STRATEGIC RESPONSES TO DYNAMIC COMPETITIVE ENVIRONMENT BY LARGE INTERNET SERVICE PROVIDERS IN KENYA

BY

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DECLARATION

I, the undersigned declare that this research project is my own original work and that it has not been presented to any other university or institution for academic credit.

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D61/64470/2013

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This research project has been presented for examination with my approval as the university supervisor.

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DEDICATION

This project is dedicated to my family, for their unwavering commitment and support to my education and learning at all the times. You have always believed in me, thank you for all the support you provided.

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ABBREVIATIONS AND ACRONYMS

CCK: Communications Commission of Kenya

EASSY: East African Sub-marine Cable System

GDP: Gross Domestic Product

ICT: Information Communications Technology

IS: Information Systems

ISP: Internet Services Provider

IT: Information Technology

SEACOM: Sea Submarine Communications

CT: Chaos Theory

RBT: Resource Based Theory

ABSTRACT

Competition in the telecommunication industry causes firms to develop new products and services, which give consumers greater selection and better products. Strategic response to competition is key as businesses seek to gain competitive advantage and remain relevant in the market and by large the environment. What is required in strategic response is a structured, disciplined, systematic way of surviving in an operational environment characterized by aggressive competition. The aim of the study was to establish the strategic responses by internet service providers to address competition within the telecommunications industry. The study was guided by the following research objective: 'To find out strategic responses to the dynamic competitive environment by large internet service providers'. This study used survey design and collected data from large internet service providers. Purposive sampling was used to determine the sample size. The response rate was 72 percent as only eight out of the eleven respondents were responsive. The data was collected through use of questionnaires which were administered using drop and pick method from senior managers for the research. The data was analyzed using SPSS and the findings presented and discussed by tables, pie charts and bar graphs. The study established that formulation of strategies to counter competition by most large ISP firms was chiefly influenced by meeting the needs, wants and providing benefits for the customers, status of competing forces in the market environment and successes and failures of strategies previously followed by the firm. The strategies enabled the firms to counter competition in that they assist the organization to adapt to the changing business environment, steer the company on ways to raise incomes rapidly than its competitors. The outcome of these strategies was eminent in terms of being steps ahead of competitors in market share and profits. The challenges facing the firms during strategic response to competition included unpredictable government interference, market environment, complexities during implementation of the strategies, high risks involved in the diversification of strategy, weak financial management policies and contradiction between leadership style and management orientation. The study concluded that strategies formulated enabled the firms' to remain ahead on emerging trends in the local and regional market, to learn specific customer demands and attend to them sufficiently and to enable the company to device unique products and services that distinguish them from other players in the market. The study findings are a call to action for policy makers and practitioners in the internet service provision sector. The implications are that increased technology advancements and innovations, regulatory and legal framework and market dominance were key competitive challenges affecting the firms in this industry and the government needs to create a more conducive business environment for industry players.

CHAPTER ONE

INTRODUCTION

1.1. Background

The business environment in which organizations operate is becoming more volatile, unpredictable and very competitive (Pearce and Robinson, 2005). The competitive environment for internet service firms has been undergoing very drastic changes. As a result, firms have been forced to reorganize their activities and realign their strategies. Organizations have been devising strategic responses that would provide them with competitive advantage in the market that is fast becoming concentrated.

The environment also provides key resources that sustain the organization and lead to change and survival. The resource dependence theory argues that organizations depend on resources which are critical and scarce and originate from the organizations external environment. The resources are a basis of power for organizations as the firms with high customer numbers command a larger market share. The chaos theory argues that industries can be conceptualized and modeled as complex, dynamic systems, which exhibit both unpredictability and underlying order.

The motivation behind this study sought answers to questions on how the dynamic competitive environment was affecting large internet service providers and how the individual firms were developing strategic responses to mitigate the issues. The success of any organization is determined by its responsiveness to the environment. Firms fit in the external environment using strategic responses. An organization identifies opportunities and threats in the environment and builds strategies by matching resources and capabilities to those opportunities and reducing the threats.

Performance of large ISP firms in Kenya is of great concern because they play a significant role in economic development. This notwithstanding, they operate in the telecommunications sector fraught with different levels of external environment dynamism, complexity and munificence. These are observed in the macro, micro-environment and industry in the operating environment. Further, their individual performance is largely a function of how they respond to the environment.

1.1.1. Strategic Response

Strategic responses involve changes to the firms' behavior. These responses take many forms depending on the firm's capability and the environment in which it operates. A good strategic response puts a firm at a vantage point in its sustenance of the competitive edge (Snow and Hambrick, 1982). Level of competitive intensity within a particular industry is best analyzed in order to characterize the various competitors for predictive purposes. Competing firms within a single industry can be categorized on the basis of their general strategic orientation. The distinction helps to explain why companies facing similar situations behave differently and the reasons why they continue to do so over long periods of time.

According to Milles and Snow (1978) competing firms are categorized according to the strategic response type based on their practice and orientation. The four basic types are namely defenders, prospectors, analyzers and reactors. Defenders are companies with limited product portfolios that mainly focus on improving their internal efficiency. Prospectors have fairly broad portfolio lines and concentrate on innovations and emerging market opportunities. Efficiency is emphasized in the areas of innovation. Reactors are companies or corporations that lack consistent strategy structure-culture relationship and their responses are piecemeal. Strategic responses are as a result of both the occurrences in the environment and the firm capabilities.

Miles and Snow (1978) pointed out that managers in more uncertain environments tend to assume greater risks and employ more innovative strategies than managers in less turbulent environments. Analyzers are operating in at least two different product lines or market areas, one stable and one variable in the stable areas. Khandwalla (1977) observed that managers who perceive their environment as complex and dynamic tend to employ more comprehensive strategic responses. Contingency theorists claim that there is no best way to organize a corporation, to lead a company or to make decisions. Instead, the optimal course of action is contingent upon internal and external situation. Firms are open systems that need careful management to satisfy and balance internal needs and adapt to external circumstances (Burnes, 2000).

To maximize long term effectiveness, firms need to develop the responses not only to cope with day-to-day events in the environment, but also to cope with external events that are both unexpected and of critical importance. A dynamic firm will find the most turbulent environment as a source of opportunity rather than threat and intervenes with appropriate strategic response in order to sustain its performance due to changes in the external environment. The perception, understanding and interpretation of the external environment are not sufficient without a firm's ability to dedicate particular resources for a specific response to be effective.

Strategic responses are known to realign firms to respond to the ever-changing turbulent business environment. The linkage between the organization and the environment is the strategy (Ansoff, 1984). The environment is rapidly changing making it imperative for organizations to continually adapt their activities to succeed. Ansoff and McDonell, (1990) state that successful environment serving organizations are open systems and use strategies that ensure continued organizational survival in the environment. They further state that a major escalation of environmental turbulence means a change from a familiar world of marketing and production to unfamiliar world of new technologies, new competitors, new consumer attitudes, and new dimensions of social control and above all unprecedented questioning of the firm's role in the society.

Strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 1991). Response strategies help organizations in assessing their current position, where they want to go and how to get there. To survive in a dynamic environment, their strategies need to focus on their customers and deal with emerging environmental challenges. When organizations are faced with unfamiliar changes they should revise their strategies to match their turbulence levels Ansoff and McDonnell (1991). Changes in external environment will require new strategies which will in turn call for reformed organization capabilities. Strategic responses by companies reflect the firm's internal strengths and the opportunities faced in the external environment.

1.1.2. Dynamic Competitive Environment

According to Porter (1985) to have a competitive advantage a firm must create superior value for buyers by devising a competitive strategy that is able to establish a profitable and sustainable position relative to competitors. If the firm is to prosper within an industry it must establish a competitive advantage over its rival's also known as competitive strategy. The external environment is tremendously complex and dynamic. The strategy should therefore emphasize an improvement to the competitive position of the firm's product in the industry. If the firm is to prosper within an industry it must establish a competitive advantage over its rival's also known as competitive strategy. Competitive environment grows out of an understanding of the rules that guide competition.

The strategy should therefore emphasize an improvement to the competitive position of the firm's product in the industry. Well-developed strategic response is formidable weapon for a firm in acquiring and sustaining a competitive edge. A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thomson and Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield long-term benefit to the company. Companies pursue competitive strategies to gain a competitive advantage that allows them to smash rivals and achieve above average profitability.

The strategy should therefore emphasize an improvement to the competitive position of the firm's product in the industry. If the firm is to prosper within an industry it must establish a competitive advantage over its rival's also known as competitive strategy. Competitive environment grows out of an understanding of the rules that guide competition. The strategy should therefore emphasize an improvement to the competitive position of the firm's product in the industry. Well-developed strategic response is formidable weapon for a firm in acquiring and sustaining a competitive edge. Sustainable competitive advantage is born out of core competencies that yield long-term benefit to the company.

1.1.3. Strategic Responses and Dynamic Competitive Environment

Competition thus 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 in order to meet the current demand and to strategically place themselves for the future. A number of commentators have identified the dynamics of turbulence of the business environment as a key issue affecting the processes of strategic thinking, planning, managing and decision making. Among them is Igor Ansoff (1984) whose research concluded that organizations which fail to match their approach to strategic management with the level of turbulence in the environment suffered business failure in proportion to the mismatch.

Porter (2005) observes that for firms to be able to retain competitive advantage, they need to examine their environment both internal and external and respond accordingly. Ansoff and McDonnell (1990) also point out that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to level environmental turbulence. This is because each level of environmental turbulence has different characteristics, requires different strategies and requires different firm capabilities. Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capability for survival, growth and development.

The speed or response time to the environment challenges has been identified (Johnson and Scholes, 2002) as a major source of competitive advantage for numerous firms in today‘s intensely competitive global economy. Hamel and Prahalad (1994) also add that given the current focus in business, there is need to understand competitor strengths in the market and then position one‘s own offerings to take advantage of weaknesses and avoid head on clashes against strengths. The purposes of firms, evaluating comparative firms success and failure in fulfilling those purposes are conspicuous discourse (Machuki and Aosa, 2011), in day to day affairs of firm’s management. There must be a strategic fit between what the environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide.

1.1.4. Telecommunications Sector in Kenya

Since the beginning of the liberalization of the telecommunications sector in 1999, Kenya has seen fast internet growth and a visible boost has gripped the industry. Kenya’s ICT sector has outperformed all other segments of the economy, growing by 23% during the decade to 2011. Four submarine cables have landed in Kenya, bringing 5.7 Terabits per second capacity, resulting in faster and cheaper connectivity to the Internet. Internet subscriptions increased from 7.7 million in June 2012 to 8.5 million, with a total number of Internet users estimated at 13.5 million, almost double that of the past year.

Since 2000, Kenya's internet sector has managed to grow considerably over 10 years with what started as a handful of dial-up modems in 1995 evolving into a dynamic industry with numerous internet hosts, nearly 50 licensed internet service providers (ISPs) and roughly 2.7 million Internet users in the country. The operators and service providers represent a significant investment in the economy, a big employer of ICT staff and a major contribution to national development (The EastAfrican, 2009).The government is now supporting several projects aimed at boosting the country's broadband infrastructure with initiatives that will connect the countries of eastern Africa via a high bandwidth fibre optic cable system with the rest of the world.

The Communications Authority of Kenya (CAK) report for the financial year 2012-2013 (CCK, 2014) says that the internet sub-segment in Kenya grew with 12.43 million internet subscriptions and 19.65 million internet users. This represented an internet penetration of 48.3 per cent compared with 35.5 per cent the previous year. The increase was driven by the growth in mobile/internet subscriptions that have dominated the internet sub-sector. It further says that affordable devices such as smart phones and social networking applications have become increasingly popular especially among urban youth. The growth was attributed to the increased usage of the internet for basic services such as banking, healthcare and education, availability of a wide array of affordable internet access devices such as smart phones and tablets, as well as the innovative promotions and special offers and affordable bundled internet services provided by operators. The continued revenue growth inertia in the voice market has seen operators shift to other markets in the ICT industry such as the data market.

