The Impact of Competition on Performance of Firms in the Mobile Telecommunication Sector in Kenya

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Abstract - Competition is a factor that affects the business environment in any industry. This study sought to investigate the impact of competition on the performance of the mobile telecommunication industry in Kenya. This research aimed at looking at how competition has impacted on performance of the four firms in the sector i.e. Orange Kenya, Airtel, Yu and Safaricom (K) ltd. The study used a descriptive research design that answered questions how competition affects the independent variables of the study i.e. new market entrants, competitive rivalry and buyer power. Simple stratified sampling was used to select the sample of the respondents to avoid bias and ensure that samples drawn were representative of the population of mobile service subscribers of the four firms. Data collection was done using questionnaires and analyzed using Ms Excel. The results were presented using bar graphs and pie charts.

The study found out that competition has an impact on the performance of firms and this accounted for 79.8% while 20.2% of the respondents indicated that competition did not have an impact on performance of firms. From the research it was further established that majority of the respondents indicated that new market entrants, competitive rivalry and buyer power affects performance of the firms in this industry accounting for 61.2% while 38.8% of the respondents indicated that new market entrants, competitive rivalry and buyer power did not affect the performance of the firms in the telecommunication industry in Kenya. The study recommended improvement of performance in the telecommunication industry based upon better understanding of the competitive factors in the industry which this study was based on.

Index Terms - Competition, Porters five forces model, competitive rivalry, new market entrants

I. INTRODUCTION

Joekes and Evans, (2008) define competition as the process of trying to win something that is; a higher success level in a business enterprise or industry which someone else is also trying to win or achieve. A competitor on the other hand refers to an individual or group that an enterprise is trying to succeed against. Competition can also be defined as the rivalry or individual effort of two or more parties acting independently (Beato & Laffont, 2002).

In a competitive business environment, prices tend to remain relatively low because the power of bargaining is usually in the hands of the buyers (Joekes & Evans, 2008). Economic competition usually takes place in markets where the sellers compete to attract offers from prospective buyers. In the process of buyer seller interactions, a lot of information is signaled through product/service prices therefore most sellers will cut prices to attract buyers (Carlton & Dana, 2004).

Competition is inevitable in almost every business environment but according to Joekes& Evans, (2008) competition is good for business. Every business enterprise in operation with a profit oriented goal will have to face competition with exception to monopolistic business enterprises (Joekes& Evans, 2008). The mobile telecommunication industry in Kenya is an oligopolistic market because it is characterized by multiple buyers, few sellers and the price is not influenced by the cost of production but by the reaction of other firms’ to each of the individual market player’s actions especially on price and output matters (Ayoola&Azeez, 2013). The authors further explain that this results to the emerging issue of how individual firms will stay afloat in market based on strategies these firms will have to employ to remain relevant and profitable based on the existent competitive environments.

II. RESEARCH ELABORATIONS

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3.1 The threat of new market entrants

Threat of new entrants according to Porters five forces refers to the threat that new competitors pose to the existing competitors in any industry. Where an industry is profitable, it can be expected that it will attract more competitors who are also looking to have a slice of the profits (Michael, 2008). If it is easy for these new entrants to enter the market, for example if entry barriers are low or nonexistent, this will pose a threat to firms already operating and competing in that industry (Murphy 2002). More competition leads to increased production levels. Without matching a concurrent increase in consumer demand, profit levels for every market player are bound to go down and therefore, threat of new entrants, according to Porter’s 5 forces, is one of the forces that shape the competitive structure of an industry.

The threat of new entrants as the model created by porter depicts, also influences the ability of firms existing in the industry to achieve profitability and better their performance levels (Michael, 2008). A high threat of entry means new competitors are highly likely to be attracted to the profits of the industry as they can enter the industry with relative ease (Carlton & Dana, 2004). With new competitors making entry into the industry, they could decrease the market share and thus profitability of the existing competitors. New entrants could also mean changes to existing product quality and/or price levels.

