

DIVERSIFICATION AS A STRATEGIC APPROACH
BY SAFARICOM LIMITED

By

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award of degree of master of business administration (MBA), school of
business, university of Nairobi**

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university anywhere in the world

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

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Lastly, I offer my regards and blessings to all of those who supported me in any respect during the completion of the project.

DEDICATION

I dedicate this research project work to my wife and daughter, Irene Mutheu and Zahra Mutanu. There is no doubt in my mind that without their continued support and understanding I could not have completed this process.

I would like also to dedicate this research project work to my dear parent dad and mum Mr. Wilson Musembi and Beatrice Musembi. It is out your excellent work in guiding me as I grew up and instilling in me the discipline of hard work that has enabled me reach this far in life. Thank you dad and mum

ABSTRACT

A fundamental part of corporate strategy is the choice of what portfolio of businesses to compete in, and the managerial importance of this issue has stimulated an enormous amount of research focused on corporate diversification over the past four decades. However, after all these years of academic research on this topic, there are still many unanswered questions about what distinguishes successful diversification strategies from those that fail.

This was a case study to determine the diversification strategies adopted by Safaricom limited. According to Communications Commission of Kenya statistics report of May 2011 there were four registered National Mobile operators in Kenya. In order to carry out a comprehensive and in-depth research project an interview guide was used to collect primary data, secondary data will collected the operators' reports publish online on the company websites, data analysis will be used to analyze data collected.

The findings of this research project add to the body of knowledge on the subject of diversification strategy as adopted by Safaricom Limited and the telecommunication industry as whole and on the challenges faced in implementing the strategy. Strategy being at the core of organizational plans for the future and how the organization plans to beat and stay ahead of the competition, interviewees were not keen on diverging confidential information.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

A fundamental part of corporate strategy in an organization is to build corporate advantage and grow returns for investors. Different organizations adopt different strategies in management referred to as strategic options in order to achieve competitive advantage and grow returns on investment. One of the strategic options adopted by organizations is diversifications strategy (Porter, 1987). This research project focuses on diversification strategy as a strategic option adopted by Safaricom Limited in order to build corporate advantage over competitors and to grow returns on investment.

Mobile telephony is without doubt one of the most explosive developments ever to have taken place in the telecommunications industry. The technological environment is ever changing with mobile telephony turning the globe into an increasingly interconnected network of individuals and institution interacting with each other through a variety of channels, from mobile phone for voice communications to the very many value added services such as financial services, info-entertainment services, location based services and variations of internet communication channels such as online chat rooms, online forums, facebook, and twitter among others all accessible through mobile phones. Mobile telephony has proven to be a key enabler of socioeconomic progress and development, enhancing productivity, reducing poverty, improving living standards and therefore economic growth in many ways in the developing world. Mobile telephony also has an impact on government efficiency, fostering transparency and better communication services with and to citizens.

Mobile telephony takes a special place among the information and communications technologies in view of its exceptional diffusion in the last decade or so and its strong social and economic impact. In particular, mobile telephony has boomed in recent years in the developing economies thanks to a number of facilitating factors including; an infrastructure fairly easy to deploy, a market generally with low barrier for new entrants, and decreasing costs of both per minute call charges and mobile handsets among others. Mobile telephony is increasingly moving to the core of national competitiveness strategies around the world, thanks to its revolutionary power as a critical enabler of growth, development, and modernization. Recent economic history has shown that, as developed countries approach the technological frontier, information and communication technologies and especially mobile telephony is crucial for them to continue innovating in their processes and products to maintain their competitive advantage. Today, it does not matter whether in urban and rural areas, rich or poor mobile phone is the first form of communication technology of choice.

Kenya mobile telephony subscriber numbers has grown to 24.96 million as at end of 2010, growing from only 18,000 in 1999 with an overall tele-density of 64.2 per cent, (CCK annual report, May 2011). The reasons for this successful growth are many, Firstly mobile telephony is readily accessible service for most of Kenyan people and at its introduction it found a situation where there was almost no alternative service for communication. In fact fixed-lines were available almost exclusively in urban areas and even if they were available in some rural area, they were usually very expensive to acquire, often down due to poor maintenance, floods and even due to vandalism or theft

of copper cable. Secondly, for the population, the cost of a mobile handset and of the mobile subscription is more affordable with respect to the cost of a fixed-line. Income, gender, age, education does not create a major barrier to access and use of mobile phones. Thirdly, mobile phones are a relatively simple technology, understandable and simple to use even for uneducated people, it is usually oral-based communication system fitting the African cultural tradition, where the social relations are largely based on oral communication. Fourthly, the wide range of services offered by mobile telephony from mobility in communication to lately the powerful mobile money transfer service that has revolutionized the way people send and receive money across the country. Finally, the best ingredient is prepaid systems and per second billing. This system protects the interest of mobile telephony companies from bad debts and for the consumer it allows one to spent only what they have and hence live within their means.

1.1.1 Diversification Strategy

Strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations (Johnson, Scholes & Whittington, 2008). Diversification is a form of corporate strategy for a company; it seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit level or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry which the business is already in. At the corporate level, it is generally and it is also very interesting entering a promising business outside of the scope

of the existing business unit (Johnson, Scholes, & Whittington, 2008). Diversification strategy stands apart from the other strategies which are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities. The notion of diversification depends on the subjective interpretation of “new” market and “new” product, which should reflect the perceptions of customers rather than managers. Indeed, products tend to create or stimulate new markets; new markets promote product innovation

Diversification involves directions of development which take the organization away from its present markets and its present products at the same time, it is the riskiest of all form of corporate strategy, (Ansoff, 1988). It is a form of growth strategy which involves a significant increase in performance objectives, usually sales or market share, beyond current or past levels of performance. Many investors and executives hold the view that bigger is better. Growth in sales is often used as a measure of performance even if profits remain stable or decline, an increase in sales satisfies many people. The assumption is often made that if sales increase, profits will eventually follow. Rewards for managers are usually greater when a firm is pursuing a growth strategy. Recognition and power also accrue to managers of growing companies. They are more frequently invited to speak to professional groups and are more often interviewed and written about by the press than are managers of companies with greater rates of return but slower rates of growth. Thus, growth companies also become better known and may be better able, to attract quality managers. Growth may also improve the effectiveness of the organization.

