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## Influence of Focus Strategy on Firm Performance in the Telecommunication Industry in Kenya

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### **Abstract**

*The telecommunication industry in Kenya has greatly contributed to the growth of the country's economy with massive contribution of to the GDP and revenue of KES 173.6 billion in the year 2015; thus, registering a 6.9 per cent increase. Thus, for several years running, the sector has emerged to be the leading source of government revenue especially through tax remittance. Hence the current study sought to investigate the influence of cost leadership strategy on firm performance in telecommunication industry in Kenya. Descriptive research design was adopted and regression analysis analyzed the data. It was documented that focus strategy had significant influence on firm performance in telecommunication industries in Kenya.*

**Keywords:** Focus strategy, firm performance, telecommunication

### **1. Introduction**

Firm performance is a complex term which may include different shadows of meaning. Afande and Uk (2015) defined firm performance as the capability of a firm to obtain and utilize the limited resources prudently in quest of set vision, goals and mission. In other words, it is the conversion of inputs or resources to desired results. Further, firm performance can refer to outcomes of entire operations executed within a set timeline (Satta, Parolla, Penco & Falco, 2015).

According to Chronicle (2015), competitive strategy is a company's competitive behaviour or aptitude of integrating, building, and reconfiguring its local or interior as well as outside resources to manage competition. Basically, there are three competitive strategies as developed by Porter (Yoon, 2016) namely; cost leadership strategy, differentiation strategy and focus strategy.

Focus strategy is one that targets certain segments of the markets by differentiating customer needs to be able to serve them at their best affordable prices. According to Little child (2018), firms focus on a selected product range, customer group, geographical area or service line. Operating in a niche market, this strategy advocated for a growing market share where markets seem unattractive or are overlooked by larger competitors. Notably, focus strategy enabled a company to maximize its special unique distinctive capability to gain new market share (Kuratko, Hornsby & Hayton, 2015).

### **2. Statement of the Problem**

Despite the mobile sections 90 per cent dominance in Africa, there has been low penetration and underperforming despite maximizing different competitive strategies (UNIDO, 2016). Notably, such penetration of telecommunication service varies among nations. For instance, Gabon had highest penetration of mobile telephone of (190%), Botswana (176%), Libya (155%) while Kenya had (93.7%). As a result of increasing challenges, especially, hyper competition Airtel disposed of its holdings in Burkina Faso, Chad, Congo Brazzaville and Sierra Leone to Orange France (UNIDO, 2016).

The telecommunication industry in Kenya has greatly contributed to the growth of the country's economy with a contribution of 0.76% to the GDP and revenue of KES 173.6 billion in the year 2015; thus, registering a 6.9 per cent increase (Economic Survey, 2015). Thus, for several years running, the sector has emerged to be the leading source of government revenue especially through tax remittance (Gatobu & Maende, 2019).

Focus leadership emerged of importance in the various departments such as marketing, procurement, marketing, research, and development. Regression analyzed results of the primary collected data revealed solid substantial correlation on company infrastructure, marketing, procurement, human resources, as well as company productivity. This study seems to have cast its net wide on all competitive strategies. Besides, infrastructure, marketing, procurement,

human resources, research and development do not qualify as competitive strategies but objects of competitive strategies (Kuratko, et al., 2015). Consequently, the current study seeks to examine the influence of focus strategy on firm performance in telecommunication in Kenya.

### 3. Theoretical Review

#### 3.1. Transaction Cost Theory

Basically, this theory has its origin in Coase (1937) who particularly developed it to predict the time some important organization's market transactions are to be executed. In essence, the theory gives rationale for a firm's existence, expansion and outsourcing of particular functions. According to this theory, businesses strive to cut down on expenses by swapping resources with other companies as well as internal red-tape expenses. To this theory, companies and market places have become systems which organize and harmonize commercial dealings.

Further, it posits that firms grow when trading expenses become higher than in-house ones, implying internal costs of trading externally especially bureaucracy, bring more losses hence affecting performance. This theory was developed further by Tobin (1956), who argued that indeed, a business can grow as long as internal expenses are lower than outsourced ones. Tobin continues to opine that worrying expenses involving deals or transactions occur when a product or service is transported to a different place for additional or new technological crossing point.

Besides, more costs come about from sharing of resources influenced by changing market conditions, unscrupulousness, risks, constrained levelheadedness as well as key firm resources. Consequently, inter-organization trading costs therefore sky-rocket, implying, it is shrewd to avoid outsourcing by confining to internal transactions if a company realizes the above market factors are in play.

This theory is relevant to the current study because it cautions managers to compare in-house transactions expenses to outdoor costs before deciding to transact within or without. Pisano (2015) asserts that expenses are reduced at the time the type of governance is commensurate to transaction dynamics. Logically, this theory perceives alliance networks as an in-between mechanism that connects the market and firm's pecking order hence the utmost fitting system or mechanism to oversee dealings between market place and an organization.

