ISSN 2250-3153

Emperical Analysis on Determinants of Non-Profitability Margins: A Case of Telkom Kenya in the Telecommunications Industry

Margaret Oloko, Enos Bernabas Anene, Patrick Gitonga Kiara, Irene Kathambi

Jomo kenyatta university of Agriculture and Technology, Kenya

Abstract- The purpose of this study was to investigate factors contributing to the financial losses that have been incurred over time at Telkom Kenya. The study specifically sought to understand if the management style had an impact on the Telkom Kenya performance; to investigate the impact of competition on the company profit levels, to evaluate the impact of the labour cost on profitability level. The study adopted the survey research design because not much study had been carried out on Telkom Kenya. The study used desk research, secondary data evaluation and internet. The data was analyzed and presented through use of descriptive analysis, and content analysis. The findings of study concluded that there was positive relationship between the impact of competition and labour cost to Telkom Kenya Profitability that led to losses. The study recommended the need to search for stronger enhanced innovated products to broaden its profits.

Index Terms- Kenya Telkom, Profitability, Telecommunication losses, competition.

I. Introduction

Even before the declaration, many developing countries had started liberalizing their internal policies to enable efficiency as to attain affordability and reach ability of telecommunication system. By 1995, most of the low income developing countries of the world, made their economies global, by liberalizing the domestic licensing and important policies on the whole, to facilitate inflow of foreign capital into the infrastructure sector, especially in the telecommunication sector. This resulted in a telecom revaluation, with countries adopting liberalization initiates, experiencing a never-before‟ growth in the telephone network, including the penetration levels. Developing countries today account for 49% of the total telephone network in the world (Nasit, 2011).

The telecommunication sector enjoyed some of the highest growth rates during the bubble of the late 1990s, but since 2000 the sector has lost more in terms of dollars invested than what has been lost on Internet investments during the same time frame. MCI WorldCom, Deutsch Telekom, France Telecom, Telecom Italia, and many other stalwart telecommunications companies across the world are in financial trouble. Furthermore, the only sort of recovery that has been mentioned in the telecommunications industry has been a "jobless" one (Donald, 2003).Finally, recent financial adjustments by a large telecommunications company in the US to write down the value of long-term assets, such as plant, property and equipment, have put yet another damper on investment in the sector. (Donald, 2003)

II. Statement of the Problem

The process of the management of the company's portfolio made a change of governance structure in terms of share holdings where by the Kenyan government had a share of 49% which accordingly has been diluted without proper notice given to the Communication Commission of Kenya (CCK) to reach 30% as a result the Treasury allowed France Telkom to write off Ksh 30 billion worth of loans that it owed the Telkom's in Lieu to 19% drop in shareholding. This Move according to the parliamentary Committee resulted to the loss of billions of shillings by the taxpayers (Wahome, 2013).

The re-organisation of Telekom Kenya is billed as the most expensive in corporate Kenya having consumed nearly Sh130 billion in the past seven years. The process began with KSh85 billion clean-up of Telkom Kenya's books in readiness for its sale to France Telecom in 2007 (Fayo, 2013). In the 2010 financial year, Telkom Kenya suffered a net loss amounting to Sh4.3b on a gross income for the same period of some ten billion shillings. Even as the Communications Commission of Kenya (CCK) painted a bleak picture of the network company controlling less than 1 percent of voice calls (Wahome, 2012).

Telkom Kenya had made a request to be given cash bail injection of up to Ksh 13 billion to be utilized as outlined; that is KSh4.5 billion to fund operations for the second quarter of the year, KSh2.5 billion to refinance a Kenya Commercial Bank loan and overdraft facilities maturing on May 31, 2013, KSh3.6 billion to refinance a Standard Chartered Bank loan, and Sh3.3 billion to refinance a bridge loan by the subsidiary of France Telecom, Orange East Africa, which was to be paid by June 28, 2013. In 2012, the government was forced to participate in an expensive restructuring in which, was a huge cost to the taxpayer, it not only pumped into the company Sh2.5 billion in fresh shareholder loans, but also wrote off more billions in past shareholder loans (Editor, 2013).

This latest request for shareholder support is the clearest sign so far that the highly touted balance sheet-cleaning exercise which was supposed to return the company to a profit-making path did not make even the slightest improvement in the company's financial fortunes (Editor 2013). This study therefore investigates the determinants of non-profitability margins in Telekom Kenya.

III. General Objective

The broad objective of the study was to investigate the determinants of non-profitability margins in Telkom Kenya in the telecommunications Industry.

Specific Objectives

The specific objectives of this study were:

1. To examine the impact of competition on Telkom Kenya profitability level.
2. To examine the effect of labour cost on Telkom Kenya profits.