According to Bruche (2000), diversification is traditionally under two broad headings, related and unrelated diversification. Related diversification is development beyond the present product and market, but still within the broad confines of the industry that is to mean value chain in which a company operates. Related diversification by moving backwards in integration makes it possible to have more control over supplies depending on demand. You can decide on the quantity you need to produce so that if demand is slow then production can be slowed and vice versa. As production would then be in-house, cost can then be monitored more closely and savings can generally be made without cutting corners. The product could still be sold at the same price to make a greater profit or it could be sold at a cheaper price and become more competitive.

Related diversification by moving forward in integration by acquiring your own distribution outlets to guarantee distribution, this can be important for new entrants as often it can be hard to secure new distributors until the product has been tested for its sales potential. However, moving into a new area through backward or forward integration does not guarantee improved performance for the organization. It does not even guarantee better value for money for the retailer or customer. It could realistically have the opposite effect and end up turning a good product into an un-competitive product, which ends up more expensive. This is a common mistake made as an organization believe by moving backwards or forward they cut cost when in fact they have no experience in that industry and end up with a worse scenario. Related diversification generally has less risk involved as the move is within the same industry that they already work within and knowledge is generally good.

Unrelated diversification is where the organization moves beyond the confines of its current industry. Synergy is the most common reason for both related and unrelated diversification to happen. Potentially synergy can happen, when two or more products or services combine to complement each other to the extent that, the two services added together have an effect that they become stronger than the sum of the two parts. Unrelated diversification has as many benefits as related diversification and on some occasions is the only way out. Sometimes it is used to escape from current business, when an organization is in decline and has little or no alternative but to diversify into a new market outside its own industry and just hope they escape in time (Bruche, 2000).

Spreading risk is an advantage of diversifying into unrelated areas and there is a famous saying which is used in the stock market 'Don't put all your eggs in one basket'. This is to suggest that if you put all your money into one market or product then there is a higher risk of coming away with less than if you were to spread the risk over several markets and or products. By exploiting underutilized resources and competences one potentially benefit from something you had but just were not using to its potential. However there are always dangers when moving into new markets and industries, especially when you have little or no experience and expertise in that area. There is also the possibility that a move could be made and then the industry starts to go into decline, this leaves the company at a higher risk as it becomes less easy to diversify elsewhere (Markides, 1995)

Diversification is the riskiest of the four strategies presented in the Ansoff matrix and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering means a lack of experience in the new skills and techniques required (Ansoff, 1988). Moreover, diversification might necessitate significant expanding of human and financial resources, which may detracts focus, commitment and sustained investments in the core industries. Therefore a firm should choose this option only when the current product or current market orientation does not offer further opportunities for growth. In order to measure the chances of success, different tests can be done. Firstly, the attractiveness test, the industry that has been chosen has to be either attractive or capable of being made attractive. Secondly the cost of entry test, the cost of entry must not capitalize all future profits. Finally the better off test, the new unit must either gain competitive advantage from its link with the corporation or vice versa. Because of the high risks explained above, many attempts of companies to diversify led to failure.

1.1.2 Mobile telephony Sector in Kenya

Historically, mobile telephony was first introduced in the Kenyan market in 1992, but the real diffusion of this technology and of affordable services started in 1999 when the communication sector was deregulated and opened up for private sector to put up commercial communication networks in the country and Communications Commission of Kenya (CCK) was established. Earnest growth begun in 1999 when the newly privatized company Safaricom, formerly a subsidiary of the defunct Kenya post and telecommunication corporation and KenCell Communications now Airtel Kenya were licensed to provide mobile services. These two operators started to roll out mobile

telephony network across the country from 1999 and currently providing mobile connectivity together with Telkom operating under the brand name “Orange” and Essar Telecom operating under the brand name “YU” throughout Kenya. The Communications Commission of Kenya is the regulatory authority for the communications sector in Kenya, established in 1999 by the Kenya Communications Act (KCA) No. 2 of 1998, with initial mandate of regulating the telecommunications and postal/courier sub-sectors, and the management of the country’s radiofrequency spectrum.

In recognition of the rapid changes and developments in technology which have blurred the traditional distinctions between telecommunications, information technology and broadcasting, the Government of Kenya in January 2009 enacted the Kenya Communications (Amendment) Act 2009. This statute enhanced the regulatory scope and jurisdiction of CCK, and effectively transformed it to a converged regulator. CCK is now responsible for facilitating the development of the information and communications sectors including broadcasting, multimedia, telecommunications, postal services and electronic commerce. The complete modernization of the telecommunication sector has been achieved within a few years through the work of private organizations and at no cost for the government which further benefits by getting huge revenues from license fees, custom duties and taxes. The Kenyan government, like many others in the continent, has obliged mobile operators to provide coverage as part of their license conditions to enabled population living in rural areas that are not commercially attractive to private investors get mobile telephony services like their counterparts in the cities.

Currently, Kenya has four licensed mobile operators namely Safaricom Limited, Airtel Kenya, Essar Telecom, and Telkom/Orange Kenya which is also the sole national fixed network operator. The four mobile phone operators in Kenya had a combined subscription base of 24.96 million as at end of 2010, representing a penetration rate of close to 64.2 per cent (CCK Operator returns report, May 2011).

1.1.3 Safaricom Limited

Safaricom is the leading provider of converged communication solutions, operating on a single business driver that has a peerless understanding of voice, video and data requirements. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya wholly owned by the government and the only telecommunication operator in the country. In 1999 the communication sector was deregulated and opened up for private sector to put up commercial communication networks in the country and Communications Commission of Kenya (CCK) was established as the regulator.

In May 2000, Safaricom limited was privatized with 60% stake remaining with government and Vodafone group Plc of the United Kingdom, the then world's largest telecommunication company acquired a 40% stake and management responsibility for the company. Safaricom Limited is a one stop shop for integrated and converged data and voice communication solutions, with a countrywide network of mobile wireless technologies and fiber. Its services seek to make positive contributions to communities in direct ways through value added services and financial support for community projects.