#### 3.2. Empirical Review

Lagrosen (2016) surveyed effects of competitive strategies on public relations company productivity in North Korea with particular emphasis on ten (10) firms. A five-point Likert scale questionnaire was applied on 4 marketing managers in 4 public relation firms. The study hypothesized that firm performance is influenced by cost leadership, differentiation and focus leadership strategies. Firm performance was measured as the average change in return on assets (ROA) while the importance of focus leadership strategy was measured using a Likert scale of 5-points.

Curado, Muñoz-Pascual and Galende (2018) did a study to determine the influence of focus competitive approach on firm performance among superstores in Geneva. Through structured questionnaires on 14 managers of superstores in Geneva, regression results reiterate that value addition was an organization's definitive mission to their customer in terms of product superiority ratio to expenses. An organization with this goal always aims to remain at the competitive edge by cutting down prices of the production costs or product premium.

Homogeneous commodities are seen to increase competition environment since they make it difficult to customize these commodities; hence, they have to set their price below others to makes a sale since the customers have high bargaining power. While the study set out to examine focus strategy on firm performance, the findings narrowing to cost contradicts this course since cost leadership strategy is primarily cost effective but not focus strategy.

Bett, Obura and Oginda (2018) investigated a connection between competitive strategies and firm productivity in the telecommunication industry in Kenya. The main objective of the study was to investigate the influence of competitive strategies on firm performance in the telecommunication industry. The unit of analysis was Safaricom, Essar telecom limited, Airtel and orange. Using descriptive design with semi-structured questionnaire on 354 staff members. Both correlation and regression analysis of collected data revealed a strong as well as substantial association between the competitive strategies and performance of a company. The main findings of this study were that there is high competition among the telecommunication industries in Kenya, therefore there was need to adopt the competitive strategies. Secondly, it was identified that product differentiation and low-cost leadership to a great extent was implemented. The study recommended that other firms can also consider adopting these strategies and whether a comparative study would be done in other countries to compare with the Kenyan context. These findings were supported by findings from a study by Muia (2017) which investigated the influence of competitive strategies on performance of insurance firms in Kenya. The unit of analysis was 47 insurance companies located in Nairobi, Kenya. This study adopted a linear multiple regression model as used in the study by Koriyow and Karugu (2018). The main finding was that cost leadership is a main contributor to firm performance. It recommended that further study could be done to investigate the impact of competitive strategies on performance of other firms. The study used correlation analysis which does not add value to this study as the study set out to explore the relationship between independent and dependent variable that is basically determined through regression analysis.

Witjara, Herwany and Santos, (2019) conducted a study on formalized process and information on banking sector in India. Through email, questionnaires were sent to respondents and data analyzed using chi-square. The study established that firms pursuing cost-effective approach exhibited tendencies formal tiered systems, created offices, human resources structures, well governed firms, pursuit of company solidity, proper flow information as well as and the entire

system efficient and accentuation. They concluded that for a seamless linkage between formalized process and information, an organization must be strategically oriented and its organizational atmosphere has to provide an appropriate context. This study lacks internal consistency as the topic is not related to the findings of the study.

Mahdi et al. (2015) investigated the association between focus strategy and product development. Conducting telephone interview on 10 managers of Nike Company in Australia and analyzing data through regression, the study revealed successful focus approach develop many products for a thin market known to them. Among the known risks that firms implementing focus strategies should consider consist of duplication as well as earmarked segment fluctuations. Additionally, companies pursuing cost-effective approach targeting wider market easily replicate such products to gain competitive advantage. Furthermore, more firms employing other approaches such as focus map out sub-segments in order to give superior service (Ozdemir & Mecikoglu, 2016). By and large, product development is one of the aspects that focus competitive strategy focuses on so making it a dependent variable is contradictory. The study should have related focus strategy to company performance or any other aspect of performance such as profitability or market share.

### 3.3. Conceptual Framework

Conceptual framework is schematic presentation of hypothesized study relationship in this study it argued that firm performance is dependent on focus strategy adopted by telecommunication companies.



Figure 1

### 3.4. Research Methodology

The study adopted descriptive research design and positivism research philosophy. This philosophy was adopted since the study adopted quantitative approaches to achieve research objectives this as in line with Sekaran and Bougie (2013). Census approach of managers hailing from 66 telecommunication companies was adopted. This was congruent to recommendations by Saunders, Lewis and Thornhill (2014) who argued that if the target population is less than 100 then census approach is the most appropriate. For the purpose of this research, a questionnaire was chosen to evaluate competitive strategies, alliance networks and firm performance in the telecommunication industry in Kenya. It was considered that a questionnaire was one of the most efficient ways to collect data as it can be administered to a large number of people simultaneously and makes analysis convenient due to uniformity of structure.