1.1.5. Large Scale Internet Service Providers in Kenya

The internet service provider industry in Kenya has grown tremendously and key players in the industry are keen on positioning themselves to grow their market share. A report by McKinsey (2013) says that the internet sector contributed 2.9% of Kenya's Gross Domestic Product (GDP) in 2012. Internet sector is important to the economy hence Kenya ICT Authority is focused on implementing a long-term national vision, facilitating investment, and encouraging innovation in both the private and public sectors. The main business by ISPs is to provide access to internet based products and services. They usually buy internet capacity as bulk and the sell it into smaller chunks to end users.

Internet is becoming a basic need in the current modern day society hence more and more people in Kenya and around the world are looking for a reliable and affordable internet service provider. The delivery of these services is usually through Information Technology (IT) infrastructure either owned by the company or leased from other firms. They also provide services such as domain hosting services, email services, web-hosting services, collocation services and VOIP. The Communications Authority of Kenya in 2008 brought about one of the key changes by changing the licensing framework from the technology oriented framework to the unified licensing framework. This change in licensing led to a reduction in the barriers to entry for firms into the market place. Infrastructure firms benefited as they were now capable of providing internet capacity via their infrastructure as opposed to being limited to the provision of infrastructure access.

The ISP industry has also been hit by economic challenges and the entry of new entrants into the market. Most ISPs have seen their profits dip owing to entry of new entrants into the market and existence of alternative products and services. These alternative products and services have been mostly through the mobile phone companies who offer 3G and 4G internet access. These companies have eaten into the market share of ISP thus resulting in a reduction in profit. Mobile operators continue to aggressively engage in the data market and have deployed wireless broadband mobile networks that have speeds of up to 21 Mbps (CA, 2014). Another change has been that of the entry of the undersea fibre cable systems such as SEACOM, TEAMS and EASSY that opened up the country to high speed internet access and higher bandwidth capacities.

1.2. Research Problem

Strategic responses outline measures to be taken to improve performance, increase revenue and retain customers of any organization. Strategies applicable in one environment may not apply in a different environment as competitive environmental forces which are especially important for one organization may not be the same for another. Strategic responses have been necessitated by major environmental dependency by organizations. Identification of specific responses in tandem with particular capabilities may explain variations in performance. The internal and external environment of any organization is analyzed and this includes the emerging competitive environmental factors. The totality of any environment, internal or external, forms the basis for which organizations formulate their strategies. Competition will always present itself in various forms and organizations have to respond in a tactful manner so as to retain its customers and increase revenues.

Large ISP firms in Kenya operate in an ever dynamic and competitive environment which manifests itself differently every so often. With increased competition, threats have been emerging every now and then keeping the industry on its tops and there is a need to conduct research into the ISPs environment. The changes have presented serious strategic threats to existing firms. Successful companies take an outside view of their business. They recognize that the environment is constantly presenting opportunities and threats and they must respond to them by continuously monitoring the environment. Looking at the ever dynamic competitive environment, we can notice the transformation in the country as well as in the ICT industry.

The nature of strategic management in general and strategic responses in particular have been studied and discussed extensively in recent years. Bryson (1995) and Nutt and Backoff (1992) looked at strategic planning processes in the services sector, providing a guide for the practitioner, while Joyce‘s (2000) study is discursive rather than prescriptive. Maddock (2002) focused on an example of strategic response in one segment of the public sector in European Union countries. Tan and Litschert, (1994) established that the increased environmental uncertainty is negatively related to proactive strategies and positively related to defensive strategies for higher performance.

According to Thompson (1997) response involves changes in the organizations strategic behavior. Haron and Chellakumar (2012) found that small firms have the highest relative efficiency compared to medium and large sized companies. Ansoff and McDonnell (1990) point out that the parts of the response challenges confronted by different industries are different.

However, it is worth noting that though studies have been done touching on aspects of the ISPs in Kenya, no specific study has been undertaken to establish the strategic responses employed by large ISPs in Kenya to counter challenges brought about by changes in dynamic competitive environment. M'iti, Maureen K (2011) found that ISPs in Kenya faced competition and should unite and advocate for a better regulatory environment**.** Righa S (2014) found that the key impact for the use of information technology was to improve decision making by the Internet Service providers. A study by Omae, Ndungu and Kibet (2013) found that the top competitive challenges in the telecommunication industry was intensive rivalry with other competitors, existence of cheaper products, high bargaining power of customers and poor quality service. A study by Njagi Peter K (2012) on strategies employed by ISPs to gain competitive advantage concluded that ISPs should remain more innovative and offer a wider range of products. The changes and predictability in the external environment in which firms operate determines how they fit and their eventual performance (Machuki, 2011).

Like in any other organization, internet service providers have been operating in an environment that is believed to be very competitive. However, the effect of strategic responses on performance in Kenyan internet service providers industry has received little research attention. To date, there is no available literature defining strategic responses by large ISPs to the dynamic competitive environment. Behind this background, the current study, therefore seeks to find out the strategic response by large ISPs to competition from the industry players. It is in this background that this study came in to investigate the strategic responses adopted by large internet service providers to a dynamic competitive environment.

1.3. Research Objective

The study sought to determine the strategic responses to the dynamic competitive environment by large Internet service providers.

1.4. Value of the study

This study benefits the Internet service providers as it establishes the possible responses in the face of increased competitive environment The findings enable ISPs identify any strategic gaps in their commercial strategies and possible responses which they could adapt to counter the threat presented by the competitive environment. The findings of this study are of importance to ISPs, Government, Policy Makers, Investors, researchers, IT consultants, academicians, scholars as well as teachers. This is because this research gives an insight into the uses, challenges and impact of competition in the industry.

Governments gain from this research by understanding some of the challenges faced by ISPs and help to set regulatory/policy framework with regards to competition in the ISP industry. Policy makers benefit as they are able to come up with favorable policies that promote fair completion in the industry without dominance in the market. The results of this study are a source of reference in policy formulation on the key role of strategic management in the telecommunications sector. Such policies guide to understanding which strategies are appropriate to firms facing competition. Potential new entrants and investors into the ISP market also benefit from this research as they gain knowledge on how they can implement strategies while entering the market, thus enabling them survive the competitive market.

IT consultants benefit from this study as they are able to advise their clients appropriately further enabling the successful implementation of competitive strategies. The study adds value to several areas of theory building and offers significant contribution to the already existing theories like the resource based theory (RBT) and chaos theory (CT). The study further contributes to the existing literature in the field of strategic management and can be used as basis for further research.

1.5. Chapter Summary

This chapter defined the background, conceptual framework, context, theories and gaps that led to the motivation of the study. The telecommunication industry is a vibrant and profitable sector and is no exception to the forces dynamic competitive environment. The large internet service providers have therefore continuously developed strategic responses in order to survive the forces from the environment.

The study therefore sought to establish the strategic responses that internet service provider firms were developing to cope with the dynamic competitive environment. Performance of internet service provider firms is of great importance to the Kenyan economy as ICT is a key pillar towards the achievement of Vision 2030. The chapter further discussed previous studies that had been done on the subject and identified the gaps that led to the research project.

The chapter concluded by identifying the research problem and research gaps that had not been done in previous studies. The chapter then concluded by enumerating the benefits the study had to key stakeholders such policy makers, government, investors and academicians.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to undertake an in-depth review of literature on the variables of the study. The chapter further highlights the work other scholars and researchers have done concerning strategic responses, the dynamic competitive environment and the ISP industry.

2.2 Theoretical Foundation

The resource dependence and the chaos theory provide a useful theoretical framework for understanding the dynamic evolution of industries and the complex interactions among industry actors. Porter's Generic Competitive Strategy looks at the macro-environmental and industry-related forces that may derail any firm. This study therefore used the above theories to find out how they apply in the ISP industry in Kenya and thereby enhancing the success of strategic responses employed by the firms.

2.2.1 Resource Based Theory

The resource- based theory argues that competitive advantage lies in the heterogeneous firm's specific resources possessed by the firm. Resources include all assets, capacities, organizational processes, firm attributes, information, knowledge e.tc controlled by the firm to conceive and implement strategies that improve efficiency and effectiveness (Barney, 1991). The theory therefore attributes priority to the content aspect of strategy and leaves the managerial aspect that underlies the creation and management of resource-based strategies (Mahoney and Pandian 1992). Although capabilities are resource dependent, resources do not exclusively determine what the firm can do and how well it can do it. According to Jiang (2002), a firm that wants to obtain strategic competitive advantage should possess the capabilities to adapt its operations to the dynamics of the market environment in which it positioned. In addition, the capacity to develop new forms of competitive advantage before the decline of the previous or current form of competitive advantage is necessary.

2.2.2 Chaos Theory

To understand the relevance of chaos theory to strategy, we need to conceptualize industries as complex, dynamic, nonlinear systems. Firms interact with each other and with other actors in their environment, such as consumers, labor, the government, and financial institutions. These interactions are strategic in the sense that decisions by one actor take into account anticipated reactions by others, and thus reflect recognition of interdependence. As Porter (1990) emphasizes, the evolution of industries is dynamic and path dependent: corporate (and country-level) capabilities acquired during previous competitive episodes shape the context for future competitive battles.

Moreover, the accumulation of competitive advantage can be self-reinforcing, suggesting at least one way in which industries are nonlinear. If industries do behave as chaotic systems, a number of implications for strategy can be drawn.The chaos theory offers a strategy to organizations deal with uncertainty of competitive markets through customer competitiveness, fast passed innovation empowering personnel and most importantly learning to work within an environment of change. By contrast, chaotic systems do not reach a stable equilibrium; indeed, they can never pass through the same exact state more than once. If they did, they would cycle endlessly through the same path because they are driven by deterministic relationships. According to Tom Peters (1987), to meet the demands of the fast-changing competitive scene, organizations must simply learn to love change as much as we have hated it in the past.

The implication is that industries do not 'settle down' and any apparent stability, for example in pricing or investment patterns, is likely to be short lived. Chaos theory also suggests that changes in industry structures can be endogenous. Corporate decisions to enter or exit the market, or to develop new technologies, alter the very structure of the industry, which in turn influences future firm behavior. As the global economy and technology continue to change the way business is conducted on a daily basis, evidence of chaos is clearly visible. While businesses could once succeed as "non-adaptive," controlling institutions with permanently-installed hierarchical structures, modern corporations must be able to restructure as markets expand and technology evolves.

2.2.3 Porter's Generic Strategies

The primary determinant of a firm's profitability is the attractiveness of the industry in which it operates and another determinant is its position within the industry. The aim of any firm should be to develop a distinctive competence that is greater than its competitors. Porter (1985) identifies three generic strategies for the achieving performance in an industry and these are cost leadership, differentiation and focus approach. Each of the strategy is a different approach to creating and sustaining competitive advantage. These strategies are applied at the business unit level. They are called the generic strategies because they are not firm or industry dependent.

Cost leadership strategy focuses on gaining competitive advantage by having the lowest cost in the industry. Low cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reduction from experience, tight cost curve control, and cost minimization, Porter (1980). The cost leadership strategy requires the sale of a "standard or no-frills" product (Porter, 1985) combined with "aggressive pricing" (Porter, 1980). Thus, the strategy involves making a "fairly standardized product and under-pricing everybody else." In order to achieve this, an organization must have a low-cost leadership strategy, low- cost manufacturing, and a work force committed to the low cost strategy.

The cost leadership strategy usually targets a broad market. Some of the ways in which firms acquire cost advantage include improving process efficiencies, gaining unique access to a large source of lower cost materials, optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. Firms that succeed in cost leadership often have the following internal strengths: access to capital required to make a significant investment in production assets; skills in designing products for efficient manufacturing; high level of expertise in manufacturing process engineering and efficient distribution channels (Lynch, 2003). The company with the lowest cost would earn the highest profit in the event that the competing products are essentially undifferentiated, and selling at a standard market price.