1.2 Research Problem

Diversification refers to a strategy by which an organization pursues new product offerings and new markets (Johnson, Scholes & Whittington, 2008). A fundamental part of corporate strategy is the choice of what portfolio of products or businesses to engage in, develop competence in and to compete in. The managerial importance of this issue has stimulated a lot of research focused on corporate diversification in the last four decades.

According to (Grant et al., 1988) and (Markides, 1995), there have been two major findings from previous research on diversification which are relevant for focus of this research project. The first finding is that increased levels of diversification increase performance. The second major finding from previous diversification research is that empirical results are mixed regarding profitability differences between related versus unrelated diversification strategies. A large branch of diversification research focuses on the superiority of related diversification over unrelated diversification, and scholars in this school of thought argue that related diversification allows the corporate center to exploit interrelationships among different Strategic Business Units to achieve cost or differentiation advantages over rivals. Related diversifiers should outperform unrelated diversifiers, using this logic, since unrelated firms do not have access to such inter-business unit economies of scope (Markides & Williamson, 1996). Resource sharing and competence transfers enable the diversified firm either to reduce overall operating costs in one or more of its divisions, and/or to better differentiate the products of one or more divisions resulting in a price premium (Porter, 1987)

In developing countries, mobile telephony represents the best chance yet of bringing the power of telecommunications to economically disadvantaged or isolated communities. Mobile telephony offers enormous benefits to consumer both for economic and social transactions among them convenience of being able to do business anywhere anytime, access to financial services while on the move, access to internet and related services while on the move, greater personal security, and among others. The impact of mobile telephony services is enormous in the Kenyan economy.

Based on previous research, it has been found that organizations use diversification strategy to grow, to fully utilize existing resources and capabilities, to escape from undesirable or unattractive industry environments and to make use of surplus cash flows. Related diversification has high chances of success due to synergies in the organization, unrelated diversification organizations are likely to be faced with many challenges due to lack of experience in the new market and technology. However there is no consensus on a single theory to consolidate all the differing views on this subject. This research project endeavors to find out the kind of diversification strategy approach, related or unrelated, practiced by Safaricom Limited, challenges faced and the successes or failures this strategy.

The key research question for the study was: How does Safaricom Limited apply diversification as a strategic approach?

1.3 Research Objectives

The objective of this study was to establish how diversification strategy as a strategic approach is adopted by Safaricom Limited and the challenges experienced in implementing this diversification strategy.

1.4 Value of the study

The findings of this study may be useful to academicians in broadening the body of knowledge in the field of diversification strategy especially the implementation challenges faced within the Kenyan context.

The findings of this study may be useful to the following stakeholders: First, the management and decision makers at Safaricom Limited in formulation and implementation of diversification strategy to gain competitive advantage over competitors and in designing better strategy implementation programs that increase revenue and profitability that guarantee good returns on investment to investor. Second, consumers of mobile services, by understanding the diversified products and services available, consumers will be able to make informed decision when buying these products and services in the open market. Third, the government of Kenya in formulating laws to regulate the communication sector; this will not only promote an enabling business investment environment but also protect consumers from exploitation by the industry players. By understanding the benefits brought by diversification, the government will also be in a better position to implement incentives in the industry that encourage innovation, and help the country achieve its vision 2030 of being a middle income economy.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

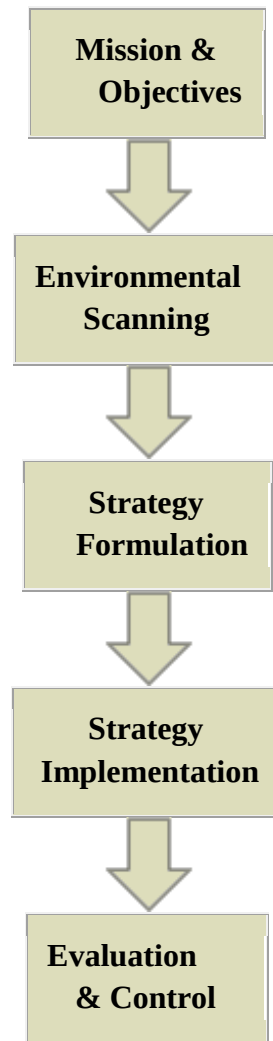
Organizations must engage in strategic planning that clearly defines objectives and assesses both the internal and external situation to enable them formulate and choose suitable strategy, implement the strategy, evaluate progress, and make adjustments as necessary to stay on in a competitive market.

Faced with various alternatives, organization adopts a suitable strategy among the various strategic options in addressing the challenges or opportunities presented by the external environment. Organizations guided by Ansoff matrix can choose among the various strategic option for their product and market growth strategy. The strategic option to the organization chooses could be either market penetration or market development for existing products and for new products either product development or diversification (Ansoff, 1988).

2.2 Concept of Strategy

Strategy is a framework through which an organization can assert its vital continuity whilst managing to adapt to the changing environment to gain competitive advantage. Strategic Management is a systematic approach to the major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assure its continued success (Ansoff, 1988).

Organizations must engage in strategic planning that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate progress, and make adjustments as necessary to stay on track. A simplified view of the strategic planning process is shown in Figure 2.1



Source: Bradford and Duncan, 1999

Figure 2.1: The Strategy Planning Process

The top management of an organization is concerned with selection of a course of action from among different alternatives to meet the organizational objectives. The process by which objectives are formulated and achieved is known as strategic management and strategy acts as the means to achieve the objective. Strategy is the grand design or an overall plan which an organization chooses in order to move or react towards the set objectives by using its resources. Strategies most often devote a general program of action and an implied deployment of emphasis and resources to attain comprehensive objectives. An organization is considered efficient and operationally effective if it is characterized by coordination between objectives and strategies. There has to be integration of the parts into a complete structure. Strategy helps the organization to meet its uncertain situations with due diligence. Without a strategy, the organization is like a ship without rudder. It is like a tramp, which has no particular destination to go to. Without an appropriate strategy effectively implemented, the future is always dark and hence, more are the chances of business failure (Prasad, L., 2002).