### 3.5. Data Processing and Analysis

Data analysis is the mathematical treatment of quantitative and/or qualitative data so as to obtain the desired statistical measurements and was guided by the objectives of the research. Data presentation on the other hand refers to conversion of data into summarized and easily understandable graphical forms (Krueger & Casey, 2015). Modes of data presentation include contingency and frequency tables, graphs, charts and plots. Inferential statistics that included regression analysis examined the nature of influence of focus strategy on firm performance in telecommunication industries in Kenya. Simple regression model was of the form:

$$Y = \beta_0 + X_1 + \epsilon$$

Where Y= Firm Performance;  $\beta_0$ = Constant term;  $X_1$ = Focus Strategy.

## 4. Results and Discussion

The objective of the study sought to determine the influence of focus strategy on firm performance in the telecommunication industry in Kenya. The researcher required the respondents to indicate whether their companies pursued focus strategy to gain competitive advantage. As per the results, 83.3% of the respondents used focus strategy in their firms leading to a conclusion that most of the firms had improved their performance due to the use of focus strategy. This finding is in consonance with Muia (2017) who states that focus leadership emerged of importance in the various departments such as marketing, procurement, marketing, research, and development as it was attributed to firm productivity. On a Likert scale of 1-5, this part sought to establish from respondents the extent to which the aspects relating to focus strategy were applicable to their organization in pursuit of competitiveness. Respondents were asked to rate the extent to which focus strategy was utilized in their organization and the responses are as presented in Table 1.

Competitive Advantage	Mean	Std. Dev.	Cov	Rank	Sig.
This strategy focuses on narrow/limited services/products range	4.07	.78	0.19	4	.005
Specific product market is targeted through this strategy	4.13	.84	0.20	3	.002
Through this strategy, specific geographic market is targeted	4.20	.76	0.18	2	.004
A key priority of this strategy is to keep away competitors	4.28	.74	0.17	1	.000
A specific industry is targeted through this strategy	3.04	1.37	0.45	5	.003
In this strategy, the customer is given the highest attention	2.99	1.34	0.44	6	.000

Table 1: Competitive Advantages from the Pursuit of Focus Strategy

According to the findings in Table 1, the respondents strongly agreed that the key priority of this strategy was to keep away competitors as shown by a mean of (mean=4.28, SD=0.74), targeting specific geographic market as shown by a mean of (mean=4.20, SD=0.76), targeting specific product market as shown by a mean of (mean=4.13, SD= 0.84), and focusing on narrow/limited services/products range as shown by a mean of (mean=4.28, SD=0.74). The respondents also indicated that they were not sure whether through this strategy; a specific industry is targeted as shown by a mean of (mean=3.04, SD=1.37).3 and if the customer is given the highest attention with a mean of (mean=2.99, SD=1.34). The relationship between the indicators and firm performance in the telecommunication industry in Kenya were tested. The findings show that all the variables were significant since their chi square values were less than 0.05 leading to a conclusion that focus strategy influences firm performance in the telecommunication industry in Kenya significantly. This is in line with Mahdi et al., (2015) who state that successful focus approach develops many products for a thin market known to them. He further states that among the known risks that firms implementing focus strategies should consider consist of duplication as well as earmarked segment fluctuations. This premise fits well with that of Cridland et al., (2015) which avows that effective focus approach enhances a firm's competitiveness when it develops unique products in tandem with a taste of particular market. Nevertheless, they caution over-reliance on such market segment due to risks such as duplication as well as segment fluctuations.

Also, Gong, Wanqi, and Xigen Li (2017) this study in their study where they examined the empirical evidence between focus strategy and organization performance among Jordanian manufacturing firms. They established that focus strategy influenced organization performance among Jordanian manufacturing firms. Likewise, Humphreys, Ashlee, and Rebecca Jen-Hui Wang, (2017) study revealed that focus strategy significantly influenced organizational performance. Equally in agreement, Orji, Andah, Chima and Abba (2017), examined focus influence as a competitive strategy on the competitiveness of Unilever performance in Lagos, Nigeria. Findings indicate glaring and significant effect of product design, unique product features, innovative product development and firm performance. Too in agreement were Tharamba, Rotich and Anyango (2018) who examined the effect of strategic positioning on the firm performance in the telecommunications firms in Kenya with specific reference to Safaricom Limited. The study found that increased competition is causing firms to focus their products and services to maximize sales performance. Supporting the finding of this were Nolegaet al., (2015) who examined the effect of products focus strategy and seed company firm performance in Accra, Ghana. According to their findings, for enhanced performance, there is need to develop products which are resistant to diseases. In the same vein, Gatobu and Maende, (2019) investigated the impact of focus strategy on performance of telecommunication industry in Nairobi, Kenya. The finding indicated that focus strategy was appreciated as being mindful of product focus, by having customized products as compared to competitors, continuous development of new products, innovative product, continuous and faster introduction of new products, quick response to competitor's product innovation, heavy reliance on research and development of reputable products on the market in a bid to create value to the customers.

