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INFLUENCE OF DIFFERENTIATION STRATEGY ON FIRM PERFORMANCE IN THE TELECOMMUNICATION INDUSTRY IN KENYA

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ABSTRACT
Shared obligation is a responsibility to trustworthiness and teamwork among partners that includes proper communication foundation. Reciprocated confidence creates dependence on another partner in case of risk. Indeed, these two aspects of social relations, leads to allegiance and collaboration among alliance partners in order to eliminate risk of opportunistic partners. The main objective of the study examined the influence of differentiation strategy on firm performance in the telecommunication industry in Kenya. Descriptive statistics and inferential statistics analyzed the data. Study findings revealed positive and significant influence on firm performance in telecommunication industry in Kenya.

Key Words: *Differentiation, Firm Performance*

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INTRODUCTION

Orji, Andah, Chima, & Abba, (2017) indicated that telecommunication firms' owners had helped to sustain small businesses in the Kenyan society such as money transfer agents i.e. M-pesa, Airtel money among others which had contributed to supporting the poverty reduction strategy of the government.

Existing evidence of utilization of various competitive strategies by telecommunication firms in Kenya revealed that majority of mobile companies maximize the use of differentiation strategy (Ndambuki, 2016). However, strategy of focus and cost leadership come second and third respectively in utilization. Additionally, these firms employ a hybrid of these strategies for one reason or the other. For example, in order to sustain leadership in the internet market in Kenya, Safaricom Kenya limited has at the same time employed two competitive strategies.

The strategies are differentiation and focus that emphasizes on innovation and technology leadership, new product values with distinctive capabilities, product and segmentation strategy, new business models, process innovation, customer intimacy and relationship management (Bett, Obura & Oginda, 2018). Essentially, the strategies enhance proper management of customer relations, provision of appropriate goods and services as well as enabling the firms achieve an advantage over their competitors. The focused differentiated strategy by TKL is achieved mostly by offering differentiated products based on their mobile money platform while best cost provider strategy has been achieved by offering slightly differentiated products at a cost better than rivals specifically in mobile data (CA, 2016). It can therefore be said that telecommunication firms in Kenya pursue focus, cost leadership and differentiation strategies.

Statement of the Problem

The market share trends for Telkom Limited increased marginally by one unit over the four quarters. In 2014, the market share trends remained constant over the first two quarters and increased marginally by one unit in the third and fourth quarters. In 2015, the market share trends declined marginally by one unit in the first two quarters and a marginal decline by one unit in the third and fourth quarters. In 2016, the market share trends declined by one and six units over the first and second quarters respectively and remained constant in the fourth quarter. In 2017, the market share trends increased marginally by one unit over the first three quarters and remained constant in the fourth quarter.

The market share trends for Essar Telkom Kenya in 2013 remained constant over the four quarters. In 2014, the market share trends remained constant over the first two quarters, with no information provided on the market shares from 2015 while those of Sema staggered under 0 per cent. This trend could have informed its decision to close down its operations in Kenya. Net profitability levels per operator in Kenya over the years 2012-2016 and the percentage changes in the consecutive years.

Shared obligation is a responsibility to trustworthiness and teamwork among partners that includes proper communication foundation. Reciprocated confidence creates dependence on another partner in case of risk. Indeed, these two aspects of social relations, leads to allegiance and collaboration among alliance partners in order to eliminate risk of opportunistic partners. To this end, creation of social capital or social relations enhances smooth relations; it enhances candidness and approachability, affiliation possibility as well as shared knowledge acquisition, (Intensifies, 2013).

THEORETICAL AND EMPIRICAL REVIEW

Gong, Wanqi, and Xigen Li (2017) examined among Jordanian manufacturing firms empirical evidence between differentiation strategy and organization performance. The study exploited the use of a closed-

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ended questionnaire to collect primary data from the 5 CEOs of 5 manufacturing firms. The study utilized measures of differentiation of product strategy using Humphreys, Ashlee, and Rebecca Jen-Hui Wang, (2017) five product differentiation tool that included, superior quality provision, quick fast distributions, adjusting design, generating newly developed products as well as provision of exceptional product. To consolidate the parameters and come up with a single index, factor analysis was utilized. Firm performance was operationalized as ROA, growth rate of sales, liquidity, clientele loyalty, superiority of products and market share, all being determined by use of a Likert scale of 5-points.