According to Slirivastava (1999) it is believed that strategic decision making is the responsibility of top management. However, it is considered useful to distinguish between the levels of operation of the strategy. Strategy operates at different levels that are: Corporate level, Business level and Functional level. At the corporate level, strategies are formulated according to organization wise policies. These are value oriented, conceptual and less concrete than decisions at the other two levels. These are characterized by greater risk, cost and profit potential as well as flexibility. Mostly, corporate level strategies are futuristic, innovative and pervasive in nature. They occupy

the highest level of strategic decision making and cover the actions dealing with the objectives of the organization; such decisions are made by the top management. Business Level strategy, these are strategies formulated by each strategic business units (SBU) to make best use of its resources given the environment it faces. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and coordination between them for achievement of corporate level objectives. These strategies operate within the overall organizational strategies that are within the broad constraints and policies and long term objectives set by the corporate strategy. The SBU managers are involved in this level of strategy. The strategies are related with a unit within the organization. The SBU operates within the defined scope of operations by the corporate level strategy and is limited by the assignment of resources by the corporate level. Functional Level Strategy relates to a single functional operation and the activities involved therein. The strategies are concerned with how different functions of the enterprise like marketing, finance and manufacturing contribute to the strategy of other levels.

2.3 Strategic options

Strategic options are creative alternative action oriented responses to the external situation that an organization faces; it is a response to an identified problem or need. Strategic options take advantage of facts, trends, opportunities and threat posed to an organization by the outside world. Strategic options can be identified after an institutional assessment, keeping in mind the aspirations of an organization (Johnson, Scholes, & Whittington, 2008).

According to Ansoff, (1988) organizations guided by Ansoff matrix can choose among the various strategic option for their product and market growth strategy. Ansoff's product/market growth matrix suggests that an organization attempts to grow depend on whether it markets new or existing products in new or existing markets. The various strategic options are market penetration, product development, market development and diversification as show in figure 2.2.

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Source: Ansoff, 1988

Figure 2.2 Ansoff matrix

A market penetration marketing strategy is very much about business as usual. The business is focusing on markets and products it knows well. It is likely to have good information on competitors and on customer needs. It is unlikely, therefore, that this strategy will require much investment in new market research. It seeks to achieve four main objectives. Firstly, maintain or increase the market share of current products, this can be achieved by a combination of competitive pricing strategies, advertising, sales

promotion and perhaps more resources dedicated to personal selling. Secondly, secure dominance growth in markets. Thirdly, restructure a mature market by driving out competitors; this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors. Finally, increase usage by existing customers – for example by introducing loyalty schemes. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the organization's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy (Porter, 1985).

According to Ansoff, (1988) Product development is a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the organization to develop modified products which can appeal to existing markets. Different possible ways of approaching this strategy are: new geographical markets, new product dimensions or packaging and different pricing policies to attract different customers or create new market segments.

Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. It is a risky strategy because the business is moving into markets in which it has little or no experience. For a business to adopt a diversification strategy, therefore, it must have a

clear idea about what it expects to gain from the strategy and an honest assessment of the risks. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk (Ansoff, 1988).

2.4 Diversification as a strategic option

Diversification involves directions of development which take the organization away from its present markets and its present products at the same time; it is the riskiest of all forms of corporate strategy. It is a form of growth strategy which involves a significant increase in performance objectives, usually sales or market share, beyond current or past levels of performance (Ansoff, 1988).

According to Johnson, Scholes & Whittington (2008) diversification strategy stands out from the other strategic options which are usually pursued with the same technical, financial, and merchandising resources used for the original product line. Diversification usually requires a company to acquire new skills, new techniques and new facilities. Corporate diversification has been a central issue of research concern in strategic management. Previous research suggests that a well managed diversification strategy may enhance corporate performance. The key economic reason of large diversified organizations is to achieve synergy between business units in order to create more economic value than the individual business units in isolation. In particular, diversified firms with related business portfolios should benefit from operational synergy through

strategic business units inter relationships. However the evidence of previous research indicates that diversified firms, on average, fail to create economic value through increasing levels of diversification and findings are mixed concerning the relationship between diversification strategy and profitability. Diversification can be broadly categorized into two, related diversification and unrelated diversification also referred to as a conglomerate organizations.

The main rationale for the existence of related diversified organizations and for the pursuit of related diversification by the management is based on the concept of synergy between the different businesses of a diversified organization. Certain types of relatedness can be exploited to achieve a competitive advantage of the diversified related business company over single business competitor. The multitude of competing, overlapping or simply unrelated concepts of relatedness and competitive advantage in the literature can be categorized to four different lines of thought: the traditional approach to tangible operational relatedness as proposed by industrial economists; the competence and knowledge based approach to relatedness emphasized in resource based management theory; the market power version of relatedness investigated by industrial economists and more recently by game theorists. The fourth approach is an attempt to define a form of strategic relatedness based on the strategic similarity of businesses; since it does not require any tangible links between the businesses (Bruche, 2000).

Related diversification based on tangible operational and market linkages is the most widely accepted rationale and perceived competitive advantage for a related diversified organization. Tangible relationships arise from opportunities to share activities in the value chain among related business units due to the presence of common buyers, channels, technologies and other factors (Porter, 1985). Economists and strategists have dealt with the issue of tangible relationships under the term economies of scope a term that should be reserved exclusively for the lowering of unit's costs due to activity or resource sharing. One important type of market relatedness is that of complementary products. Products from nearly every industry are used by the buyer in conjunction with other complementary products. The selling of complements and bundling is one important rationale for diversification and has many important strategic implications regarding cost and differentiation position (Porter, 1985).