## 5. Hypothesis of the Study

- Ho: "There is no significant influence of focus strategy on firm performance in the telecommunication industry in Kenya"

The objective of the study examined the influence of focus strategy on firm performance in telecommunication industry in Kenya. From this objective the following null hypothesis was stated: Ho1: There is no significant influence of focus strategy on firm performance in the telecommunication industry in Kenya. The model adopted explains the extent to which changes in dependent variable (firm performance) can be explained by the change in independent variable (focus strategy). To capture the influence of focus strategy on firm performance, the two variables were regressed and findings are as shown in Table 2.

Model Summary					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.823	0.678	0.672	0.626		
ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	48.585	1	48.585	124.130	.000
Residual	23.093	59	0.391		
Total	71.677	60			
Regression Coefficient					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.074	0.080		0.919	0.362
Focus Strategy	0.894	0.080	0.823	11.141	0.000

Table 2: Results from Focus Strategy and Firm Performance in the Telecommunication Industry in Kenya

Regression analysis results in Table 2 documented an R value of 0.823 which shows a positive significant relationship between focus strategy and firm performance, an R squared (coefficient of determination) of 0.678 and the R-square adjusted for degrees of freedom for the regression of 0.672. The R squared value depicts that 67.8% of changes in firm performance in telecommunication in Kenya can be accounted for by focus strategy while the remaining percentage (32.2%) may be accounted for by other strategies excluded in the model. The standard error of estimate (0.626) depicts that, on average, observed focus strategy deviate from the predicted line by a score of 0.626. Model goodness of fit was tested using analysis of variance which had F statistics;  $F(1, 59) = 124.130$ ,  $p$  value  $< 0.05$ . The overall ANOVA results indicates that the model was significant at  $F = 124.130$   $P = 0.000$ . The probability value of 0.000 indicates that the regression relationship was highly significant in predicting how focus strategy influenced firm performance in the telecommunication industry in Kenya. To further analyses the results, the explanatory powers of focus strategy on firm performance were discussed at 5% significance level. The constant value (0.074) implies that keeping all other factors constant (at zero), the firm's performance as a result of the independent variables will be 0.074. Regression coefficient of ( $\beta = 0.894$ ), revealed strong positive and significant influence of focus strategy on firm performance. This t-value ( $t = 11.141$   $p$  value  $< 0.00$ ) further indicates that all parameters used contribute significantly in the function of the model. Similar output was also established by Lagrosen (2016) whose study in North Korea revealed that company productivity was influenced by the focus strategy adopted. Also, Gong, et al., (2017) this study in their study where they examined the empirical evidence between differentiation strategy and organization performance among Jordanian manufacturing firms. They established that differentiation strategy influenced organization performance among Jordanian manufacturing firms. Likewise, Humphreys, Ashlee, and Rebecca Jen-Hui Wang, (2017) study revealed that differentiation strategy significantly influenced organizational performance. Since t ratio was greater than 1.96 and p value less than 0.05, this further confirms that focus strategy significantly influences firm performance, therefore, at 95% confidence interval; there was high reliability of the obtained results as depicted by the results. Hence, there was enough evidence to warrant rejection of the null hypothesis which stated that "There is no significant influence of focus strategy on firm performance in the telecommunication industry in Kenya" and conclusion that focus strategy had positive significant influence on firm performance in telecommunication industry in Kenya.

## 6. Conclusions and Recommendations

The main objective sought to establish the influence of focus strategy on firm performance in the telecommunication industry in Kenya. The study documented positive significant influence of focus strategy on firm performance in telecommunication industry in Kenya. The study concludes that focuses strategy; kept away competitors, targeted specific geographic market, targeted specific product market and focused on narrow/limited services/products range hence greatly affecting the firm performance in the telecommunication industry in Kenya. However, the study concludes that it was not certain whether a specific industry is targeted and if customers are given the highest attention through this strategy.

The study recommends that the management of telecommunication companies in Kenya should conduct a research on the focus strategy to respond to the different market niches effectively as any gap in customer centric products would yield customer non-responsiveness. They can do this by investing more in research and development in order to develop even more innovative products and services if they want to maintain a competitive edge over its competitors. This will enable diversification of the market in that some of the networks provided by these telecommunication companies do not reach other parts of the country and through investing in research, these companies will ensure that company objectives are achieved.

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