Specifically, respondents rated the influence of each variable in relation to differentiation. The findings of the study indicated that differentiation strategy significantly influenced organizational performance. However, before the findings of the study are considered for adoption, methodology issues especially on target population need to be addressed in the sense that CEOs might not be in best position to give adequate and detailed information on competitive strategy and their influence of company performance.

Orji, Andah, Chima and Abba (2017), examined the influence of differentiation on the competitiveness of Unilever performance in Lagos, Nigeria as a competitive strategy. Operationalization was done and product differentiation was operationalized as high productivity growth, innovative product development, product design, and unique product features. On the other hand, firm performance was operationalized as sales growth, customer satisfaction.

In order to analyze the collected primary data from 20 departmental managers on a closed-ended questionnaire, regression analysis was employed on the linear models. Findings indicate glaring and significant effect of product design, unique product features, innovative product development and firm performance. The study failed to target the relevant population charged specifically with marketing strategy in the company. Sampling departmental heads especially those not dealing with marketing, is likely to compromise the findings of the study.

Tharamba, Rotich and Anyango (2018) examined the effect of strategic positioning on the firm performance in the telecommunications firms in Kenya with specific reference to Safaricom Limited. A sample of 11 marketing managers purposively selected, were subjected to 5-point Likert scale and regression technique on simple linear models utilized in analysis of the data. The study found that the main contributing factor that caused firms to differentiate their products and services to maximize sales performance was increased competition. The branch managers, technical officers and production life staff formed the dataset under consideration of 11 supermarkets. The study found that a major role in activating annual sales performance was influenced by product differentiation and physical differentiation (in terms of the characteristics of the products) as compared to service differentiation. However, this study failed to tell whether other competitive strategies contributed competitive advantage.

Nolega, Oloko, Sakataka and Oteki (2015) examined among the seed company firms in Accra, the effect of products differentiation strategy on firm performance. Simple random sampling was utilized to select customers whereas seed company agents were purposively sampled with descriptive analysis utilized in analyzing collected data. According to the findings, for enhanced performance among the firms, there was need to develop disease resistant products. By targeting customers, the study lost its focus since customers are not in a position to tell dynamics of competitive strategies.

Gatobu and Maende, (2019) investigated the impact of differentiation strategy on performance of telecommunication industry in Nairobi, Kenya. The study adopted both descriptive and exploratory research designs. Using stratified technique of sampling, 270 participants were selected for the study. A 'Yes' and 'No' designed questionnaire was administered on the 270 respondents and chi-square analyzing technique was employed in determining the role of differentiation strategy on performance of telecommunication firms.

The findings revealed that the strategy of differentiation was considered to put emphasis on product differentiation, customizing products beyond their competitors, continuous and faster new product development, innovative products, faster response to competitor's product innovation, concentration on research and development of reputable products on the market towards creation of value to the customers.

Targeting employees generally without specifically focusing on where competition cannot guarantee reliable findings. In conclusion, firms ensuing a product differentiation set their goal at enhancing customer excess through stressing anticipated product or service benefits. Apparent superior benefits lead to better charges or prices which fetch bigger earnings.

Also, Gong, Wanqi, and Xigen-Li (2017) conducted a study among Jordanian manufacturing firms which examined the empirical evidence between differentiation strategy and organization performance. They established that organization performance among Jordanian manufacturing firms was influenced by differentiation strategy. Likewise, Humphreys, Ashlee, and Rebecca Jen-Hui Wang, (2017) study revealed that differentiation strategy significantly influenced organizational performance.

Equally in agreement, Orji, Andah, Chima and Abba (2017), examined differentiation 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 et al., (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 firms differentiate their products and services to maximize sales performance and also work towards increased competitiveness.