Related diversification is based on cross business transfer of competences and knowledge, whereas strategic management research in the tradition of industrial economics focuses more on tangible interrelationships, researchers in the tradition of the resource based view of the organization see mainly the intangible resources, such as knowhow and particular capabilities or competences as the basis for decisions on corporate portfolio building, diversification and divestment decisions. Expertise in a certain platform or technology is an example of a core competence that could be shared among several businesses. As the cost of developing such a competence has already been incurred, and because competencies based on intangible resources are less visible and more difficult to copy and imitate, transferring these competencies from one business unit to another one

or using the competency to enter a new business field may save costs and enhance competitiveness. The research in this field is vast and has led to numerous frameworks and attempts to develop analytical and prescriptive tools. It is mainly concerned with question of how those competencies that can provide the basis of diversification can be identified in practice, how competences can be built, acquired or lost, and how a transfer of competences across businesses can be achieved (Montgomery, 1998).

Related diversification can be used as the basis for gaining market power; diversification may not only enhance organizations profitability by increasing efficiency and product differentiation, but also by creating market power that diminishes the threat of competition. Large diversified organization may have an advantage over the specialized organization in several respects. Firstly, comparable to global firms that can finance competitive battles in individual countries through cross subsidization; diversified firms may use size and diversity to drive out more specialized competitors from particular product markets through cross subsidization and predatory pricing. Secondly, reciprocal buying arrangements may allow a diversified company to use its buying power across its many businesses to give preference to suppliers, who become loyal customers for another of the company's businesses. Fourthly, the provision of complementary products by a diversified organization may not only differentiate it in the sense of meeting customer preferences, but also give it power due to significant switching cost for the customers who have become dependent on the total solution provided (Grant, 1998).

The rationale of the unrelated diversified organization also referred as a conglomerate are less clear as compared to those for the related diversified corporation. Four issues have been selected from the inconclusive and often contradictory discussion. Firstly, the reason for the success of a number of conglomerates may be found in a cognitive relatedness of their businesses, although these may seem to be unrelated at first. Prahalad and Bettis (1986) propose an elusive linkage between businesses, which they find in strategic similarity. They argue that strategically similar businesses can be managed using a single dominant management logic, which they define as the way in which managers conceptualize the business and make critical resource allocation decisions. Secondly, many conglomerates are in fact groups of unrelated clusters of related businesses. Thirdly, many defenders of the conglomerate argue from a corporate governance perspective that is to say conglomerates may be efficient capital allocation mechanisms. Fourthly, conglomerates may be particularly good breeding grounds for managerial talent and provide a basis for attracting and rewarding good managers. Broadly diversified conglomerates may have some advantage in developing human resources, particularly in the field of management resources. Since they offer a broad range of managerial tasks in many businesses, they are often able to attract the best managerial talent.

The academic as well as the practice oriented discussion of corporate strategy for the multi-business corporation has been on-going for more than three decades. Although a considerable amount of empirical work and a large body of theoretical and prescriptive literature exists, no integrated theory is in sight. This is partly due to the fact that very

different streams of thought and theory have been applied to the topic, but may also be due to the impossibility of generalizing on such a complex topic with the aim of identifying only a few causal relationships. It is an empirical fact that the diversified multi-business organization is the prevailing model of the firm of the contemporary capitalist economy. The key conceptual construct in the discussion of the diversified corporation has been the "relatedness" of the various businesses. Relatedness has been used as the basis for similar, but not identical arguments of different authors from an industrial economics perspective (Prahalad & Bettis, 1986)

Unrelated diversified organizations, also known as conglomerates have attracted more critical scrutiny as shown by the number of arguments that have been put forward in its favor. It has been argued that the holding of the conglomerate compared to specialized undiversified organization has the advantages of better use of the capital markets, risk spread considerations and superior use of management resources. Another line of thought maintains that in many conglomerates it is merely another form of relatedness, the different businesses of the conglomerate are actually not really unrelated. Whereas the literature and research reviewed implicitly assumes some kind of equilibrium thinking, one can also see the diversified firms in a more dynamic, longitudinal perspective as a transformation mechanism to continuously adjust the organization to the changing environment. Diversification in this sense secures the survival of the organisation as different from the single business firm, which grows and dies along with the industry in which it is positioned (Amit & Livnat, 1989).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the methodology and describes the research design, data collection methods and data analysis tool. It also helps highlight the sources of information for the research and data validation and integrity so that errors could be identified and eliminated during the analysis and interpretation.

3.2 Research Design

According to William (2006), research design can be thought of as the structure of research, it is the "glue" that holds all of the elements in a research project together. We often describe a design using a concise notation that enables us to summarize a complex design structure efficiently. Case study methodology was applied during this study which involved the use of open ended interview guide administered to the top management of Safaricom Limited.

3.3 Data Collection

The study focused on seven top management staff of Safaricom Limited in Nairobi (Safaricom Organization chart 2011). The primary data was collected using open ended structured interview guide. An interview guide was designed to have open ended questions that assisted the researcher to achieve research objectives by collecting information from respondents in a face to face interview. The interviews were administered by the researcher in person. The two senior managers, that is the Head of

business unit and one senior manager in each of the three strategic business units in Safaricom Limited were target. The three business units targeted were namely: Consumer business Unit, Enterprise Business unit, financial services business unit, the seventh respondent was the head of strategy and marketing. This form of data collection, an interview, was chosen to ensure that data was obtained from resourceful people and focused on diversification strategy adopted by each business unit and the organization as a whole.

3.4 Data Analysis

Content analysis was used to analyze data. According to Berelson (1952), Content analysis is a research technique for the objective, systematic and quantitative description of manifest content of communications. Content analysis is a research tool focused on the actual content and internal features of media. It was used to determine the presence of certain words, concepts, themes, phrases, characters, or sentences within texts or sets of texts and to quantify this presence in an objective manner. There are two general categories of content analysis: conceptual analysis and relational analysis. Conceptual analysis can be thought of as establishing the existence and frequency of concepts in a text. Relational analysis builds on conceptual analysis by examining the relationships among concepts in a text. The content analysis research tool was used to determine the extent of use of diversification strategy at Safaricom Limited.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis, results and discussion of the data collected from the field. It presents analysis and findings of the study as set out in the research methodology on diversification as a strategic approach adopted by Safaricom Limited. The data was gathered exclusively from an interview guide as the research instrument. The interview guide was designed in line with the objectives of the study. To enhance data quality of data obtained, unstructured questions were used whereby interviewees indicated their views and opinions about diversification as a strategic approach as adopted by Safaricom Limited. This chapter is divided into three sections; data analysis which presents the data as collected, a results section and finally a discussion section.