IV. Research Methodology

This study adopted the survey descriptive design to answer the research questions which were to analyze the factors determining non-profitability margins in Kenya in the telecommunications industry. Descriptive research design can be used in both quantitative and qualitative research projects. Descriptive survey research is used in exploratory studies to allow researchers to gather information and summarize, present and interpret data for the purpose of clarification (Orodho, 2003).

The study target population is the complete set of individual's cases or objectives with some common characteristics to which the research wants to generate the results of the study (Mugenda & Mugenda, 2003). The study was a desk survey, intended to analyze the available literature on the variables that explain the factors contributing to low profitability margins in Telkom Kenya. The appropriateness of this method to the study was the ability to review a wide variety of secondary literature that is relevant to the research topic.

The study comprised of Telkom Kenya as an industry and made use of only secondary data which was extracted from various published sources as well as the internet. These included books, journals or periodicals, newspapers or magazines, Telkom Kenya and Communication Commission of Kenya (CCK) websites. Content analysis method was used in view of the qualitative nature of much of the data collected. The method was quite appropriate in the analysis of the contents of documentary materials such as books, journals, newspapers, internet resources, and statistical reports.

V. Results and Discussions

Impact of Competition on Telkom Kenya

Three of the four local mobile operators gained new subscribers in the three months to December 2012, even as the overall sector growth rate slowed down. Data from the Communications Commission of Kenya shows that Safaricom Kenya limited, Essar Telecom Limited and Airtel Kenya netted more subscribers in three months to December2012, while Orange Telkom Kenya lost their customers. Safaricom Kenya Limited gained 593,036 new subscribers, representing a growth of 3.1 percent. Essar Telecom Limited gained 223,974 new subscribers while Airtel Networks Kenya Limited signed up 91,283 subscribers. On the other hand, Telkom Kenya (Orange) lost 609,321 subscribers, representing a decline of 19.7 percent. However, there was minimal change in terms of the market share with Safaricom gaining 1.3 percentage points to control 64.5 percent. Yu Mobile's market share grew to 10.5 percent from the 9.9 percent recorded during the previous period while Airtel Kenya stake increased by 0.1 percentage point's to16.9 percent. Telkom Kenya is the only operator that lost stake shedding 2.1 percentage points to control 8.1 percent of the market (Dyer and Blair, 2013).

There is a revelation of a beating in voice-driven business which relegates Telkom-Orange to the last position among the networks, having some 55, 593, 121 million voice minutes compared to the leader, Safaricom with almost 4.5 billion worth of voice minutes (wahome, 2013).

The mobile sector has emerged as a very competitive market for Telkom Kenya, which shows that it has a long way to meet its chief obligation of making returns out of its losses especially in its Orange-driven mobile sphere.

Labour Cost on Telkom Kenya

Nine hundred and ninety six former employees of Telekom Kenya, that were laid off in 2006, are bound each be paid a golden handshake of Sh150, 000, and a severance pay equivalent to two and half months' salary for each year worked. These is after the Court of Appeal upheld the High court ruling that had asked the operator to pay former employees Ksh 3.2 billion. This is a departure from the package provided by the firm that included a one month pay for every year remaining because the workers at above 50 years could immediately access their pensions. This had been challenged by the workers who felt discriminated on the basis of age given that younger employees were paid based on the number of years they had served Telekom Kenya. The court of Appeal agreed with the High Court that employees were entitled to equal and fair treatment with regard to the exit packages (Fayo, 2013).

Telekom Kenya shareholders had raised Ksh 7.6 billion against a target of Ksh 10 billion to fund its operations as well as settle debt owed to local banks like KCB and Standard Chartered Bank. It is estimated that each worker will now receive between Sh900, 000 to Sh3.5 million. But the awards are to be paid with a 14 per cent interest from the time the case was filed in 2007—pushing the total bill to Sh3.2 billion (Fayo, 2013). This cost on labour is bound to impact negatively on the profits of Telkom Kenya given that it relays on loans from banks and shareholders for its credit.

VI. Discussions

According to Ellis & Singh (2010), Substantial evidence now exists of the development benefits of mobile telephony. These include: improved connectivity that has enabled countries to leapfrog the need to develop fixed line infrastructure, providing connectivity to many people for the first time; its role in reducing transaction costs for both households and enterprises; facilitating job creation and private sector development; and enhancing access to financial services. The analysis of the introduction of competition in the mobiles market in each case study country finds that competition drives rollout of services, increased market penetration, and falling prices. A competitive environment strengthens incentives to design services to meet the needs of customers, including price and product promotions for poor customers, and value added services with additional development benefits, such as money transfer services. Until recently, Kenya has had a relatively concentrated market compared to the other four countries, and prices were relatively high. However, competition in the market increased through the entry of two new players in 2008/09, and since then tariffs have fallen by as much 50%. It should be noted that the Vietnamese mobiles market is heavily dominated by state owned enterprises, but the operators do appear to compete fiercely with each other, and the sector is performing fairly well.

