758
5	The Company focuses on innovations to remain competitive	200	1.00	4.00	3.31	.699
6	The Company focuses on new product development to remain competitive	200	1.00	4.00	3.24	.740
7	offers price sensitive solutions towards their institution/company's specific needs	200	1.00	4.00	3.28	.695
8	By serving segmented markets minimizes their cost of product as prices match the different segments	200	1.00	4.00	3.27	.664
	Overall	**200**	**4**	**4**	**3.28**	**0.699**

From Table 1, the companies have chosen specific market segments for some of their products at moderate extent as indicated by a mean of 3.27 with a standard deviation of 0.665 implying that there was some deviation in their response. The responses also ranged from 1 to 4 meaning that none of the respondents rated at very large extent. Similarly, the companies moderately focused on specific market segments to enable them deliver high-quality products/services as shown by a mean of 3.30 with a standard deviation of 0.687 suggesting that there was some deviation from the mean. The extent ranged from 1 to 4 hence none of the respondents rated focusing on specific marker segments at very large extent. Similar results were also revealed whereby the companies moderately focused on differentiating its products from those of its competitors as shown by a mean of 3.34 with some deviation (SD=0.684). This extent ranged from 1 up to 4. In regard to competitive pricing, the companies moderately (Mean=3.24) focused on competitive pricing to remain competitive with some standard deviation (SD=0.758). The extent ranged from 1 up to 3.

The companies also moderately (Mean=3.31) focused on innovations to remain competitive with some standard deviation (SD=0.699). The responses ranged from 1 up to 4 implying none of the respondents rated innovation at very large extent. The companies also moderately focused on new product development to remain competitive at a mean of 3.24 and standard deviation of 0.740. The companies moderately offered price sensitive solutions towards their institution/company's specific needs as shown by a mean of 3.28 and standard deviation 0.695. Lastly, serving segmented markets minimizes their cost of product as prices match the different segments was at mean of 3.27. The standard deviation of 0.664 implied that there is some deviation from the mean.

Inferential Statistics

The objective of the study was to determine the effect of focus strategy on the performance of mobile phone service providers in Kenya. The objective sought to test the first hypothesis: H_{01}: Focus strategy does not have a significant effect on the performance of mobile phone service providers in Nairobi Kenya. Regression analysis was used to tell the amount of variance accounted for by one variable in predicting another variable. In this case, regression analysis was conducted to find the proportion in the dependent variable (Performance) which can be predicted from the independent variable (focus strategy) Table 2 shows the analysis results.

From Table above, there significant strong relationship between focus strategy and performance of mobile phone service providers in Kenya as shown by R=0.898. The results also revealed a coefficient of determination (r^2) of 0.807. Focus strategy can explain up to 80.7% of the variance in performance of mobile phone service providers in Kenya. The F test gave a value of (1, 199) = 827.140, P<0.01, which supports the goodness of fit of the model in explaining the variation in the dependent variable. It also means that focus strategy is a useful predictor of performance of mobile phone service providers in Kenya. The unstandardized regression coefficient (β) value of focus was 0.797 at significance level of p< .001. This indicated that a unit change in focus strategy would result to significant change in performance by 0.797 in same direction.

The first null research hypothesis posited H_{01}: Focus strategy does not have a significant effect on the performance of mobile phone service providers in Nairobi Kenya was rejected as P=0.000 (P<0.05). From the results, focus strategy had significant positive effect on performance with P<0.01 and it significantly accounted 80.7% variance in performance of mobile phone service providers in Nairobi Kenya.

Table 2 Regression Results of Focus Strategy and Performance

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.898[a]	.807	.806	5.29707		
a. Predictors: (Constant), Focus Strategy						
ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23208.717	1	23208.717	827.140	.000[a]
	Residual	5555.678	198	28.059		
	Total	28764.395	199			
a. Dependent Variable: Performance						
b. Predictors: (Constant), Focus Strategy						
Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	18.447	1.863		9.900	.000
	Focus Strategy	.797	.028	.898	28.760	.000
a. Dependent Variable: Performance						

Therefore, the first null hypothesis is rejected as focus strategy does have a significant effect on the performance of mobile phone service providers in Nairobi Kenya. These findings agrees with Darrow (2001). Who concluded that focus is based on growing market share through operation in a niche market, in markets not attractive to or overlooked by larger competitors.

Summary

The objective of the study was to determine the effect of focus strategy on the performance of mobile phone service providers in Kenya. Descriptive statistics revealed that focus strategy in the telecommunication firms in Kenya was at moderate extent. The mean ranged from 3.24 to 3.31 with an average mean of 3.28. The standard deviation ranged from 0.664 to 0.758 with average deviation of 0.699. There was some significant on the competitive pricing to remain competitive (SD=0,758) and focusing on the new product development to remain competitive (SD=0.740). There was a strong positive significant relationship between focus strategy and performance as shown by a coefficient of correlation (r) as 0.898 at 99.0% confidence level. Linear regression analysis indicated that focus strategy significantly accounts up to 80.7% of variance in performance of mobile phone service providers in Kenya (R=0.807, P=0.000). Multiple regression analysis revealed that when other variables are controlled in the model, a unit change in focus strategy would results to a significant change in performance by in the same direction.

Conclusion

The statistical significance as obtained from simple linear and multiple linear regressions gave adequate evidence to reject the first null hypothesis and conclude that focus strategy does have a significant effect on the performance of mobile phone service providers in Nairobi Kenya. This implied that focus strategy was a significant predicator of mobile phone service providers' performance in Kenya. Therefore, an increase in focus strategy such as specific market segment, product differentiation, competitive price and innovation would enable the firms to gain competitive advantage which would results to increase in efficiency, customer relationship and customer satisfaction thus superior performance.

Recommendations

The study recommends focus strategy because the firm using it targets a specific niche within an industry hence enhances specialization in activities in ways that other firms cannot perform. Focus strategy has enabled firms to improve on other sources that are of value adding activities. This has also helped in developing sets of barriers to new entrants from entering the market. More importantly, the study recommends that right-based focus approach should be used to create value for each product produced basing environmental factors such as government policies. This should be done based on the organization structure that is needed to support it implementation.

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