4.2 Demographic Profile of the Respondents

This being a case study the research tool, an interview guide, was used to establish the age, gender, department, designation and the duration in years that each interviewee had been with the organization. The interviewees were asked about their age, it was found out that the age ranged from the youngest 32 years of age to the oldest 42 years of age. The study sought to establish the interviewees' gender distribution. From the findings, four of the interviewees were females and three were males. This shows that Safaricom Limited has empowered women who occupy senior management positions. This also shows that the decisions made in the organization are gender sensitive and hence are likely to easily gain support by all stakeholder.

This study further sought to investigate the interviewees departments in the company. From the results obtain by the researcher in person, the two senior managers that were interviewed from the Enterprise business unit were, the Head of business unit and one senior sector manager in charge of public sector. From the Consumer Business unit, two senior managers were interviewed one in charge of the retails shops and the other in charge of distribution. In the financial services business unit, manager interview were in charge of M-pesa dealer recruitment and the other was in charge compliance and enforcement. The seventh manager was head of product innovation team from the strategic marketing department. This implies that the interviewees of this study are well distributed across the strategic business units and key departments and thus the results can be generalized for the whole organization.

On the length of duration that the organization has been operation, it was found that the company has been in operation in the country for 14 years since 1997 and and was privatized in the year 2000 when it was rebranded and introduced to the public as a private entity providing mobile telephony services to the public in a competitive environment. The employees' interview had been with the organization for a period ranging from three year to eight years.

4.3 Diversification Strategy

The interviewees were asked to indicate of the various diversifications strategies listed in the interview guide which ones Safaricom limited had adopted. It was noted that for Safaricom Limited, mobile phone voice service was the core service they provide, other services are referred to as value added service which mean that all other services provided by Safaricom are supportive of their core product mobile voice service. Majority of the interviewees indicated that Safaricom limited had adopted different strategies in different area based on challenges or opportunities the company was faced with. The various strategic options adopted are; Market penetrations and market development strategies when targeting new and competitive markets segments with already established player, product development to improve and enhance current products like improving current product to include those features that consumers are demanding, bundling products with new or none performing product to stimulate usage.

Diversification being the riskiest of them all it is used when targeting new growth area outside the traditional boundaries of mobile operators, a good example is the new Safaricom Limited financial services product M-pesa. All the interviewees also indicated that Safaricom Limited strategies had been very successful due to good management practices, before a new strategy is adopted a market research is carried out, then proper planning is done, implementation is carried out strictly without deviation from plan and control measures are employed at all stages. Excellent feedback system that ensures that information is collected during implementation in good time and used to modify or improve on strategies as they are deployed.

On the mode of entry by Safaricom into a new business line, it was found out that different products call for different market entry strategies, for example it as noted that when Safaricom Limited was introducing its fixed data service to corporate customers it used market penetration strategy where it positioned itself as a more cost effective service provider, market penetration was useful for Safaricom limited to endear itself to customers who were loyal to other providers in the market. However when Safaricom was introducing mobile data service to individual consumers it used a product development strategy, being the market leader in the individual consumer voice service, all Safaricom limited needed to do was to develop a data service as an addition to its voice service to the same consumer. And therefore different strategies are used in different scenarios.

On the question as to whether Safaricom applies Safaricom use diversification as a strategic approach, all the interviewees, that is 100% of those interviewed indicted that Safaricom Limited has adopted diversification as a strategic options to meet market challenges and take advantage of opportunities presented by the market. Safaricom Limited has mainly adopted related diversification strategy, as mentioned early on Safaricom's core business is mobile voice service, however over the years it has diversified to mobile data service, fixed data services, video conferencing and recently and most success the mobile money transfer under the brand name M-Pesa. The mobile data service targets individual consumers mainly for access of internet services, e-mail services, info-entertainment among other internet based services. The interviewees

mentioned that mobile internet can be used to reduce costs, the main reason cited was the pricing model used for mobile internet compared to traditional internet or other mobile telephony services. The charges depend on the amount of data transferred, as opposed to internet cafés and traditional internet access, where charges are based on time spent on the internet. There was general consensus that mobile internet allowed for reduced costs that would have incurred in the absence of mobile internet. The fixed data service is mainly for business process including private virtual network for internal data transfer, internet services, voice services over the internet and e-mail services. It was generally felt that mobile phone companies helped corporate control cost by consolidating the communication bills for different services into one itemized bill and under one operator and allowed for discounts negotiations as opposed to different service providers.

A significant diversified use of mobile phones is for making financial arrangements, much of which is linked to cash transfers from cities to rural areas, as most families in rural communities have family members living in cities. Many households also have family members working abroad, and benefit from international remittances, of importance to the poorest households is cash transfers within the country, which can contribute between up to 40% of household income. Informal cash transfers are recognized as an integral part of safety nets providing protection for vulnerable households. These are families without bank accounts and beyond the reach of traditional financial services. Cash tends to be transferred to rural areas via informal channels carrying cash, which carries a high degree of risk, mobile money transfer has removed

this risk and added convenience in the way money is transferred within the country. M-pesa has become a killer service of all Safaricom's diversified products, it was a product that met a very big need of providing financial services to all Kenyan including the rural people that the traditional banks had ignored. The other reason for M-pesa success is due to its convinced and ease of access this coupled with affordable service charges has made M-pesa a runaway success.

On the question of key reasons why Safaricom limited decided to diversify, the interviewees were all in agreement that the key reason for adopting diversification as a strategic option was to increase revenue streams to counter the ever dropping average revenue per user on voice services, take advantage of new opportunities in the market as well as fend off competition threats. The prices for mobile voice services are dropping due to steep competition from new entrants in the mobile industry in Kenya and the downward trend on calling rates internationally. The second reason for adopting diversification as a strategy is to take advantage of the emerging opportunities occasioned by change in technology and preferences of consumers.