High levels of threat of new entrants could make an industry more competitive and thus decrease profit potential for existing market players (Michael, 2008). Low threat of entry on the other hand makes an industry less competitive and at the same time increases profit potential for the existing firms (Michael, 2008). New entrants are deterred by barriers to entry (factors in a competitive industry that make it difficult for new market entrant to begin operating in that market). The degree of threat of new entrants is determined by several factors, with many of these factors falling into the category of entry barriers.

A high economy of scale is an entry barrier that could lower the threat of entry (Hernon& Whitman, 2001). Well-known brand names such as established industry names e.g. Safaricom and Airtel are as well barriers to entry that can lower the threat of new entrants. High upfront capital investments required to jump start an enterprise can as well lower the threat of new entrants. High consumer switching costs are also barriers to entry(Michael, 2008). The opposite is true for any of these factors where the barriers to entry are low and the threat of new entrants is high. For instance, if there are no required economies of scale, standardized products, low initial capital investment requirements and low consumer switching costs indicates that entry barriers are low and the threat of entry is high.

High threat of entry of new competitors occurs when: profitability does not require economies of scale; products are undifferentiated; brand names are not well-known; initial capital investment is low; consumer switching costs are low; accessing distribution channels is easy; location is not an issue; proprietary technology is not an issue; proprietary materials is not an issue; government policy is not an issue and the expected retaliation of existing firms is not an issue (Michael, 2008).

Threat of new entry on the other hand is low if: profitability requires economies of scale; products are differentiated; brand names are well-known; initial capital investment is high; consumer switching costs are high; accessing distribution channels is difficult; location is an issue; proprietary technology is an issue; proprietary materials is an issue; government policy is an issue and the expected retaliation of existing firms is an issue (Michael, 2008). Thus the research focused on the threat of new market entrants in the Kenyan telecommunications industry being low as the factors outlined above largely reflected the reality of the industry.

The researcher chose the threat of new entrants as one of the independent variables for reasons explained above on the threats established industry players such as Safaricom and Airtel face as well based on the fact that a low threat of new market entrants makes an industry become more attractive and increases profit potential for firms already operating in that industry. A high threat of new market entrants makes an industry become less attractive and decreases profit potential for the firms already operating in that industry (Hernon& Whitman, 2001).

3.2 Buyer power
The presence, composition and number of powerful buyers in a market reduce the profit potential for the industry as a whole (Michael, 2008). Buyers increase competition and impact on performance of firms within an industry by bargaining for improved quality/quantity of services, forcing down prices as well as playing competitors against each other with end result being diminished industry profitability (Michael, 2008).

With the Kenyan mobile telecommunications industry, the power of the industry’s important buyer groups depends upon the characteristics related to the market situation as well as the relative importance of purchases from customers of a single operator as compared to the overall business. To assess the power of the buying group in the Kenyan mobile telecommunications industry, the research used the following conditions: that the buyer group was concentrated, or purchased large volumes relative to the seller’s sales; that products purchased from the four firms are standard or undifferentiated—alternative suppliers are easy to find and competitors are played against each other; that few switching costs existed (such as little penalty for moving to another service provider); that the industry’s product is not important to the quality of the buyer’s products and that the buyer has full information (their knowledge of demand and market prices provides them with leverage).

Buyer power, also defined as the ability of customers to put a firm under pressure, also affects the customer's sensitivity to price changes (Michael, 2008). Firms in the Kenyan mobile telecommunication industry had taken measures during the research to reduce buyer power by for example implementing loyalty and reward programs. The buyer power is high if the buyer has many alternatives (Grand, 2007).

Buyer power can enable consumers exert pressure on businesses to get them to provide better quality products, better customer services and lowered product prices (Hernon & Whitman, 2001). As with the case with this research the researcher sought to investigate the Impact of buyer power by analyzing the Kenya’s mobile subscriber bargaining power and its impact on quality and price. When analyzing the bargaining power of buyers, the industry analysis was conducted from the seller’s. According to Porter’s Five forces industry analysis model, buyer power remains among the forces that shape the competitive structure and performance of any industry (Michael, 2008).