2.3 The Concept of 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 changing environment and to fulfil stakeholder expectations. A strategy represents a firm's game plan Pearce and Robinson (2005). It reflects the company's awareness of how to compete against whom, when, where and for what. Strategy is the match between organization resources and skills, the environment opportunities and risks it faces and the purposes it wishes to accomplish Schendel and Hofer (1997). An organization strategy cannot succeed if the operation aspects of the organization are not in line with the strategy (Porter, 1985). Organizations that have successfully managed change have been able to link strategic change with operational change and every aspect of organization in relation to the dynamic external environment.

According to Mintzberg (1987), strategy could be seen as a plan, ploy, a pattern, a position and a perspective. As a plan, strategy specifies a consciously intended course of action of an organization. The strategy is designed in advance of actions and is developed purposefully. As a ploy, strategy is seen as a manoeuvre to outwit competitors. As a pattern, strategy is seen as a pattern emerging in a stream of actions. Strategy is seen as consistency in behaviour and the strategy develops in the absence of intentions. As a position strategy is a means of locating an organization in its environment. Strategy as a perspective consists of a position and an ingrained way of perceiving the world. It gives an organization identity or a personality.

Porter (1985) sees strategy as being all about competition and trying to gain competitive advantage. The development of strategy helps managers identify critical tasks that need to be performed and hence helping an organizational strategic thrive. Strategy helps to guide the pattern of responses to changes taking place in their environment. Strategy enables companies to focus their resources and efforts, Pearce & Robinson (2005). Strategy also helps an organization develop a competitive advantage in the market. This in turn enables the organization to outperform the competition successfully. To be an average performer a firm has must generally make a choice amongst them rather than attempt to address all of them at once.

Strategy has varied definitions as listed above, none can be said to capture explicitly all the different dimensions of strategy. The aim of any firm should be to develop a distinctive competence that is greater than its competitors. Porter (1988) identifies three generic strategies for achieving the above average performance in an organization. These are cost leadership, which requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reduction from experience, high cost control curve and cost minimization in various functions, Porter (1988). Differentiation is to be unique in ways that are valuable to customers and that can be sustained Pearce and Robinson (2005) and focus which is identification of a particular geographical market and coming up with products for that segment.

Hitt and Hoskisson (2000) determined that firms choose from among four generic business levels strategies to establish and exploit a competitive advantage within a particular competitive scope: Cost leadership, differentiation, focused low cost and focused differentiation. A fifth generic business level strategy, the integrated low cost differentiation strategy, has evolved through firm’s effort to find the most effective ways to exploit their competitive advantage. None of the five business level strategies is inherently or universally superior to the other. The effectiveness of each strategy is contingent on the opportunities and threats in a firm’s external environment and possibilities permitted by the firm’s unique resources, capabilities and core competences.

2.4 Organizations and the Competitive Environment

Pearce and Robinson (2005) define environment as all conditions and forces that affect a firm’s strategic options and define the competitive situation in the market. The factors that constitute the external environment are grouped into three categories depending on their influence namely, macro, operational and industry factors. Macro factors are those that originate beyond a firm’s operating situation and they are political/legal, economic and social. Operating factors are; competitive position, customer profiles, shareholders, general public, employers, distributors and government. Industry factors are competitor rivalry, substitute products, new entrants’ threats, supplier’s power Porter (1985). The factors influence demand for the firms’ products and resources while industry factors such as structure determine the industry attractiveness.

Porter (1985) points out the essence of formulating a competitive strategy in relating the company to its environment and the key aspects of the firms environment is in the industry in which it competes. Hofer and Schendel (1997) notes that environment is a critical factor for any organization's survival and success. They interact with the environment in such a way that they get inputs from the environment, process them and give back to the environment in the form of goods and services. Organizations need the environment while the same environment needs organizations, none can exist without the other.

According to Jocelyne and Barbara (2006), organizations are systems comprising elements of formal organization management and operations as well as elements of more informal aspects of organizational life. To survive in a dynamic environment, an organization needs to focus on its customers and deal with emerging challenges Hofer and Schendel (1997). A study by Prescott & Bhardwaj (1995) shows that Competitive intelligence programs provide benefits such as Influencing actions of decision-makers, Improving early warning signals, Identifying new opportunities, Exploiting competitor vulnerabilities, Sharing of ideas and Better serving the company's customers. An organization needs to diagnose its unique pattern of future challenges, threats and opportunities and advance its respective response to these challenges. The performance implications of the major decisions that are made in anticipation of or in response to external environmental conditions are of interest to strategy researchers.

2.5 Strategic Responses

Strategic responses according to Pearce and Robinson (2005) are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives. Organizations are environment dependent. No organization can exist without the environment for survival and they have to scan the environment in an effort to monitor trends and conditions that would affect the industry and adapt. Such scanning involves studying and interpreting social, political, economic and technological events so as to identify trends that could eventually affect the industry. Environmental scanning enables the manager to become aware of developments that could pose new opportunities and threats to the organization Thompson and Strickland (2008).

Failure to do this leads to serious strategic problem characterized by mal adjustment of organization output and demands of the external environment Ansoff and McDonnell (1991).Strategic responses are part of competitive strategies that organizations develop in defining the goals and policies. They are reactions to what is happening in the environment of the organization. Porter (1985) observes that the knowledge of the underlying sources of competitive pressure provides the groundwork for strategic agenda in action. When organizations are faced with unfamiliar changes they should revise their strategies to match their turbulence levels Ansoff and McDonnell (1991). Changes in external environment will require new strategies which will in turn call for reformed organization capability.

2.6 Empirical Studies and Knowledge Gaps

Empirical evidence emerging from previous studies and theory on the relationship between external environment and strategic responses suggests that the external environment is a source of opportunity, threats and resources as inputs for firms. AB Bernada (2007) did an empirical study on strategic responses from low cost countries competition and found that the choice of strategic responses depends both on the intensity and the quality of competition from low-cost countries. It could thus be postulated that competitive environment has a significant influence on firm strategic responses.

According to the resource-based theory, the competitive advantage of a firm draws on its internal resources and competences (Mahoney and Pandian, 1992; Penrose, 1995; Peteraf, 1993; Wernerfelt, 1984). In this paradigm, a company can be considered as a bundle of resources that makes it unique if the resources are valuable, rare, hard to imitate, and difficult to substitute (Barney, 1991). When facing domestic low-cost competition scholars have pointed out that market incumbents need to carefully analyze their new rivals, identify their source of competitive strength, and adapt their strategies accordingly (Kumar, 2006). As a result of the emerging issues related to competitive environment, firms have developed strategic responses to mitigate the issues. This study has a relationship between competitive environment and strategic responses where competitive environment is conceptualized as the independent variable directly influencing strategic responses.

2.7 Chapter Summary

The chapter defined the theoretical foundation around which the study was based. It defined the previous studies of other scholars and researchers by giving an in-depth study on existing theories that supported the current study. The empirical studies and knowledge gaps formed the foundation of the study.

The chapter used the resource based theory, chaos theory and Porters generic strategies to find out how they applied in the internet service providers industry thereby enhancing the strategic responses employed by the ISP firms. The chapter further discussed the concept of strategy and how the external competitive environment affected the organization and also how the organization developed strategic responses.

The chapter concluded by identifying the empirical studies and research gaps that led to the study. Various scholars had covered wide studies on the strategic responses to competitive environment but no study had been done among large internet service providers. The chapter further the examined the conceptual framework in detail.

CHAPTER THREE

RESEARCH DESIGN

3.1 Introduction

This chapter provides a detailed description of the research methodology and approaches that were adopted in conducting the study. These include research design, population of the study, sampling design, data collection and analysis.

3.2 Research Design

The study will be a cross sectional survey design. A survey research refers to a set of techniques for collecting data on human characteristics, attitudes, thoughts and behavior by obtaining responses from individuals to a set of prepared questions (Doyle, 2004).

The choice of this research design is based on the fact that it is the most appropriate in providing adequate data for analysis and drawing of accurate conclusions. The other reason for this choice is that the researcher is interested in finding out the state of affairs existing in the field and there are no variables that can be manipulated.

3.3 Population of the study

The target population of the large internet service providers was obtained from the industry regulator CCK. The entire population was considered for this study.

These constituted the large ISPs in Kenya who control over ninety two percent of the market. These were considered to be large companies with more than 200 fixed or wireless internet subscribers, thereby creating a listing of the 11 companies that meet the criteria. See Appendix II annexed. (CCK Report 2014)

3.4 Data Collection

The purpose of data collection is to obtain information to keep on record, to make decisions about important issues, to pass information on to others. The research instrument used was a questionnaire which was administered using “drop and pick later” method and via email. The data was collected from ISPs management team holding key positions as far as formulating, implementing and evaluating strategy is concerned.

The managers here included chief finance officers, chief operations officers, chief technical officers, department heads, account managers or divisional heads. The questionnaire was designed to address the research questions and will be divided into three sections; A, B and C. Section A addressed the general information about the ISP and sought background information of the respondents. Section B was tailored to find out the impact of the dynamic competitive environment to internet service providers operations and addressed the competitive challenges encountered in the past while section C dealt with specific strategic responses that ISPs had employed to counter the dynamic competitive environment and their effectiveness.

3.5 Data Analysis

Data analysis is a process of inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making. The questionnaires that were correctly filled and fit for analysis were coded and all the data will entered into statistical package for social sciences (SPSS) and analyzed based on descriptive statistics.

The descriptive statistics that were used included frequencies, percentages and ratios. Percentages were used to determine the most common competitive challenges encountered by the ISPs. Ratios were used to establish the level of strategic involvement in the response decision. Mean scores were computed to establish the strategic responses commonly applied. The results from the analysis were then presented using tables, bar graphs and pie charts for easier interpretation.

3.6 Chapter Summary

This chapter introduced the research design which was a survey design of the large internet service providers in Kenya. The population of the study was also defined and obtained from the industry regulator Communications Authority of Kenya. A census of the entire population was applied in this study as the numbers of respondents were few.

The data collection method that was used in the study was discussed with supporting reasons highlighting its advantages. A questionnaire was used as the research instrument to collect data from the top managers of the individual internet service provider firms.

Data collected was to be analyzed by using statistical package SPSS. The chapter concluded by discussing the data analysis techniques that were used to present the data collected. The data was presented using tables, charts and percentages for ease of interpretation.

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The study sought to investigate strategic responses adopted by Internet service providers due to the changing competitive environment. This chapter presents the data analysis and interpretation where the data is presented as per the study's objectives. This chapter considers the results and findings from the questionnaire survey. The findings of the study are presented according to the research questions.

There were 11 questionnaires distributed to the selected senior managers of the internet service provider firms. The analysis of findings is according to the returned questionnaires from the 11 ISPs. Of the 11 questionnaires sent to the sampled subjects, 8 were filled and returned which translated to 72% response rate. This high response rate was achieved by the great cooperation between the researcher and the respondents. All the returned questionnaires were found to be correctly filled and fit for analysis.

4.2 General Information

The study sought to establish the age of the firm to establish the duration in operation. Findings are presented in table 4.1.