The third reason for Safaricom's strategy to diversify is to lead in innovation, Safaricom Limited being the most profitable organization in East and Central Africa has the moral obligation to not only lead in innovation but also shape the direction at which the mobile telephony industry takes in this part of the world. M-pesa was cited as one of those

Safaricom innovations that have not only revolutionized the way money is transferred in Kenya but also has shaped the direction of other mobile operator in developing world. M-pesa has also become a case study for leading developmental organization like the World Bank and leading academic institutions like Harvard University on how this innovation can be replicated in the rest of the developing world to impact lives.

The question on challenges that Safaricom has faced while implementing diversification strategy was posed to the interviewees. Majority of the interviewees agreed that by all accounts the growth of Safaricom Limited and successes of its ground breaking strategies over the past decade has been remarkable. However despite the many successes in the past some challenges have been faced while implementing diversification strategy. First, while the number of subscribers continues to grow, marginal revenue per subscriber has declined precipitously, this has redefined the traditional parameters of mobile telephony operators profitability and compelled operators to minimize the amount of resources devoted to serving and maintain users since operating expenses are growing faster than revenues. Secondly, inadequate realignment of company resources with the new strategy, it was found out that despite the runaway success at Safaricom, resources are not always available compared to needed resource to diversify.

Diversification being the riskiest of the various strategic options, it is always underfunded due to the high risk associated with it, most of the time diversification plans are mostly considered after less risky options have been funded. Thirdly, misinterpretation of the big strategic idea vision as it moves out of the executive suite into the implementing team within the organization and third party partners. This is mainly caused by not starting the process with a thorough unpacking of the detailed changes required to implement the new strategy.

On the question of the financial and organizational benefits derived from diversification, majority of the interviewees indicated that diversification has contributed positively both financially and in the well being of the organization generally. Safaricom has been able to build a very strong brand in the market to the point that it is now considered an opinion leader among its competitors; whatever products it introduces to the market they become an instant success prompting competitors to copy and develop similar products. This has assisted Safaricom Limited greatly in its diversification strategy, its new innovations are usually received with a lot of good will by the market and hence success despite challenges or product shortcomings. This has led to Safaricom being very profitable and as a result it has accumulated a lot of retained earnings that enables it to invest in new innovations. For its organizational structure Safaricom is able to attract the best human resource talents in the market giving it another advantage over its competitor as human resources are very critical to organizational success in the service industry.

From the findings, the interviewees indicated that diversification is very critical to the overall success of Safaricom limited. The interviewees indicated that diversification has enabled Safaricom not only increase its revenue streams but also deal with competitors and market threats that threaten the organizations. Diversification has immensely contributed to Safaricom Limited in gaining competitive advantage over competitors.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four and also it gives the conclusions and recommendations of the study based on the objective of the study. The objective of this study was to establish if diversification as a strategic approach was adopted by Safaricom Limited and the challenges experienced in implementing those diversification strategies.

5.2 Summary

The study established that recent successes of the mobile phone services offered by Safaricom limited shows that vast numbers of people in Kenya feel that the mobile phone service has had a positive impact in their lives. Although Safaricom has traditionally targeted voice service as their core product, the ever falling average revenue per user has moved the organization to look at diversification as a solution to maintain and increase revenue and profitability.

Diversification has been carefully employed in different situations to meet different needs. First, diversification as a strategy has been adopted by Safaricom to address threats from fixed data network operators who had started providing voices services to their corporate customer and hence taking revenue away from Safaricom. Following this threat

Safaricom acquired 100% shareholding of two licensed data network operators namely, Onecom limited and Data stream limited, to enable them to enter this fixed data network market. Safaricom used its well established brand name and marketing muscles to make a grand entry and within a short period it has the market leadership position in the corporate fixed data market segment. On the individual mobile data service, Safaricom used its financial muscle to buy third generation (3G) frequency and deploy 3G technology way ahead of the competition, this has enable Safaricom to control over 80% of the market share of this market segment

The study found that the second way diversification has been adopted is in taking advantage of opportunities available in the market. Safaricom through market research found out that there was a big gap in the financial services and money transfer service in Kenya. Either there was no available service especially in the rural areas or where the service was available mainly in the urban areas the cost of access to this services was prohibitive or very inconveniencing to the consumer. Safaricom saw this market gap and developed together with its parent company Vodafone Plc a mobile money transfer service to fill in this market gap. M-pesa a mobile money transfer service was born and introduced in Kenya, its success has exceeded any expectation that Safaricom has had and it now a subject of study by many leading international organization and academic institutions.

The study established that diversification has contributed positively both financially and in the well being of the organizational generally. It has helped Safaricom build a very strong brand in the market such that whatever product it introduces to the market it is received with a lot of good will by the market and hence product or service success despite challenges or shortcomings. This has lead to Safaricom being very profitable and as a result it has accumulated a lot of cash reserves that enables it to invest in new innovations. For its organizational structure Safaricom is able to attract the best human resource talents in the market giving it another advantage over its competitor as human resource is a critical component in organizational success in the service industry.

5.3 Conclusions

This study concludes that diversification has been a critical component to the overall success of Safaricom Limited. The singular trait that has worked for Safaricom has been its drives for innovative products. A quick cross-check of products offered by Safaricom will clearly show that they are tailored for identified mass market needs. M-pesa has revolutionized the concept of money transfer that the rest of the operators in the mobile telephony space have been unable to match. M-pesa is synonymous with fast money transfer such that it is almost taken that there are no other competing products. On the mobile data service again a mass market product Safaricom has almost absolute monopoly on it and recently its entry in to the corporate data market Safaricom has gain market leadership position in a very short period of time. This can be attributed to Safaricom's excellent diversification strategy planning and implementation process.

The study also established that diversification has enabled Safaricom not only increase its revenue streams but also deal with competitors and market threats while taking advantage of market opportunities. By launching innovative products and services in a country which has several enabling conditions for a successful mobile services deployment, including: strong latent demand for domestic remittances, poor quality of available financial services, a poor data services and regulator willing to permitted Safaricom Limited to experiment with different business models and distribution channels, and a mobile communications market characterized by Safaricom's dominant market position.