According to Brandt and Schulten (2008), The extent to which liberalization and privatization lead to competition on wages and labour costs with potentially negative effects on working and employment conditions depends basically on two factors. First, it depends on the degree of real market competition in the respective sectors. Liberalization and privatization have not always automatically led to more competition and in some sectors and countries competition is de facto still rather limited. However, companies in the affected sectors often already use the potential of higher competition to put pressure on wages and working conditions. The second factor, which strongly influences the degree of competition on labour costs, is nature of the national Labour relation regimes (LRRs) and their abilities to create a sector-wide regulation on working conditions in order to create a common level playing field (Brandt and Schulten 2008).

VII. Conclusion and Recommendation

The two independent variables from the study are thus evidential as factors that contribute to Kenya telkom profitability performance. From the above findings, competition was a factor that contributed to the low profits margins hence it had a direct impact on the losses incurred.

The effect of strong competition experienced from the regional mobile industry resulted to loss of subscribers to other mobile operators as result of tourism in general the reduction in number of subscribers who use the Kenya Telkom resulted to low revenues hence it is attributed that competition had a direct bearing as the cause of low profitability margins in Kenya Telkom.

The research recommended that on competition, there is need to search for new untapped emerging and segmented markets amongst different sectors who will form a subscription base that will be able to form a hedge and cushion against the competitive aspects in order to explore new ways of generating profits. There is need to extend and expand the broadband and internet services to schools, cities and towns across the country in order to capture the rising demand of data. More so the browsing tariff should be lowered to attract a larger market of subscribers. There is need to increase more value added services to clients inorder to attract new customers and retain existing customers on the mobile network.

On the issue of labour cost, there is need to for Kenya Telkom to strategically manage its costs to ensure profits are realized. The Kenya Telkom can adopt the use of the business process outsourcing (BPO) whereby other services that are not the core competences can be outsourced to other vendors hence this will prevent the cost associated with the labour, and industrial court penalties due to retrenchments and expensive labour cost.

References

[1] T. Brand, and T. Schulten, .“The Impact of Liberalization and Privatization on Labour Relations”. Pique Policy Paper-2 2008. Retrieved January 17, 2014 from www.Jpiqueq.at.

[2] R.M.Donald , Economic Study for financing telecommunication development. Astudy for the internationall telecommunication union telecommunication development bureau. Retrieved on 8/9/2013, Available on http://www.itu.int/finance

[3] Dyer and Blair, Telkom Kenya (Orange) loses 609,321 subscribers as M-Pesa grows to biggest bank by customer deposits, 2013 April19. Retrieved on August,9.2013, Available on http://sokodirectory.com/index.php

[4] K.Ellis. and R.Singh, “The economic impact of competition”. Project Briefing No 42. Department for International Development. United Kingdom, July 2010

[5] G.Fayo, “Telekom’s cash troubles deepen as court awards ex-staff Ksh3.2 billion”. Business Daily. A Nation Media Group Publication. Nairobi, Kenya 2013-10-28.

[6] O.M.Mugenda, andA.G. Mugenda, .“Research Methods, Qualitative and Quantitative Approaches”. Nairobi: African Centre for Technology Studies. 2003.

[7] M. Mutegi, “State turns its Telekom Kenya Loan into Equity”. Business Daily, Kenya 2012.11.22. Retrieved December 23, 2013 from www.BDAFRICA.COM

[8] A.A. Nasit, . An empirical study on marketing strategy of telecom sector In Gujarat State, thesis PhD, Saurashtra University,2011.

[9] J.Nyabiage, . “Government Loses Ownership grip in Telekom Kenya”. Standard Digital. Retrieved December 28, 2013 from http://www.standardmedia.co.ke, 2013-01-12

[10] M.Omondi,“Treasury’s Stake in Telekom Kenya cut after debt Swap”. Business Daily. Retrieved December 23, 2013 from www.BDAFRICA.COM, 2012-11-27.

[11] M. Wahome, Telkom faces heavy Penalty for costly share deal with French firm, Daily Nation,2013 August 29. pg34

[12] T. Wahome, Telkom Kenya acquires ksh 7 billion loan from its two shareholders, Retrieved on 8/10/2013, Available on http://www.bizrika.com

Authors

First Author – Margaret Oloko (PhD), Jomo Kenyatta University of Agriculture and Technology, Kenya
Second Author – Enos Bernabas Anene, Jomo Kenyatta University of Agriculture and Technology, Kenya
Email: enosnn@yahoo.com
Third Author – Patrick Gitonga Kiara-PhD student, Jomo Kenyatta University of Agriculture and Technology, Kenya
Email: muthamia78@gmail.com
Fourth Author – Irene Kathambi-PhD student,
Jomo kenyatta university of Agriculture and Technology, Kenya

Correspondence Author – Enos Bernabas Anene, Jomo Kenyatta University of Agriculture and Technology, Kenya
Email: enosnn@yahoo.com