Table 4.1: Years of operation of the firm

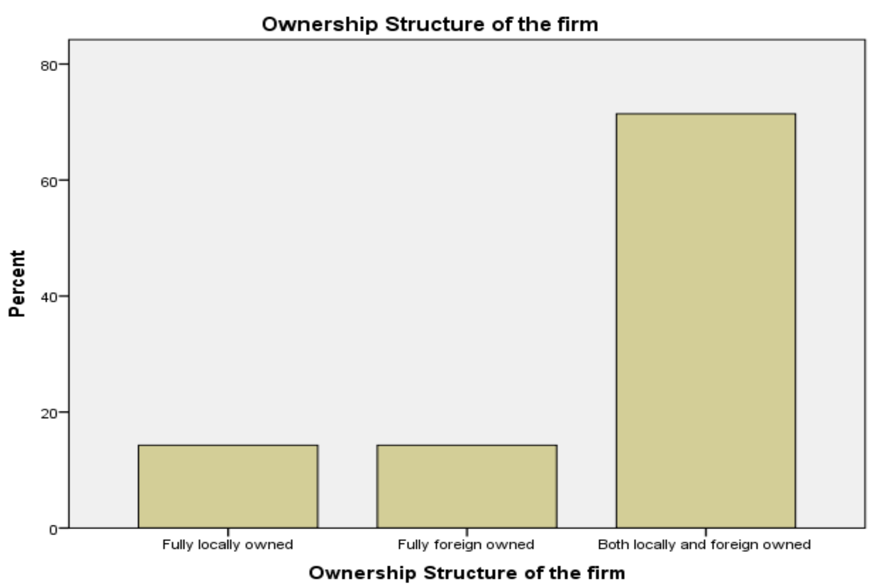
No of Years	Frequency	Percentage	Cumulative Percentage
0-5 years	1	12.5	12.5
6-10 years	4	50.0	62.5
11-15 years	1	12.5	75.0
16-20 years	1	12.5	87.5
21 years and above	1	12.5	100.0
Total	8	100.0	

Source: Research data- 2015

Findings presented in table and figure 4.1 indicate that 4 (50%) of the internet service provider firms had been in operation for between 6 and 10 years while 1 (12.5%) indicated to have been in operation for less than 5 years. One (12.5%) had been operation for between 11 and 15 years, 16 and 20 years and above 21 years.

This is an indication that most of these ISPs had been in the business for long to have a good understanding of the competitive external environment and develop strategic responses to counter the challenges from the competitive environment. This length of service for long periods in the internet service providers sector could be attributed to experience and the technical nature of the industry thus reduced exits to other firms. The other factor could the uniqueness in the sectors where specialization is crucial and mobility to other firms is limited.

The study sought to establish the ownership structure of the ISP firms. Findings are presented in figure 4.1.



Source: Research data 2015

Figure 4.1: Ownership Structure of the firm

Findings presented in figure 4.1 above indicate that 5 (62.5%) of the ISPs were both locally and foreign owned. One (12.5%) of the firm was fully locally owned and one (12.5%) was fully foreign owned. This is an indication that most of these ISPs had other branches outside Kenya and as they had both local and foreign ownership stake. This is a good indicator that the Kenya's policy framework for internet service providers sector has an enabling environment to attract foreign investors.

The study sought to find out whether the ISP firms had an internet strategic plan. This was with a view to find out whether the firms had a formal plan to identify environment challenges and respond accordingly to manage diversity and complex environment. Results are presented in table 4.2.

Table 4.2: Number of firms with an internet business strategy

Variable	Frequency	Percentage	Cumulative Percentage
With strategy	6	75.0	100.0
Without strategy	2	25.0	
	8	100.0	

Source: Research Data 2015

Results presented in table 4.2 above indicate that 6 (75%) of the ISPs had an internet business strategy and indicate the importance of strategic planning to give direction to the firm in light of environmental challenges. This goes to show that there was strategy formulation; implementation and evaluation which would form basis to show the strategic responses the companies adopt to cope with the dynamic competitive environment.

4.3 Influence of factors from the Competitive External Environment

Statements aimed at weighing the extent to which of each of Porter's 5 generic competitive environmental forces affected the organization. An organization must have the ability to examine its external environment and make changes based on external environment factors that affect its performance. External environmental factors are events that take place outside of the organization and are harder to predict and control.

The external environment consists of both the micro and macro environment and the industry (Tan and Litschert, 1994; Machuki, 2011). The external environment provides organizations with inputs which they transform to outputs through internal processes and then the outputs are given back to the environment. The dynamic competitive environment is a factor that greatly influences the strategic responses adopted by organization in order to survive turbulent times. The respondents were asked to indicate the competitive factors and forces affecting the organization on a likert scale of 1(not at all) to 5 (very large extent).

4.3.1 Exit barriers of the industry

The study further sought to establish the exit barriers exerting the biggest pressure on the ISP. This was to establish those forces that required strategic responses most. Results are presented in table 4.3

Table 4.3: Exit barriers in the industry

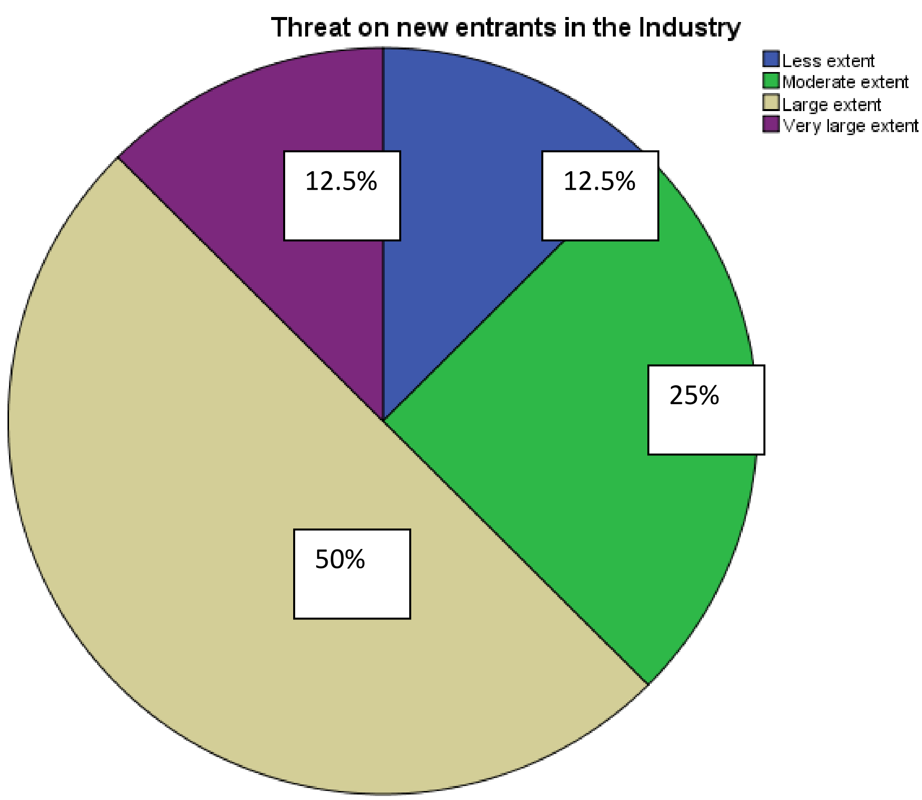
Variable	Frequency	Percentage	Cumulative Percentage
Less extent	1	12.5	14.3
Moderate extent	5	62.5	85.7
Large extent	2	25.0	100.0
Total	7	87.5	

Source: Research Data 2015

Findings presented in and table 4.3 indicate that most respondents 5 (62.5%) considered exit barriers to affect their organization to a moderate extent and 25% of the respondents considered the factors to affect the firm to a large extent. The remaining respondents thought the exit barriers affected the organization to a less and large extent. This shows it is not easy for the firms in the industry to leave and join another industry due to the high capital investment and nature of technical skills required in the industry.

4.3.2 Threat of new entrants

The study sought to establish how the threat of new entrants affected the firm. The results are as shown in figure 4.2 below:



Source: Research data 2015

Figure 4.2: Threat of new entrants in the industry

50% of the respondents thought the threat of new entrants affected the firm to a large extent.25% of the respondents thought the threat of new entrants only affected the firm to a moderate extent while 12.5% thought the threat affected the firm to a less and very large extent.

The threat of new entrants affects the competitive environment for the existing competitors and influences the ability of existing firms to achieve profitability. A high threat of entry means new competitors are likely to be attracted to the profits of the industry and can enter the industry with ease. New competitors entering the marketplace can threaten or decrease the market share and profitability of existing competitors and may result in changes to existing product quality or price levels. The level of competition can be seen to be high as this is a profitable sector.

4.3.3 Relative bargaining power of firms' suppliers

The study sought to establish the extent to which bargaining power of firms' suppliers affected the organization. Results are presented in figure 4.3.

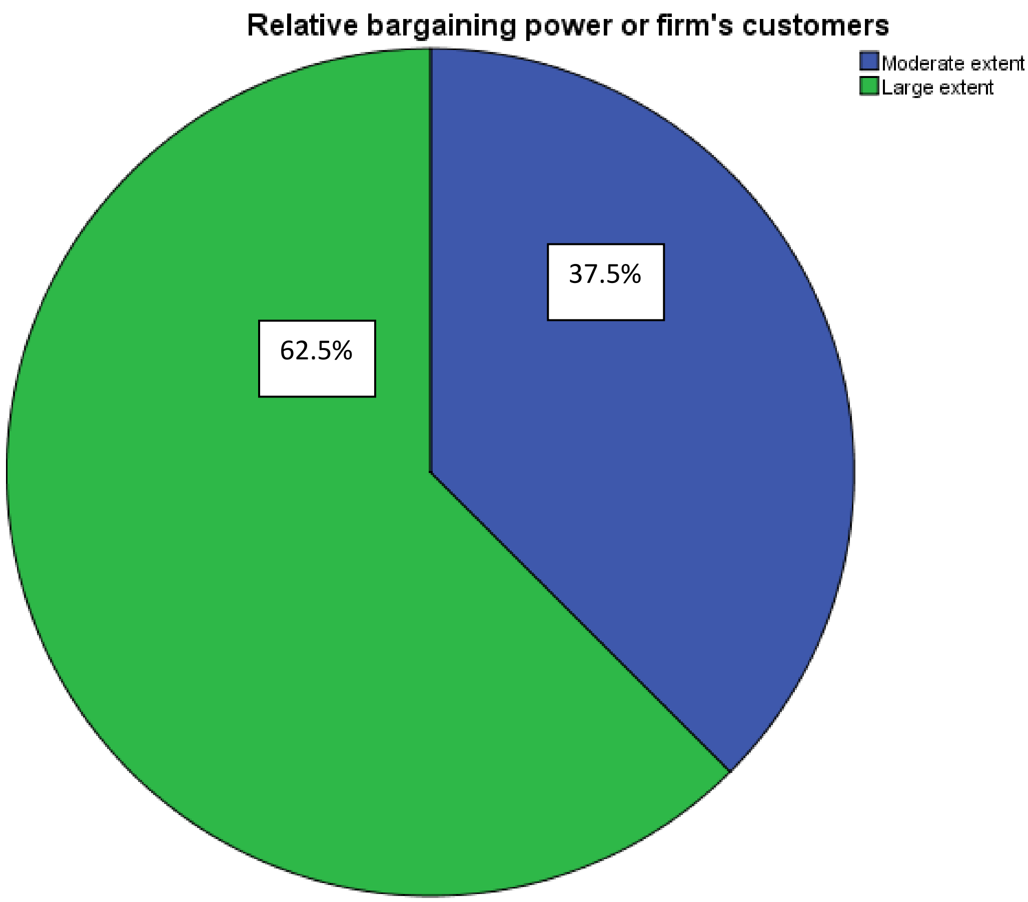
Source: Research Data 2015

Figure 4.3: Relative bargaining power of firm's suppliers

The results show that the bargaining power of suppliers affected most 62.5% of the organizations to a moderate extent. The other firms were individually affected to a less extent, large extent and not at all in the same ratio 12.5%. The more powerful a seller is relative to the buyer who in this case is the ISP organization, the more influence the seller has. This influence can be used to reduce the profits of the buyer through more advantageous pricing, limiting quality of the product or service, or shifting some costs onto the buyer (e.g. shipping costs).

4.3.4 Relative bargaining power of firms customers

The study sought to establish the extent to which bargaining power of firms' customers affected the organization. Results are presented in figure 4.4.



Source: Research Data 2015

Figure 4.4: Relative bargaining power of firm's customers

The results show that the bargaining power of customers affected most 62.5% of the organizations to a large extent while the rest 37.5% were affected to a moderate extent. The customer power is high if the customer has many alternatives and can therefore influence prices down.