A strong buyer can make an industry more competitive and decrease profit potential for the seller (Carlton & Dana, 2004). However a buyer, who is not as strong makes an industry less competitive and increases profit potential for the seller because the prices and quality will be determined by the seller (Michael, 2008). The concept of buyer power Porter created has had a lasting Impact in market theory. Several factors determine Porter’s Five Forces buyer bargaining power. One of the factors is the number of buyers as compared to sellers. When the buyers are more than the sellers, this shifts the power to the buyers. Another factor is switching costs, that is, if it is relatively easy for a buyer to switch from one seller to another then the power is also with the buyers. If buyers can easily backward integrate – or begin to produce the seller’s product themselves – the bargain power of customers is high. If the consumer is price sensitive and well-educated regarding the product, buyer power is high. If the customer purchases large volumes of standardized products from

the seller, buyer bargaining power is high. If substitute products are available on the market, buyer power is high and the opposite is true (Michael, 2008).

During analysis of an industry, all of the above mentioned factors regarding Porter’s 5 Forces on buyer power did not apply. But others if not majority, certainly did apply to the study. Of the factors that did apply, some indicated a high buyer bargaining power and others a low buyer bargaining power, with the results not always being straightforward. Therefore for this research, it was necessary to consider the particular circumstances of each of the given firms in the industry as a whole when using data to evaluate the competitive structure and performance of the four firms.

According to Porter’s 5 forces, with regards to buyer power industry analysis, when there is lower bargaining power it makes the industry to be more attractive and the potential of earning profits is high for the seller (Grand, 2007). Since its introduction, Porter’s Five Forces has been used widely in industry analysis and this informed its inclusion in this study. The five forces measure the competitiveness of the market deriving its attractiveness (Michael, 2008). The researcher therefore used conclusions based from the analysis to determine the Impact of competition on the performance of individual firms in the telecommunications industry.

### 3.3 Competitive rivalry

This forms part of the Porter’s Five Forces that the researcher used as an independent variable to the research. As a starting point in analyzing the Kenyan telecommunications industry, the research looked at the nature of the competitive rivalry existing between the established firms in the industry. Where entry to an industry is easy, competitive rivalry is likely to be high while if it is not easy for customers to go for substitute products in the market (Hernon & Whitman, 2001), for example a subscriber could choose Airtel services over Safaricom, then rivalry will be low. Competitive rivalry depends on several factors such as differentiation between the products in the market, brand loyalty by the buyers and price comparisons by the media (Grand, 2007). Competitive rivalry will also be high where it’s costly to leave the industry hence they fight to just stay in (exit barriers); where the market growth rates are low (growth of a particular company is possible only at the expense of a competitor); where high “strategic stakes” are tied up in capital equipment, research or marketing and where capacity can only be increased by large amounts. In such a scenario, companies will apply the necessary strategies so as to retain their share of the market (Michael, 2008). A highly competitive business environment results in competitiveness in prices, profitability and performance of firms in the industry.

### III. FINDINGS

#### 4.1 Impact of threat of new market entrants

Rating the impact of threat of new market entrants on performance of firms in the mobile telecommunications industry in Kenya on a five point Likert scale where 5=strongly agree 4=agree 3=don’t know 2= Disagree 1= Strongly disagree.

The range was ‘strongly agree’ (5) to ‘Strongly disagree’ (1).
The scores of ‘disagree/strongly disagree’ had an equivalent mean score of 0 to 2.5 on the continuous Likert scale; (0≤L/N<2.4).

The scores of ‘don’t know’ had an equivalent mean score of equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5≤M.E<3.4).

The scores of very strongly agree/agree had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5≤F<5.0).