Supporting the finding of this was a study among the seed Company Accra, Ghana by firm Nolega, Oloko, Sakataka and Oteki (2015) who examined the effect of products differentiation strategy and performance. According to their findings, for enhanced performance, there is need to develop products which are disease resistant. Consequently, a differentiation strategy approach can best suit exceptional to highly priced products which are highly advertised and has high input costs.

Differentiation Strategy → **Firm Performance**

Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

METHODOLOGY

The study was anchored on descriptive research design and positivism research since it gathered quantitative data in order to test the hypothesized influence of differentiation strategy on firm performance (Saunders, Lewis & Thornhill, 2014). Census of 66 telecommunication companies was adopted and primary data was collected amongst them through use of semi structured questionnaires.

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 included contingency and frequency tables. 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:

$Y = \beta_0 + X_1 + €$

Where Y= Firm Performance; β_0 = Constant term; X_1 = Differentiation Strategy.

RESULTS

The objective sought to establish the influence of differentiation strategy on firm performance in the telecommunication industry in Kenya. As per the results, 92.5% of the respondents indicated that their institutions pursued differentiation strategies to achieve competitive advantage over other firms. In essence, the contact point between a business firm and customers is products and services. Fittingly, a company aspiring to stand out of the rest, must prioritize innovative product development, product design and unique product features. One of the tactics of achieving this is adopting and implementing the differentiation strategy. Respondents, on a Likert scale of 1-5, were asked to rate the extent to which the rudiments of differentiation strategy were applied in their firms. The responses were as presented in Table 1.

Table 1: Competitive Advantages from Pursuit of Differentiation Strategy

Competitive advantages	Mean	Std. Dev.	Covariance	Rank	Sig.
This strategy targets the broad product/service range	3.69	1.15	0.31	4	.027
The strategy gives a firm a technological leadership advantage	3.77	1.17	0.31	2	.015
With this strategy, there is increased innovation and creativity	4.27	.74	0.17	1	.004
This strategy gives room for better promotion/advertising	3.76	1.16	0.30	3	.045
Using this strategy, there is a strong brand image identification	3.70	1.22	0.32	5	.003

From Table 1, the respondents strongly agreed that with this strategy; there is increased innovation and creativity as shown by a mean of (mean=4.27, SD=0.74). Majority of the respondents also agreed that the strategy gives a firm a technological leadership advantage as shown by a mean of (mean=3.77, SD=1.17), gives room for better promotion/advertising as shown by a mean of (mean=3.76, SD=1.16), gives a strong brand image identification as shown by a mean of (mean=3.70, SD=1.22), and targets the broad product/service range as shown by a mean of(mean=3.69, SD=1.15). From the chi square test, all the variables were found to be significant since their values were less than 0.05 leading to a conclusion that differentiation strategy influences firm performance in the telecommunication industry in Kenya significantly. As stated by Schilke and Cook (2013), product differentiation is operationalized as high productivity growth, innovative product development, product design, and unique product features. The interpretation is that this strategy is not only adopted but also has been applied. Tellingly, the adoption of this strategy guarantees the firm competitive advantage over its competitors. This finding was aligned with the research carried out by Kugun et al., (2016) which established that the firms pursuing differentiation strategy offer customized products, continuously develop new and innovative products. Also, through this strategy, the firm has ability to speedily as response to competitor's product innovation.

In agreement also were Bett et al., (2018) who investigated a connection between competitive strategies and firm productivity in the telecommunication industry in Kenya. Both correlation and regression analysis of collected data revealed a strong as well as substantial association between the differentiation strategy and performance of a company. In conformity with this finding were Witjara et al., (2019) who conducted a study on differentiation strategy on banking sector in India. The study established that firms pursuing differentiation 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. In support of this finding were Mahdi et al. (2015) who investigated the association between differentiation strategy and product development. The study revealed successful differentiation approach develops many products for a thin market known to them. Furthermore, service Ozdemir & Mecikoglu (2016) solidified this finding by establishing that more firms employing other approaches such as differentiation map out sub-segments in order to give superior performance. By and large, product development is one of the aspects that differentiation competitive strategy embarks on so making it a dependent variable is contradictory.