4.3.5 Threat of substitute products and services

The study sought to establish the extent to which threat of substitute products and services affected the organization. Results are presented in table 4.4.

Table 4.4: Threat of substitute products and services

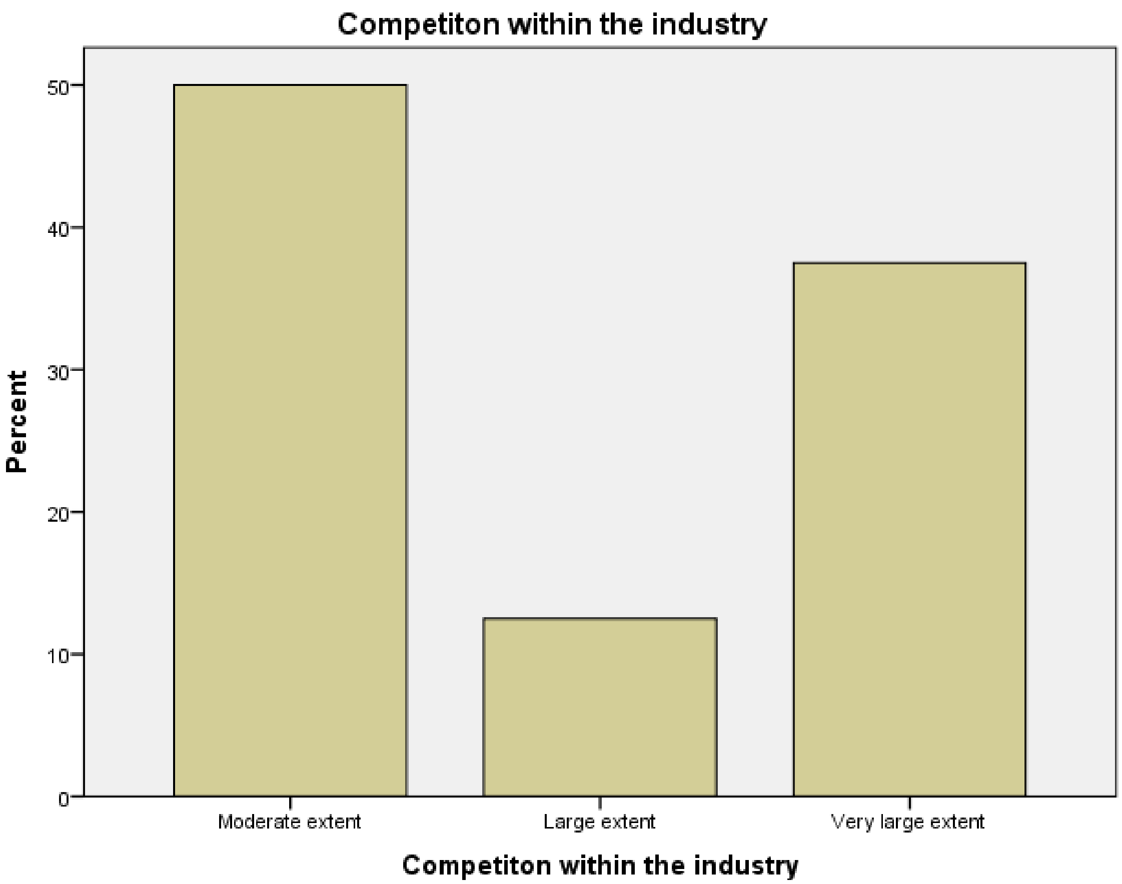
Variable	Frequency	Percentage	Cumulative Percentage
Moderate extent	2	25.0	25.0
Large extent	2	25.0	50.0
Very large extent	4	50.0	100.0
Total	8	100.0	

Source: Research Data 2015

50% of the organizations were affected by threats of substitute products and services to a very large extent. The other firms were equally 25% affected to a moderate and large extent. This shows that the firm’s customers had various substitute and alternative products available. The existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives therefore affecting how the firms price their products.

4.3.6 Competition within the industry

The study sought to establish the extent to which competition within the industry affected the organization. Results are presented in figure 4.5.



Source: Research Data 2015

Figure 4.5: Competition within the industry (rivalry)

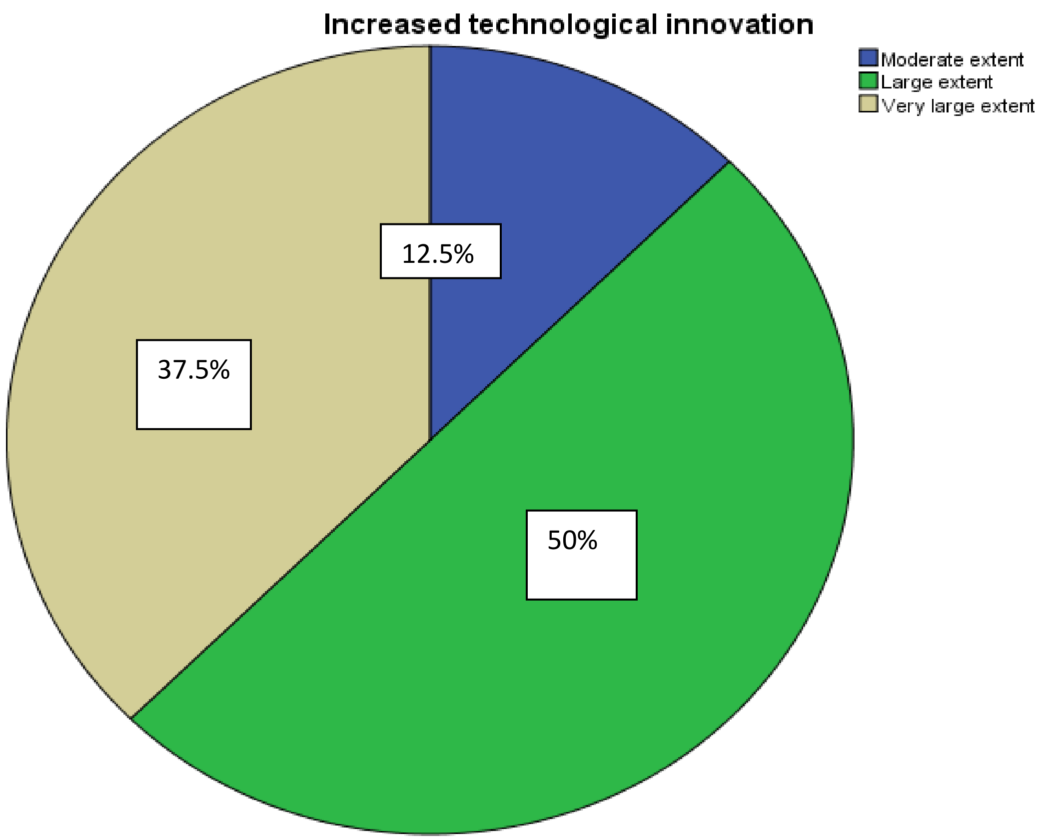
The results show that the bargaining power of suppliers affected most 62.5% of the organizations to a large extent while the rest 37.5% were affected to a moderate extent. 12.5% of the firms affected the organizations to a large extent. For most industries the intensity of competitive rivalry is the major determinant of the competitiveness of the industry and the ISP industry is no exception.

The above results all show that the 5 Porter five forces affect and determine the level of competition within an industry and the business strategy each firm adopts. Individual firms therefore have to apply their core competencies in order to get profit above the industry average.

The study further sought to find the extent to which the following competitive challenges affected their firms. The respondents were required to fill Likert type questions with statements that were to be rated on a scale of 1-5 to state the extent of to which the competitive challenges affected their firms.

4.3.7 Increased technological innovation

The study sought to establish the extent to which increased technological innovation affected the organization. Results are presented in figure 4.6.



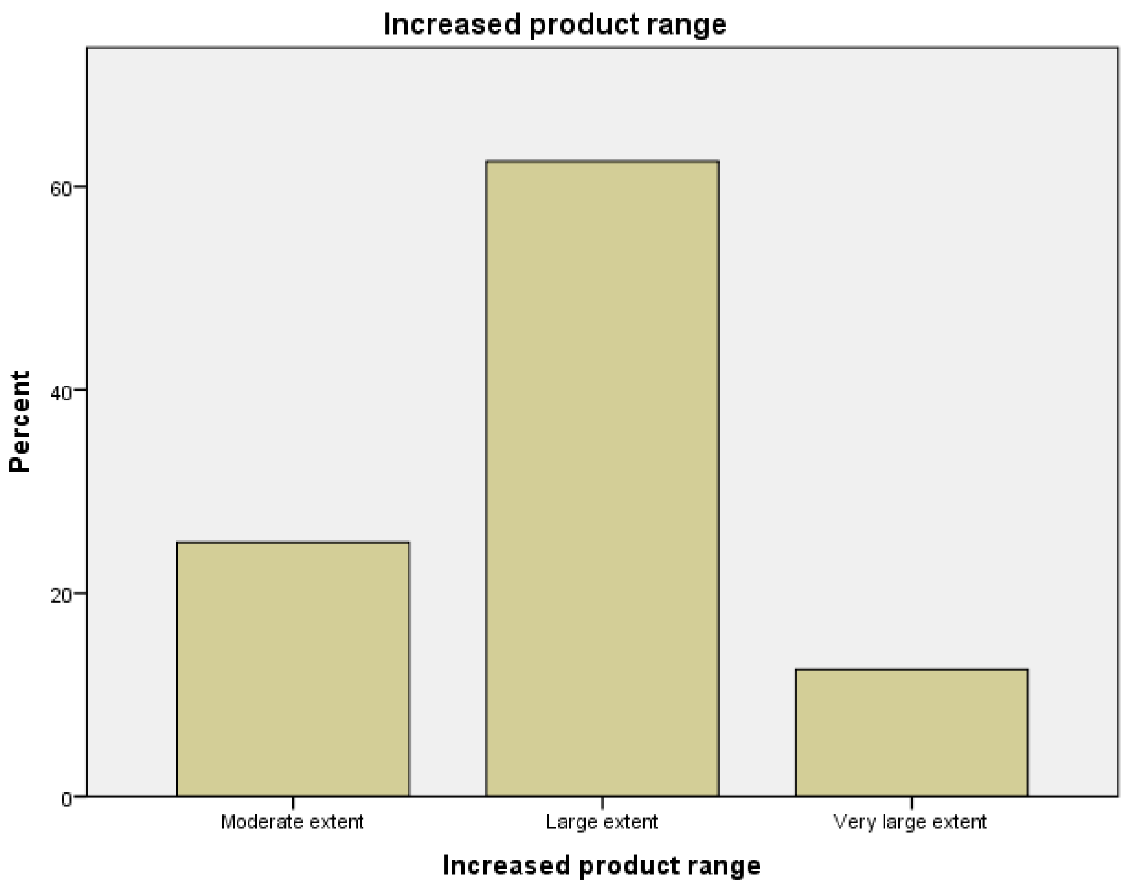
Source: Research Data 2015

Figure 4.6: Increased technological innovation

The results show that increased technological innovation affected most 50% of the organizations to a large extent while the rest 37.5% were affected to a very large extent and 12.5 % to a moderate extent. Being a sector heavily dependent on technology and innovations the results show that this factor is a challenge as the firm has to keep up with the industry developments.

4.3.8 Increased product range

The study sought to establish the extent to which increased product range affected the organization. Results are presented in figure 4.7.