A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>New market entrants have led to decreased market shares</td>
<td>3.51</td>
<td>0.364</td>
</tr>
<tr>
<td>New market entrants have led to decreased revenues</td>
<td>3.33</td>
<td>0.675</td>
</tr>
<tr>
<td>New market entrants have led to decreased profitability of firms.</td>
<td>3.51</td>
<td>0.731</td>
</tr>
<tr>
<td>New market entrants have led to decreased price levels of services</td>
<td>3.78</td>
<td>0.275</td>
</tr>
</tbody>
</table>

The study sought to establish the views of respondents on whether a firm required economies of scale in order to attain profitability in the Kenyan Telecommunications sector. The results were as shown below.

![Figure 4.1 Impact of threat of new entrants on the Kenyan telecommunications sector](image)

According to the study findings, the majority of the respondents indicated that they had the view that a firm required economies of scale in order to attain profitability in the Kenyan Telecommunications sector, accounting for 61.8% while 38.2% indicated they did not hold the view that a firm required economies of scale in order to attain profitability. The results therefore show that new entrants into the market of mobile telecommunication impacts on the performance of the firms.

### 4.2 Impact of buyer power on performance of firms in the mobile telecommunications industry in Kenya.

The study took a rating the Impact of buyer power on performance of firms in the mobile telecommunications industry in Kenya on a five point Likert scale where 5=strongly agree 4=agree 3=don’t know 2= Disagree 1= strongly disagree.

The range was ‘high’ (4) to ‘unchanged’ (1).

The scores of unchanged/low had an equivalent mean score of 0 to 2.5 on the continuous Likert scale; (0≤U/M<2.4).

The scores of moderate had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5≤G<3.4).

The score of high had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5≤E<5.0).

A standard deviation of >1.5 implied a significant difference on the impact of the variable among respondents.

<table>
<thead>
<tr>
<th>Impact of competition on affordability on each of the four firms based upon:</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Purchase volumes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Airtel Kenya</td>
<td>3.42</td>
<td>0.371</td>
</tr>
</tbody>
</table>

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The study sought to find out the purchase volumes & switching costs for mobile subscribers of either of the four telecommunications firms in the industry in relation to consumer/subscriber buying power. The respondents rated buyer power in terms of purchase volumes as follows: Airtel Kenya (mean of 3.42) indicating that the purchase volumes were moderate; Orange Kenya (mean of 1.85) indicating that the purchase volumes were unchanged/low; Safaricom Kenya (mean of 3.62) indicating that the purchase volumes were high and Yu mobile (mean of 2.16) indicating that the purchase volumes were unchanged/low.

The extent to which respondents rated buyer power in terms of switching cost were as follows; Airtel Kenya (mean of 2.53) indicating that the quality was moderate; Orange Kenya (mean of 2.18) indicating that the quality was unchanged/low; Safaricom Kenya (mean of 3.51) indicating that the quality was excellent and Yu mobile also had a (mean of 2.32) indicating that the quality was unchanged/low.

Impact of subscribers’ buyer power in the mobile telecommunications industry in Kenya on substitute products, backward integration and industry attractiveness.

<table>
<thead>
<tr>
<th>Impact of subscribers’ buyer power on substitute products, backward integration and industry attractiveness</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are no substitute products for the telecommunications industry as a whole</td>
<td>3.63</td>
<td>.638</td>
</tr>
<tr>
<td>Buyer power has resulted in better product price and quality</td>
<td>3.74</td>
<td>.523</td>
</tr>
<tr>
<td>Can buyers begin to produce sellers products themselves (buyer backward integration)</td>
<td>2.16</td>
<td>.248</td>
</tr>
<tr>
<td>The buying power of mobile subscribers in the Kenyan telecommunications industry has made the industry attractive to new service providers/ market players</td>
<td>3.51</td>
<td>.287</td>
</tr>
</tbody>
</table>

The study sought to find out the impact of subscriber’s buyer power in the mobile telecommunications industry in Kenya on substitute products, backward integration and industry attractiveness. The respondents were of the opinion that there are no substitute products for the telecommunications industry as a whole (mean of 3.63) indicating that they strongly agreed there were no existing substitute telecommunication products to the industry’s that the purchase volumes were moderate. On the question of whether buyer power had resulted in better product price and quality, respondents indicated that indeed buyer power had resulted in better price and quality of products (mean of 3.74).