Hypothesis

H_O: *"There is no significant influence of differentiation strategy on firm performance in the telecommunication industry in Kenya"*.

The objective of the study examined the influence of differentiation strategy on firm performance in telecommunication industry in Kenya. From this objective, the null hypothesis H_o was formulated. The model adopted explains the extent to which changes in dependent variable (firm performance) can be explained by the change in independent variable (differentiation strategy). To capture the influence of differentiation strategy on firm performance, the two variables were regressed and findings were as depicted in Table 2.

Table 2: Results from Differentiation Strategy and Firm Performance

Model Summary					
R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**		
0.832	0.692	0.686	0.612		
ANOVA					
	Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Regression	49.576	1	49.576	132.3	.000
Residual	22.101	59	0.375		
Total	**71.677**	**60**			
Regression Coefficients					
	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	0.023	0.079		0.288	0.78
Differentiation Strategy	0.898	0.078	0.832	11.50	0.00

Regression analysis results in Table 2 documented an R value of 0.832 which showed a positive significant relationship between differentiation strategy and firm performance, an R squared (coefficient of determination) of 0.692 and the R-square adjusted for degrees of freedom for the regression of 0.686. The R squared value depicted that 69.2 % of changes in firm performance in telecommunication in Kenya can be accounted for by differentiation strategy while the remaining percentage (30.8%) may be accounted for by other strategies excluded in the model.

The standard error of estimate (0.612) depicts that, on average, observed differentiation strategy deviate from the predicted line by a score of 0.612. Model goodness of fit was tested using analysis of variance which had F statistics; $F (1, 59) = 132.345$, p value < 0.05. The overall ANOVA results indicated that the model was significant at $F = 132.345$, $P=0.000$. The probability value of 0.000 indicated that the regression relationship was highly significant in predicting how differentiation strategy influence firm performance in the telecommunication industry in Kenya. Since t ratio was greater than 1.96 and p value less than 0.05, this further confirmed that differentiation strategy significantly influences firm performance, therefore, at 95% confidence interval, there was high reliability of the obtained results as depicted by the findings. Hence, there was enough evidence to warrant rejection of the null hypothesis which stated that "There is no significant influence of differentiation strategy on firm performance in the telecommunication industry in Kenya" and conclusion that differentiation strategy had positive significant influence on firm performance in telecommunication industry in Kenya.

To further analyze the results, the explanatory powers of differentiation strategy on firm performance were discussed at 5% significance level. The constant value (0.023) implied that keeping all other factors constant (at zero), the firms' performance as a result of the independent variables (differentiation strategy) would be 0.023. Regression coefficient of ($\beta = 0.898$), revealed strong positive and significant influence of cost leadership strategy on firm performance. This t-value ($t =11.504$ p value < 0.00) further indicates that all parameters used contribute significantly in the function of the model.

This conformed with the study by Tharamba et al., (2018) who argued that one tool for beating competition in the recent time is to be strategically positioned, and that differentiation strategy as used by Safaricom Limited had enabled the company to maximize their sales and hence improved revenue generations. Similar findings were from a study by Wheelen, Hunger, Hoffman and Bamford (2015) and was advanced by Lagrosen (2016). The findings revealed that differentiation strategy was of importance in the departments such as marketing, procurement, marketing, research, and development to enhance firm performance.

CONCLUSION AND RECOMMENDATIONS

On whether differentiation strategy influences firm performance in the telecommunication industry in Kenya, it was concluded that there was a strong and positive correlation. The study concluded that this strategy; increases innovation and creativity, gives a firm a technological leadership advantage, gives room for better promotion/advertising, identifies strong brand image and targets the broad product/service range.

The study recommended the utilization of this strategy to increase innovation and creativity, give a firm a technological leadership advantage, give room for better promotion/advertising, identifies strong brand image and targets the broad product/service range. The study recommended that the managers to ensure the telecommunication companies in Kenya are able to explore opportunities and new asset sets, and to respond swiftly to environmental changes and eroded value that arises from competitor activities.

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