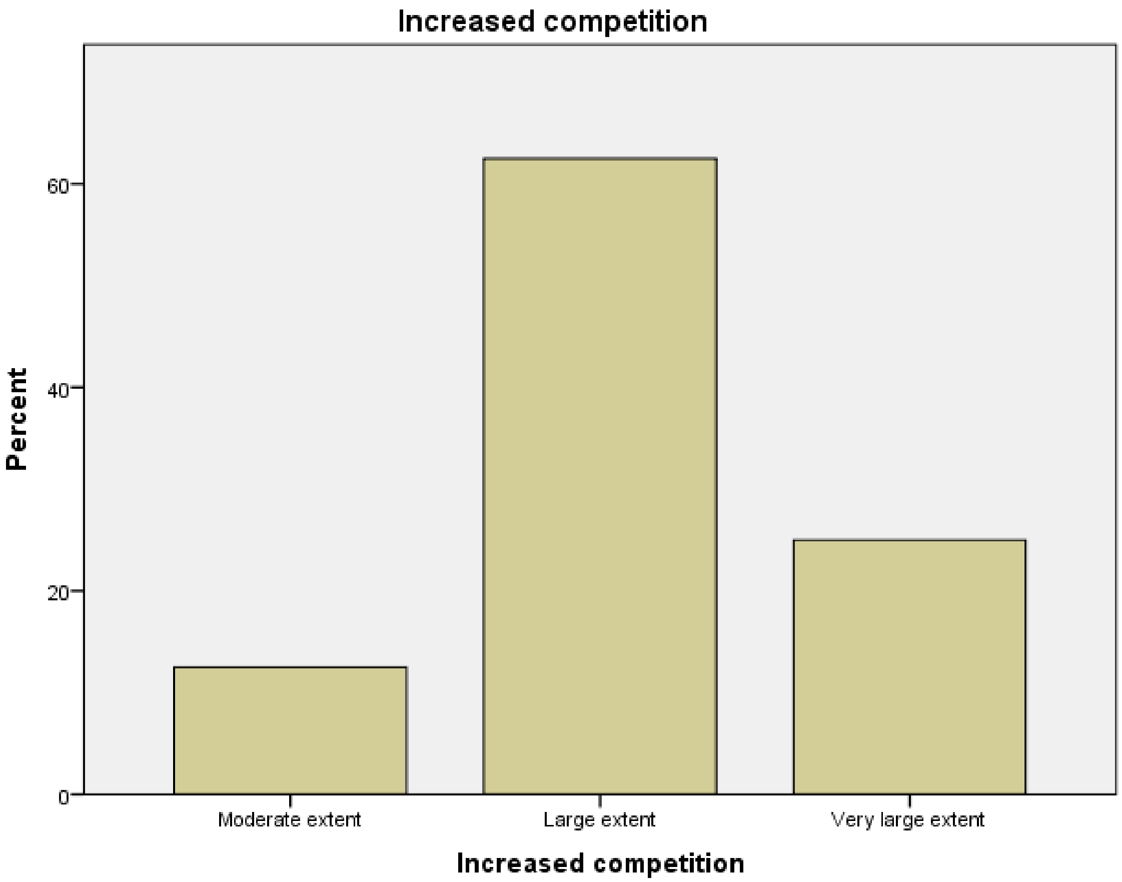
Source: Research Data 2015

Figure 4.7: Increased product range

The results show that the product range affected the firm to a large extent most 62.5% and 25% to a moderate extent while 12.5% to a very large extent. The responses go to show the industry had to stay on its toes to develop new products in order to survive in the dynamic competitive environment.

4.3.9 Increased competition

The study sought to establish the extent to which increased competition affected the organization. Results are presented in figure 4.8.



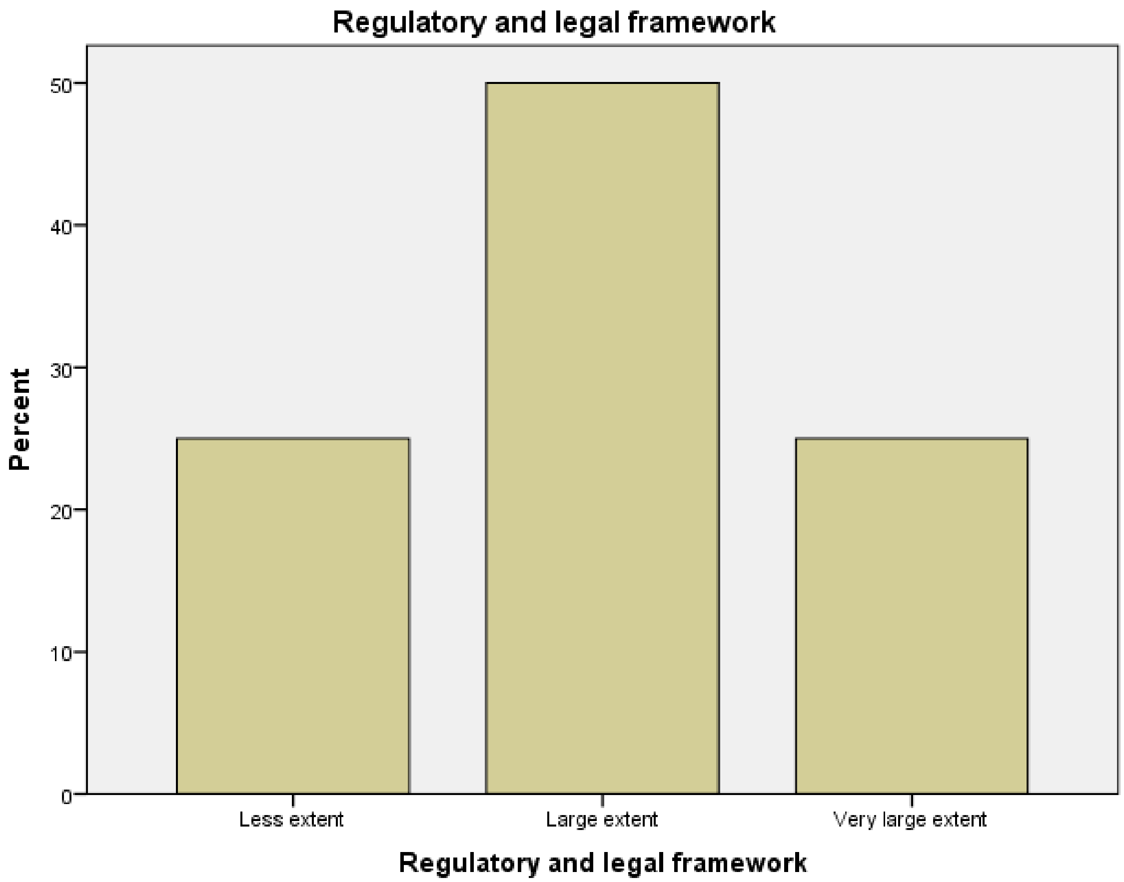
Source: Research Data 2015

Figure 4.8: Increased competition

The results show that the increased competition affects the organization to a very large extent. As this is a profitable industry the firms were influenced by increased competition to a large extent.

4.3.10 Regulatory and legal framework

The study sought to establish the extent to which regulatory and legal framework affected the organization. Results are presented in figure 4.9.



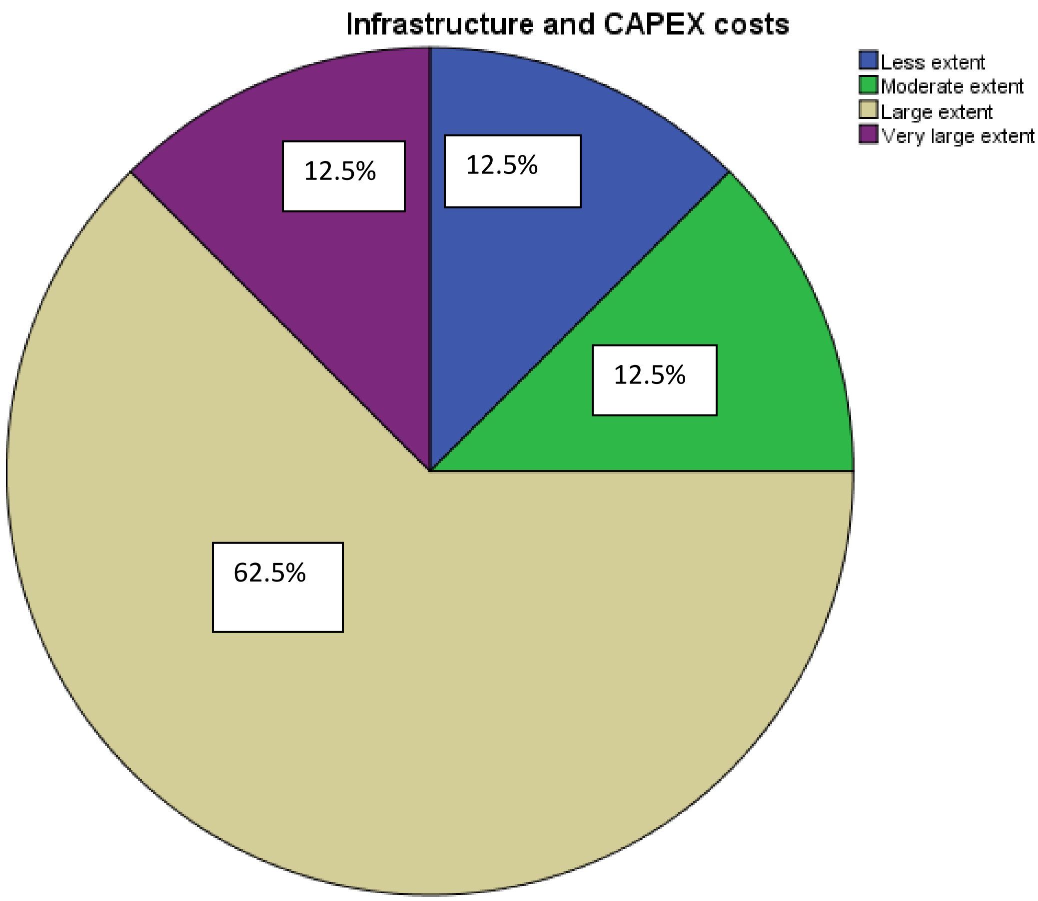
Source: Research Data 2015

Figure 4.9: Regulatory and legal framework

The results show that the organizations were affected by the regulatory and legal framework to a large extent by 50% while 25% were affected to a very large extent. The remaining 25% were affected to a less extent. This shows that the policy makers had a strong influence on the performance of the firm as the changes had a significant effect on the companies.