On the question of whether buyers could begin producing sellers products themselves (buyer backward integration, respondent indicated they strongly disagreed (mean of 2.16). Respondent also indicated to a mean of 3.51 that buying power of mobile subscribers in the Kenyan telecommunications industry has made the industry attractive to new service providers/ market players.

4.3 Impact of competitive rivalry on performance of firms

On the third independent variable, the study sought to find out the impact of competitive rivalry on performance of firms in the mobile telecommunications industry in Kenya based on
various measures as shown below. The results were determined by use of mean and standard deviation as shown.

The range was ‘strongly agree’ (4) to ‘Strongly disagree’ (1). The scores of ‘disagree/strongly disagree’ had an equivalent mean score of 0 to 2.5 on the continuous Likert scale ; (0≤ L/N<2.4).

The scores of ‘don’t know’ had an equivalent mean score of equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale; (2.5≤M.E<3.4).

The score of very strongly agree/agree had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5≤F<5.0).

A standard deviation of >1.5 implies a significant difference on the Impact of the variable among respondents.

### Table 4.4 Impact of competitive rivalry on performance of firms

<table>
<thead>
<tr>
<th>Impact of competitive rivalry on performance of firms in the mobile telecommunications industry in Kenya</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitors are few thus performance of firms is relatively predictable and stable</td>
<td>3.63</td>
<td>0.638</td>
</tr>
<tr>
<td>Competitors are of unequal size, some are large firms, others are small, and thus performance of these firms differs.</td>
<td>3.74</td>
<td>0.523</td>
</tr>
<tr>
<td>Competitors possess unequal market share and this directly relates to their different levels in performance.</td>
<td>3.65</td>
<td>0.248</td>
</tr>
<tr>
<td>Performance of firms grows in tandem with the industry growth which remains fast.</td>
<td>3.51</td>
<td>0.287</td>
</tr>
<tr>
<td>Products for the different firms in the industry are differentiated and thus performance for individual firms is easily measured.</td>
<td>3.54</td>
<td>0.243</td>
</tr>
<tr>
<td>Brand loyalty is significant for the different brands for firms in the industry and this reflects directly in performance of brands for the four firms</td>
<td>4.21</td>
<td>0.342</td>
</tr>
</tbody>
</table>

The results obtained from table 4.8 showed that respondents strongly agreed that competitors were few thus performance of firms is relatively predictable and stable with a mean of 3.63. Respondents also strongly agreed that competitors are of unequal size, some are large firms, others are small, and thus performance of these firms differ by a mean of 3.74. On the question of whether competitors possessed unequal market share and which directly relates to their different levels in performance, respondents strongly agreed, with a mean of 3.65.

Respondents also strongly agreed that performance of firms grows in tandem with the industry growth which remains fast, rated with a mean of 3.51. On whether products for the different firms in the industry are differentiated and thus performance for individual firms was easily measured, respondents strongly agreed with a mean of 3.54. Lastly, on the question of whether Brand loyalty is significant for the different brands for firms in the industry and this reflects directly in performance of brands for the four firms, respondents strongly agreed with a mean rating of 4.21.

### IV. CONCLUSIONS

The impact of competition on the Kenyan mobile telecommunication market is that it has greatly enhanced performance. The study further concluded that there is a direct relationship between competition and the performance of these four firms. Competition in this industry impacts directly on the performance of the firms because of the few number of the firms in the industry therefore the improvement in performance aspects is not based on cost of production rather it is as a reaction from the actions of the competitors. The study therefore concludes that the level of competition in the telecommunication industry impacts on the performance of the four firms in this industry which were the basis of the study. The study has shown that competition has a great impact on the performance of the firms in the telecommunication industry. The study has shown that there are barriers to entry into this industry but they are low therefore there is room for new firms to enter into this industry. The study therefore recommends that more firms should consider entering this industry despite the level of competition.
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