5.4 Recommendations

The study has established that Safaricom limited has effectively adopted diversification strategy that has given it a competitive edge over its competitors; however this study recommends Safaricom to adopt stick implementation policies that ensure its diversification strategy is not implemented casually and carries out an analysis to determine strategy effectiveness in adding value to organization. It is also recommended that better and more robust feedback channels to enhance strategy control and evaluation.

The study has explored the diversification strategies adopted by Safaricom limited one of the four licensed and operational mobile operators in Kenya, it established that good strategy management practices that is; market research, strategy planning, good implementation practices and control measures are well integrated in the organization. However Safaricom is just one the mobile telephony operators in Kenya, this study

therefore recommend another study which would look at the other mobile operators and establish what strategy management process they have, this will help in getting sufficient information to allow for generalization of the study findings for all the telecommunication industry in Kenya.

5.5 Limitations of the study

This study was conducted at Safaricom Limited one of the four licensed mobile telephony companies in Kenya. The study was exploratory and focused on one of the mobile operator in the market; therefore there is a need for confirmatory research with the other three licensed mobile operators to allow for generalization of findings of the study in the Kenyan context.

Another limitation to this study is related to the confidentiality of the information sort in the study. Strategy being at the core of design of the future of an organization and creating a competitive advantage over competitors, confidential information was not readily available especially on diversification strategies that are currently under implementation or information that Safaricom felt it would diverge information that competitors can use to copy or counter Safaricom`s strategy.

5.6 Suggestions for Further Studies

The study has explored the diversification strategy adopted by Safaricom Limited and established that diversification has been successfully adopted by Safaricom Limited in different business scenarios to address market threats and more importantly emerging market opportunities. However despite the very successful adoption of diversification strategy by Safaricom Limited this findings cannot be generalized for the telecommunication industry in Kenya.

The telecommunication industry in Kenya is comprised of four licensed mobile operators namely Safaricom Limited, Airtel Kenya, Essar Telecom, and Telkom/Orange Kenya; these organizations differ in their style of management and are at different stages of development in the market. This warrants the need for another study which would cover all the licensed Mobile operators in Kenya and allow for generalization of the study findings for all the telecommunication companies in Kenya. The study therefore recommends another study be done with an aim to investigate the diversification strategy adopted by mobile telephony companies in Kenya.

5.7 Implication of the study on policy, theory and practice

The findings of this study may be useful to the government of Kenya in creating policy that will help develop the mobile telephony industry in Kenya. The Kenya Communications (Amendment) Act, 2008 was enacted with the aim to facilitate the development of the information and communications sector including: broadcasting, multimedia, telecommunications and postal services and electronic commerce. The findings of this study may be used by the policy makers to enhance and amend the existing policies to captures the new and emerging trends in the industry and especially on enabling technologies that have potential to have far reaching social and economic impact on the Kenyan population. The benefits of mobile telephony should serve to enhance our experience of life, offering us more freedom, and ultimately creating a better society in which people really do feel closer together.

The findings of this study may be useful in the hands of government and policy makers, when it comes to environmental issues and safety regulations; in the hands of operators, who can do much to ensure the smooth integration of the technology into our society, both in terms of equipment design and aesthetics. Through initiatives which help train people in mobile phone etiquette; in the hands of employers, who can take pains to ensure staff with corporate mobiles are not abused. Ultimately, in the hands of users, who need to cultivate a greater level of awareness and work to ensure that their mobile phone use does not negatively impact the lives of others.

The findings of this study may be useful to academicians in developing diversification strategy theory especially its application and implementation challenges faced within the Kenyan context.

The findings of this study may be useful in practice to the following stakeholders: First, the management and decision makers at Safaricom Limited in formulation and implementation of diversification strategy to gain competitive advantage over competitors and in designing better strategy implementation programs that increase revenue and profitability that guarantee good returns on investment to investor. Second, consumers of mobile services, by understanding the diversified products and services available, consumers will be able to make informed decision when buying these products and services in the open market. Third, the government of Kenya in formulating laws to regulate the communication sector; this will not only promote an enabling business investment environment but also protect consumers from exploitation by the industry players. By understanding the benefits brought by diversification, the government will also be in a better position to implement incentives in the industry that encourage innovation, and help the country achieve its vision 2030 of being a middle income economy.

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Appendix I: Letter of Introduction

THE CHIEF EXCECUTIVE OFFICER,
SAFARICOM LIMITED
P.O. Box 66827, 00800
NAIROBI.

Dear Sir,

RE: REQUEST FOR COMPANY INFORMATION

I am a MBA student at the University of Nairobi. I am carrying out an Academic Research Project as a requirement in partial fulfillment of award of Master of Business Administration with the specialization of Strategic Management. My chosen area of study is, “Diversification as a strategic option: A case study of Safaricom Limited”

In order to ensure that my study is complete, I am required to seek information from selected employees and use the information to write the academic research project. I am therefore requesting for permission to use the company’s information to be collected through an interview guide attached. The information gathered will be confidential and used for academic purposes only. A copy of the completed project will be availed to your company.

Regards,

Patrick Musembi

Appendix II: Interview Guide

1. Age
2. Gender
3. Department
4. Designation
5. How many years have you been in employment with Safaricom?
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6. There are various strategic options available to organizations to choose from:
Market Penetration, Market development, Product Development and
Diversification, which ones has Safaricom adopted
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7. What mode of entry into new business line does Safaricom adopt
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8. Does Safaricom use diversification as one of its strategic options of choice?

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9. What is the main reason for Safaricom adopting diversification as strategic approach

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10. In adopting diversification, to what degree is diversification related or unrelated

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11. What are the challenges that Safaricom has faced in implementing diversification strategy

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12. What are the organizational effects of diversification

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13. What are the financial effects of diversification

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14. What would you say are the other key benefits that diversification has had on
Safaricom's performance in terms of its market share and profitability

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15. In conclusion what is the one thing do you think Safaricom should start doing
today that would most drastically increase its competitive advantage and grow
investor return?

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