4.3.11 Infrastructure and CAPEX costs

The study sought to establish the extent to which infrastructure and CAPEX costs affected the organization. Results are presented in figure 4.10



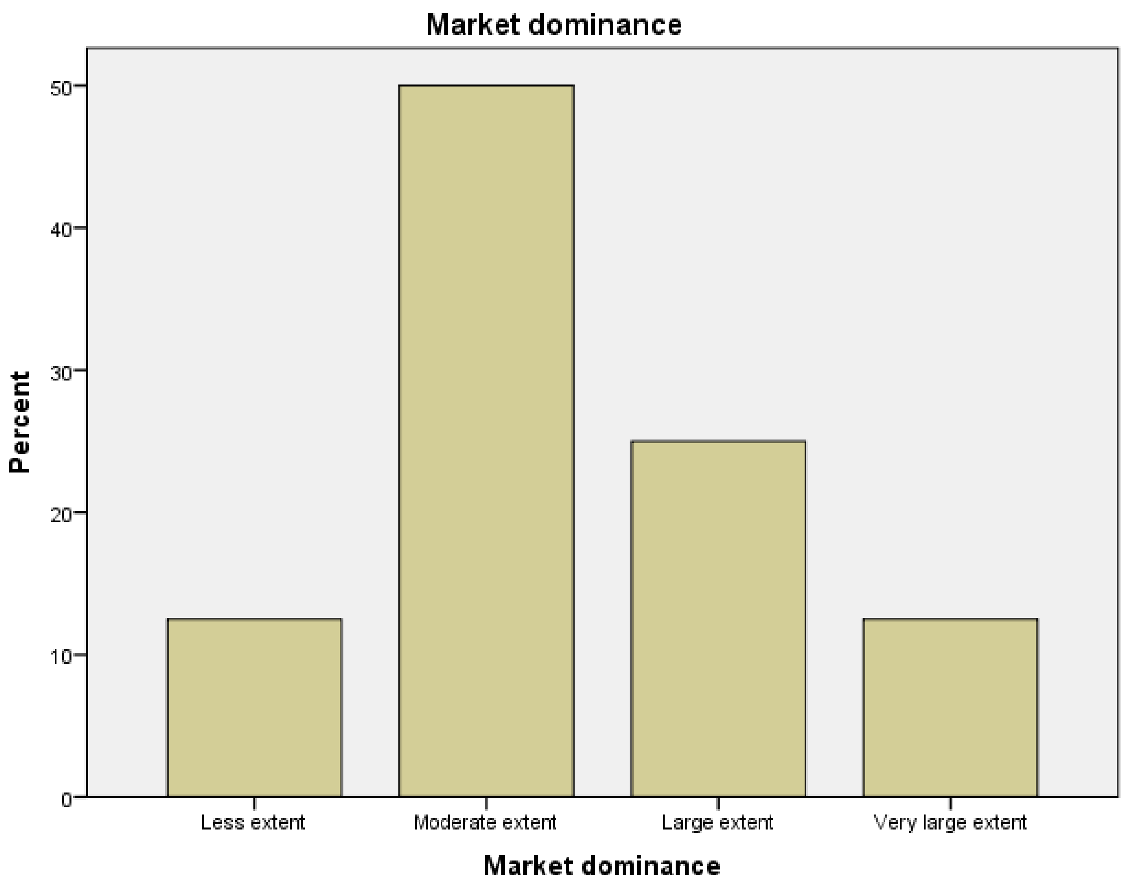
Source: Research Data 2015

Figure 4.10: CAPEX and infrastructure costs

The results show that the infrastructure and CAPEX costs affect the companies to a large extent 62.5% while 12.5% were affected to a very large extent. The other organizations were affected to a less extent and moderate extent by 12.5% each. The ISP sector is a heavy infrastructure and capital intensive sector and this factor affected the organizations competitive environment. The high costs involved in infrastructure and CAPEX development posed a significant challenge to the individual firms.

4.3.12 Market dominance

The study sought to establish the extent to which market dominance affected the organization. Results are presented in figure 4.11.



Source: Research Data 2015

Figure 4.11: Market dominance

The results show that market dominance affected most of the firms' 50% to a moderate extent while the rest were affected to a less extent and very large extent to a less and very large extent in the same ratio 12.5%. There is need for policy makers and regulators to intervene to control the level of dominance presented by some firms.

4.4: Strategic Responses

The study was aimed at establishing the strategic responses employed by large ISPs in Kenya to counter the dynamic competitive environment. This section provides the analysis of different responses from questions directed to respondents to find out how ISPs respond to the dynamic competitive environment. To achieve this objective, the managers who took part in the study were asked to indicate the factors influencing formulation of strategies to counter competition. Various specific responses applied by internet service providers were mentioned where the respondents were required to indicate the extent to which the ISP organization applied that strategic response. Rating was on a scale of 1-5 where 1 represented very important while 5 represented unimportant.

4.4.1 Market focusing

The study sought to establish the extent to which market focusing affected the organization. Results are presented in table 4.5.

Table 4.5: Market focusing

Variable	Frequency	Percentage	Cumulative Percentage
Very important	5	62.5	62.5
Important	1	12.5	75.0
Moderate important	1	12.5	87.5
Unimportant	1	12.5	100.0
Total	8	100.0	

Source: Research Data 2015

The results show that market focusing was a very important strategic response as shown by 62.5% of the respondent firms. The other firms responded as important, moderate important and unimportant in the same ratio of 12.5%

4.4.2 Market segmentation

The study sought to establish the extent to which market segmentation affected the organization a strategic response. Results are presented in table 4.6

Table 4.6: Market segmentation

Variable	Frequency	Percentage	Cumulative Percentage
Very important	2	25.0	25.0
Important	4	50.0	75.0
Moderate important	1	12.5	87.5
Of little importance	1	12.5	100.0
Total	8	100.0	

Source: Research Data 2015

50% of the respondents considered market segmentation as an important strategic response while 25% considered it as a very important variable in strategic response.12.5% of the respondents considered it to be of little and moderate importance.

4.4.3: The firm possess superior and valuable knowledge of the industry

The study sought to establish the extent to which the firm possession of superior and valuable knowledge of the industry affected the organization's strategic response. Results are presented in table 4.7

Table 4.7: The firm possesses superior and valuable knowledge of the industry

Variable	Frequency	Percentage	Cumulative Percentage
Very important	2	25.0	25.0
Important	3	37.5	62.5
Moderate important	1	12.5	75.0
Of little importance	2	25.0	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.4: The firm has embraced use of new information technology in its operations

The study sought to establish the extent to which the firm possession of superior and valuable knowledge of the industry affected the organization. Results are presented in table 4.8

Table 4.8: The firm has embraced use of new information technology in its operations

Variable	Frequency	Percentage	Cumulative Percentage
Very important	6	75.0	75.0
Important	1	12.5	87.5
Of little importance	1	12.5	100.0
Total	8	100.0	

4.4.5: The firm has implemented cost cutting measures via business process reengineering

The study sought to establish the extent to which the firm has implemented cost cutting measures via business process reengineering as a strategic response. Results are presented in table 4.9

Table 4.9: The firm has implemented cost cutting measures via business process reengineering

Variable	Frequency	Percentage	Cumulative Percentage
Very important	1	12.5	12.5
Important	2	25.0	37.5
Moderate important	5	62.5	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.6: The firm has done cost reduction through layoffs in the last five years

The study sought to establish the extent to which the firm has done cost reduction through employee reduction or layoffs in the last five years

Results are presented in table 4.10

Table 4.10: The firm has done cost reduction through layoffs in the last five years

Variable	Frequency	Percentage	Cumulative Percentage
Important	2	25.0	25.0
Moderate important	2	25.0	50.0
Of little importance	4	50.0	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.7 The firm has practised good operational achievements through automation

The study sought to establish the extent to which the firm has practiced good operational achievements by improving other business processes through automation. Results are presented in table 4.11

Table 4.11: The firm has practiced good operational achievements through automation

Variable	Frequency	Percentage	Cumulative Percentage
Important	5	62.5	62.5
Moderate important	2	25.0	87.5
Of little importance	1	12.5	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.8 The firm has managed resources in an efficient way

The study sought to establish the extent to which the firm has operated in an efficient way in its resource utilization and management. Results are presented in table 4.12

Table 4.12: The firm has managed resources in an efficient way

Variable	Frequency	Percentage	Cumulative Percentage
Important	6	75.0	75.0
Of little importance	2	25.0	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.9: The firm has outsourced non-core business activities

The study sought to establish the extent to which the firm has outsourced non-core business activities in managing firms' expenses. Results are presented in table 4.13

Table 4.13: The firm has outsourced non-core business activities

Variable	Frequency	Percentage	Cumulative Percentage
Important	2	25.0	25.0
Moderate important	4	50.0	75.0
Of little importance	2	25.0	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.10: The firm has combined some of the resources to create a cost advantage

The study sought to establish the extent to which the firm has combined some of the resources with those of other firms to create a cost advantage. Results are presented in table 4.14

Table 4.14: The firm has combined some of the resources to create a cost advantage

Variable	Frequency	Percentage	Cumulative Percentage
Very important	1	12.5	12.5
Important	2	25.0	37.5
Moderate important	4	50.0	87.5
Of little importance	1	12.5	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.11: The firm has offered specialized customer service

The study sought to establish the extent to which the firm has offered specialized customer service. Results are presented in table 4.15

Table 4.15: The firm has offered specialized customer service

Variable	Frequency	Percentage	Cumulative Percentage
Very important	5	62.5	62.5
Important	1	12.5	75.0
Moderate important	2	25.0	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.12: The firm has increased advertising to niche markets

The study sought to establish the extent to which the firm has increased advertising to niche markets. Results are presented in table 4.16

Table 4.16: The firm has increased advertising to niche markets

Variable	Frequency	Percentage	Cumulative Percentage
Very important	1	12.5	12.5
Important	4	50.0	62.5
Moderate important	2	25.0	87.5
Of little importance	1	12.5	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.13: The firm has rebranded its products

The study sought to establish the extent to which the firm has rebranded its products. Results are presented in table 4.17

Table 4.17: The firm has rebranded its products

Variable	Frequency	Percentage	Cumulative Percentage
Very important	1	12.5	12.5
Important	1	12.5	25.0
Moderate important	4	50.0	75.0
Of little importance	2	25.0	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.14: The firm has encouraged innovation through research and development

The study sought to establish the extent to which the firm has encouraged innovation and creativity through research and development. Results are presented in table 4.18

Table 4.18 The firm has encouraged innovation through research and development

Variable	Frequency	Percentage	Cumulative Percentage
Very important	1	12.5	12.5
Important	6	75.0	87.5
Of little importance	1	12.5	100.0
Total	8	100.0	

Source: Research Data 2015

4.4.15: The firm has been carrying out product development activities

The study sought to establish the extent to which the firm has been carrying out product development activities. Results are presented in table 4.19

Table 4.19 The firm has been carrying out product development activities

Variable	Frequency	Percentage	Cumulative Percentage
Very important	2	25.0	25.0
Important	3	37.5	62.5
Moderate important	2	25.0	87.5
Unimportant	1	12.5	100.0
Total	8	100.0	

Source: Research Data 2015

4.5: Discussion

The results obtained by the study show that large ISPs have not succeeded in proactively responding to the changes in the dynamic competitive environment. The industry is faced by turbulent competitive environment as evidenced by the extent to which Porters 5 forces have affected the firms to a very large extent. This finding confirms the open systems theory, Katz and Kahn (1966) that recognized that businesses exist as open systems that interact and are interdependent on the environment.

These findings also agree with those from a study by Lagat (2011) which indicated that in the current dynamic competitive environment firms had to review and realign there strategy with the environmental changes. According to the open system theory, firms exist as open systems that depend on the environment for their success and survival. Most of the firms have been in operation for five years and as such have experience in operating in the Kenyan ISP industry.

Among the differentiation response strategies adopted include specialized customer service as customer is king and customers possessed a higher bargaining power. To keep up with increased competition it was necessary for the firms to invest more in marketing and advertising activities. This is as concluded by M'iti (2012) who concludes that organizations have had to stay abreast with latest technology practices and undertake rigorous marketing in order to succeed.

There has also been more adoption of innovation and creativity to generate a wide product range. The customer needs and wants also keep changing and more investment research and development was undertaken. On competitive advantage Porter (1990), observed that this can either be low cost or differentiation. In a competitive environment, firms have to use their available resources in order to compete.

If a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. These findings agree with those of Kanter (2004) that while leadership is crucial, most organizations are over-managed and others under-led.

These findings concur with the findings of a study by Righa (2012) which was carried on Internet service providers Kenya. This study indicated that fast paced technological changes, automation and innovation were the major challenges that ISPs in Kenya are forced to deal with on a daily basis.

The findings of this study have also shown that firms have used both differentiation and low cost strategy in registering satisfactory performance. This finding is similar to the generic strategies by Porter, (1990). In this regard therefore it is necessary to examine what impacts leadership and strategic management have on an organization in relation to its external environment.

Ansoff (1965) asserts that when a firm fails to respond to a threat, the losses that results continue to accumulate. The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. Reactive management occurs if the start of the response is delayed past the trigger point.

4.6 Chapter Summary

This chapter begun by enumerating how the data collected was analyzed. There was a response rate of 72% of the administered questionnaires. The results were presented using tables, pie charts and bar graphs.

The findings of the various variables were discussed under each heading. The firms' background information was discussed and the competitive factors under study were also discussed. The various strategic responses adopted were also discussed based on the findings of the study. The chapter concluded with the research findings.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1: Introduction

This chapter presents a summary of the study and its findings, the conclusion and recommendation for future study. It lays emphasis on the summary of the key findings among the relationships of the variables of the study.

The objective of the study was to find out the strategic response by large internet service providers to dynamic competitive environment. 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.

5.2: Summary of Findings

The main purpose of this study was to investigate the strategic responses to dynamic competitive environment by large internet service providers in Kenya. The study established that large internet service provider firms in Kenya are mostly both locally owned and foreign owned with majority of the firms having an internet business strategy.

The study used survey design from the respondent population. The researcher used SPSS to analyze the collected data. The analyzed data was then reported using bar graphs, pie charts and tables. The analysis of the data enabled the researcher to come up with the following major findings: Formulation of strategies to counter competition by ISPs was chiefly influenced to survive in the dynamic competitive environment.

The response strategies enabled ISPs to counter competition in that they assist the company to adapt and cope to the dynamic competitive environment, steer the company on ways to raise incomes rapidly than its competitors; enable ISPs to remain ahead on emerging innovations and technology innovations, and make the company necessary to keep up with future competitive forces. Key challenges facing ISPs in formulating response strategies include increased competition, market dominance, high infrastructure and CAPEX costs.

The study findings are a call to action for policy makers and practitioners in the internet service provision sector. The implications are that increased technology advancements and innovations, regulatory and legal framework and market dominance were key competitive challenges affecting the firms in this industry and the government needs to create a more conducive business environment for industry players.

5.3: Conclusion

The conclusion of the study was derived from the major findings and was based on the research objective. Strategic responses by ISPs to address competition within the telecommunications were necessary for the firms to survive and operate efficiently.

The implementation of strategic responses by the respective firms was different due to the uniqueness in firm structures and priorities hence the varied responses. Strategy implementation by the firms is different and how they respond to the changes in the environment. The leadership and corporate governance in the firms takes different shapes and the researcher had to take a general view on how to incorporate all the firms' views.

The strategies need to be constantly reviewed in order for the firms to remain afloat. The regulatory and legal framework needs to be addressed to tackle challenges such as market dominance and high costs in the industry. The outcome of these strategies is eminent in terms of being steps ahead of competitors in terms of market share and profits. The strategic response is however hampered by unpredictable government interference and market environment, as well as complexities during implementation.

5.4: Recommendations, Implication on Policy, Theory and Practice

The following recommendations were made to various relevant stakeholders concerning the strategic response to dynamic competitive environment by large ISPs in Kenya. The ISP firms should utilize the insights related to competitiveness of strategies gained from the findings of the current study and identify how these insights can enable them extend their competitive edge in the local and regional internet service industry. The internet service provision industry has a tremendous socio-economic impact on the livelihoods of the people across Kenya.

Related firms in the broader telecommunication sector firms should learn from findings on the strategic response by large internet service provider firms to competition within the entire industry and identify strategic responses that they can adopt to improve in their implementation of strategic management for their success in the sector.

The Government needs to support the industry and formulate a proper regulatory and legal framework to promote fair competition practices with no market dominance. The government could further waive taxes and assist in procuring and developing infrastructure and related CAPEX needed to make the industry thrive such as undersea cable. Putting this into consideration, the Kenyan government should create a favorable environment for growth and development of firms in this sector by easing up its interference in the industry.

The study findings are a call to action for policy makers and practitioners in the internet service provision sector. The study finds that increased technology advancements and innovations, regulatory and legal framework and market dominance were key competitive challenges affecting the firms in this industry. There is need for practitioners and policy makers to take note of these shifts to ensure there is fair competition and regulation among the players.

This study has advanced frontiers of knowledge from the study findings. It lends support for the relationship firm capabilities and strategic responses influence firm performance (Barney 2001).This study has confirmed the contributions by the various theories and lends support for the hypothesized relationships. The result contributes to the strengthening of the literature by confirming the postulations of open systems theory and resource based theory. The study has demonstrated that firms do operate in open systems and their performance is subject to resources and capabilities each firm owns as postulated in the various paradigms.

The study also finds that differentiation and focus strategies are largely adopted by firms in this sector. The internet service provider sector is very crucial to Kenya's development and contribution to the gross domestic product. It will guide policy makers to develop strategies relevant to the appropriate firms facing particular environmental contexts.

5.5: Limitation of the study

The main aim of the study was to establish the strategic responses to the dynamic competitive environment by large internet service providers. However, the study had a number of limitations. A cross sectional survey approach method was used for the study which captures only one respondent for the target firms.

The research further aimed towards the top managers who might not always be available and have the time to respond. This brings in individual perception on the variables rather than a uniform generalization of the overall firm. It was difficult to meet some managers due to the nature of work. There were delays submitting filled questionnaires and accessing the top managers who were respondents in the study.

The other limitation was the study's focus was only on large internet service provider firms. The study did not consider non-governmental organizations, public sector and small and medium enterprises as part of the context. The other limitation was capturing of the study variables. It was mainly on qualitative (subjective) aspects and limited on the quantitative which most respondents were hesitant to fill and this did not negatively affect the findings of the study.

5.6: Area for Future Research

This study findings were based on the data collected from large scale internet service provider firms in Kenya. Further research can be extended on different contexts like the product industry to test the validity and findings of this study. Future research should also consider the entire telecommunications sector in Kenya in order to capture data for small and medium sized firms and consider regional basis. Other sectors such as the manufacturing and banking sector can be studied to test the same variables since their sectors are more controlled and regulated to test whether strategic responses to dynamic competitive environment had any direct impact on their performance.

A comparative study can also be done for the developing and developed economies to check if the findings are consistent with one another. It is recommended that further research should test the findings of this research using a larger sample and in related sectors in the telecommunication industry.

Further research about strategic response could lead to potential consolidation of company expansion strategies providing much needed competitive advantage. The data collected for this study was subjective in nature. The quantitative data was not requested from the respondents to back the qualitative data. Most firms indicated that the information was confidential hence most respondents were not willing to answer the quantitative data. Future research studies should consider how to collect the quantitative data which is more objective. Further research can use the same performance indicators on listed companies to get more accurate firm performance data since all their financials are publicly published.

5.8 Chapter Summary

The chapter summarized the research project by concluding the findings, conclusion and recommendation and area for future research. The chapter discussed the extent of competition facing ISP firms and the strategic responses adopted by the ISP firms to cope with the environmental competitiveness.

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APPENDICES

APPENDIX I: Questionnaire

PART A: BACKGROUND INFORMATION

1. Date: ______________________ Interviewer: _________________________________

Interviewee: ____________________ Position: _________________________________

2. Name of institution: ____

a) What is your current position in the firm?______________________________________

b) How long have you been with this firm (years) _______________________

c) How long have you served in the current position? (years)____________________

3. What year was your firm established?____________________________________

4. Ownership structure of the firm (Tick (√) as appropriate) 1) Fully Locally owned [ ] 2) Fully Foreign owned [ ] 3) Both locally and foreign owned [ ]

Percentage of ownership: Local _____ %; Foreign _____ %

5. Does your institution have an Internet business strategic plan, whether separate or an integral part of the corporate plan? TICK (√) as appropriate Yes [ ] No [ ]

SECTION B: DYNAMIC COMPETITIVE ENVIRONMENT

6. Please indicate the extent to which each of the following factors from the competitive environment has had an influence on the firm. Please provide rating as appropriate using the key below.

Key: 1-Not at all; 2-Less extent; 3- Moderate extent; 4- Large extent; 5-Very large extent

	Rating				
	1	2	3	4	5
Exit barriers in the industry					
Threat of new entrants in the industry					
Relative bargaining power of firm's suppliers					
Relative bargaining power of the firm's customers					
Threat of substitute products and services					
Competition within the industry (Rivalry)					
Developments in the global business arena					

7. To what extent have the following external competitive challenges affected your firm

Please provide rating as appropriate using the key below.

Key: 1-Not at all; 2-Less extent; 3- Moderate extent; 4- Large extent; 5-Very large extent

	Rating				
	1	2	3	4	5
increased technological innovation					
increased product range					
increased competition,					
increased level of education,					
Economic decline					
Regulatory and legal framework					
Infrastructure and CAPEX costs					
Market dominance					

SECTION C: STRATEGIC RESPONSES

Another aspect of this study is strategic response. For purposes of this study, strategic responses are represented by the strategic choices your firm has had to make given developments in its competitive external environment.

8. Please indicate the extent to which the following statements have applied to your firm in response to competition. TICK (√) as appropriate using the key below.

Key: 1-Not at all; 2-Less extent; 3- Moderate extent; 4- Large extent; 5-Very large extent

	RATING				
	1	2	3	4	5
a) Focus					
Market focusing					
Market segmentation					
The firm possess superior and valuable knowledge of the industry					
The firm always reviews its structure and processes due to changes in the market					

b) Cost Leadership					
1 2 3 4 5					
The firm has embraced use of new information technology in its operations.					
The firm has implemented cost cutting measures via business process reengineering					
The firm has done cost reduction through employee reduction or lay-offs in the last five years.					
The firm has practiced good operational achievements by improving other business processes through automation.					
The firm has operated in an efficient way in its resource utilization and management.					
The firm has outsourced non-core business activities in managing firms expenses					
The firm has dropped some items from the production line in the last five years.					
The firm has combined some of the resources with those of other firms to create a cost advantage					
c) Differentiation					
The firm has offered specialized customer service					
The firm has Increased advertising on niche markets					
The firm has rebranded its products					
The firm has invested in staff training					
The firm has encouraged innovation and creativity through research and development.					
The firm has brought in new managers to introduce needed new perspectives in the last five years.					
The firm has been carrying out product development activities in the last five years					
The firm has engaged in corporate social responsibility in the last five years for promotional					

9. How has each of the following strategic options been useful to your firm in response to changes in the competitive environment? **Key**: 1 – Very important, 2 – Important, 3 –Moderate important, 4 – Of little importance and 5 – Unimportant

	RATING				
	1	2	3	4	5
a) Focus					
Market focusing					
Market segmentation					
The firm possess superior and valuable knowledge of the industry					
The firm always reviews its structure and processes due to changes in the market					

b) Cost Leadership					
1 2 3 4 5					
The firm has embraced use of new information technology in its operations.					
The firm has implemented cost cutting measures via business process reengineering					
The firm has done cost reduction through employee reduction or lay-offs in the last five years.					
The firm has practiced good operational achievements by improving other business processes through automation.					
The firm has operated in an efficient way in its resource utilization and management.					
The firm has outsourced non-core business activities in managing firms expenses					
The firm has dropped some items from the production line in the last five years.					
The firm has combined some of the resources with those of other firms to create a cost advantage					
c) Differentiation					
The firm has offered specialized customer service					
The firm has Increased advertising on niche markets					
The firm has rebranded its products					
The firm has invested in staff training					
The firm has encouraged innovation and creativity through research and development.					
The firm has brought in new managers to introduce needed new perspectives in the last five years.					
The firm has been carrying out product development activities in the last five years					
The firm has engaged in corporate social responsibility in the last five years for promotional					

Thank you for your participation in this study.

APPENDIX II: Authority Letter for Data Collection

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE...29/7/2015

TO WHOM IT MAY CONCERN

The bearer of this letter ...ESTHER WANGECHI MURIUKI...

Registration No...D61/64470/2013...

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
29 JUL 2015
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX III: Large internet service providers in Kenya

List of internet service providers in Kenya obtained from Communications Authority of Kenya (CA)

Name of Operator	**Fixed/Wireless Internet Subscriptions**
Wananchi Telecom Limited	55,936
Liquid Telecom Limited	18,050
Telkom Kenya Limited	12,002
Access Kenya Limited	11,502
Safaricom Limited	8,244
Jamii Telecommunication Limited	2,574
Iway Africa	3,271
Mobile Telephony Networks Limited	1,327
Internet solution	742
Call Key Networks Limited	543
Tangerine Limited	202

Source: CCK Quarterly sector statistics report, 1st quarter July-Sep 2014/2015