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Innovation Strategy And And Performance Of Airtel Kenya Limited In Nairobi City County, Kenya

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Abstract: This study investigated the relationship between innovation strategy and performance of Airtel Kenya Limited in Nairobi City County. It has been noted that performance of firms in the telecommunication industry in Kenya has been fluctuating particularly because of the volatility that characterizes the environmental factors. It's imperative for telecommunication firms to adopt mechanisms for implementing new ideas for either creating or enhancing existing products, systems and processes. Innovation strategy was measured using product design, product system and informational resources whereas performance was indicated by such outcomes as speed of response, improvement of existing products and processes, and new products and processes. Descriptive research design was used to facilitate presentation of facts concerning the nature of the phenomena at the heart of this investigation. The target population of this study consisted of all the employees of Airtel Kenya Limited in Nairobi City County. Proportionate stratified random sampling was used to select a representative sample of 56 employees for the purpose of this study. Primary data was collected using semi-structured questionnaire whereas secondary data through a review of relevant published documents. The response rate in this study was seventy percent which was appropriate for making conclusions. Quantitative data was analysed using percentages, frequencies, mean, standard deviation and regression analysis. Results of analysis were presented using figures and tables. The findings of the study demonstrated that there is a relationship between innovation strategy and performance. In this case, it's necessary for management of Airtel Kenya Limited to to provide requisite resources and support for activities and practices that promote creation of new as well as improvement of existing value

Keywords: Innovation Strategy, Product Design, Products System, and Organizational Performance.

I. INTRODUCTION

Firm Performance is a central theme for researchers in strategic management especially considering the dynamic nature of factors and conditions in the environment of organizations. A stream of researchers has taken an inside whereas others an outside view in an attempt to investigate and explain the concept of organizational performance. In either perspective, performance is viewed as the ability of an organization to fulfill its mission through sound management, strong governance and persistent rededication to achieving results. Wang and Wang (2012) suggested that those firms that are involved in the service industry must broaden their examination of productivity from the conventional company-oriented perspective to a dual company-customer perspective. This broadened approach is considered useful in reconciling conflicts or leveraging synergies between improving service quality and promoting service productivity. Innovation has been considered to be one of the key drivers of value creation and performance with capacity to influence the competitive position of a firm and guarantee success in complex, uncertain and dynamic environment.

Advancement in technology has resulted in creation of a new business environment where innovation has become an imperative for building and sustaining competitive advantage and subsequently enhancing corporate performance. In recent times the role and importance of innovation in companies has grown significantly (Hamel, 1996). The amount of time, money and effort focused on innovation and innovation management in both academic and commercial environments

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has too increased significantly. Lawrence (2010) contends that innovations are a conscious developments by firms in coming up with new products or application of new processes in production of goods and services. Therefore, innovation is a deliberate change that leads to creation of new goods and services or improvement in production mechanisms and processes. Ansoff and McDonnell (2010) have pointed out that increased competition is responsible for creation of fundamental shift in economic environment where no organization can stay afloat if it fails to come up with proper strategic responses. This implies that technological innovation significantly affects performance of organization in the market place.

An innovation strategy helps firms decide in a, cumulative and sustainable manner, about the type of innovation that best match corporate objectives (Dodgson, Gann, & Salter, 2008). In addition, innovation strategy plays a key role in achieving a company's current corporate objectives by enabling a company to launch innovative products, find innovative ways to enter new markets or improve internal efficiencies. Notably, innovation is a key factors for success, sustainable competitive advantage and survival of firms (Jimenez & Sanz-Valle, 2011) and resides in the knowledge about how to do things better than the existing practice (Teece, 1986). Innovation strategy has the ability to build competitive advantage by creating customer value, new markets and ultimately enhance firm's performance. Innovation strategy focuses on creation of new products and processes, improvement of existing products, systems and processes. Informational resources are considered key ingredient in the process of value creation particularly for knowledge intensive firms in the service industry.

It has been noted that performance of firms in the telecommunication industry has been fluctuating particularly because of the volatility that characterizes the environmental factors in this industry. Airtel Kenya Limited, though considered as the second largest mobile telephony company after Safaricom, has not been spared by the volatility in the telecommunication industry and the attendant challenge of predictability of performance. It's envisaged that organizations that desire to succeed in environment characterized by complexity and rapidity of change must adopt appropriate strategic choices that would ultimately foster their response strategies.

II. THEORETICAL LITERATURE REVIEW

The resource-based view of the firm (RBV) is a dominant theoretical perspective in the field of strategic management (Newbert, 2007) which takes an inside-out or firm-specific approach in its attempt to provide an explanation on why organizations succeed or fail in the market place. The development of the RBV can be traced to the work of Penrose (1959), Bain (1968), Rumelt (1984), Wernerfelt (1984) and Barney (1991) and is considered as a complementary theoretical perspective to the theory of industrial organization.

The RBV considers a firm to be an aggregation of an assortment of resources which are translated into strengths and weaknesses. It holds that organizations gain sustainable competitive advantages through deployment and exploitation of valuable resources and capabilities that are not elastic in supply (Grunert & Hildebrandt, 2004). Moreover, the competitive advantage of a firm's is attributed to the endowment of strategic resources that are valuable, rare, costly to imitate, and costly to substitute. Furthermore, for an organization to be effective it must be successful in obtaining and managing valued resources (Penrose, 1959; Newbert, 2007).

Internal resources are more important for a firm than external factors in regards to building and sustaining competitive advantage (Grant, 1991). In this case, organizational performance is primarily determined by internal resources such as physical resources, human resources and organizational resources. Notably, the mix, type and amount and nature of a firm's internal resources should be considered first and foremost in the conception of strategies that can yield sustainable competitive advantage. In addition, managing strategically involves developing and leveraging on unique resources and capabilities as well as continually maintaining and strengthening those resources.

RBV contends that it is advantageous for an organization to pursue strategies that are not currently being implemented by the competition. Such strategies can only be developed when an organization is endowed with firm-specific and valuable resources and it has the capabilities to use those resources effectively so as to create a distinctive competence (Jones & Hill, 2009). It is argued that a firm must strive to achieve sustained competitive advantage through the use resources that are either rare or hard to imitate and by continually adopting response strategy that can effectively create an alignment with the environment (Jones & Hill, 2009; Powell, 2011). Distinctive competencies such as ability to innovate are used to shape the strategies that are pursued by a company.

This theory was considered relevant to the current study because it views firm's resources as an imperative to superior performance. If a resource exhibits value, rareness, imitability, organization (VRIO) attributes, as they enable the firm to gain and sustain competitive advantage. RBV postulates that sustainable competitive advantage can be achieved more easily through leveraging on internal rather than external factors as compared to industrial organization. Nevertheless, the stock of resources that firm has can only be effectively exploited if management choice of strategic option provides a good fit between the organization and its environment. Thus, a strategic choice is an imperative for competitive advantage and enhanced firm's performance. The RBV is therefore used by the researcher to underpin the independent and dependent variables in this study.

III. EMPIRICAL LITERATURE REVIEW

Shirley and Sushanta (2014) studied the impact of information technology on the banking industry and analyzed both theoretically and empirically how information technology related spending can affect bank profits via competition in financial services that are offered by the banks. Using a panel of 68 US banks for a period of over 20 years to estimate the

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impact of IT on profitability of banks, they found out that though IT might lead to cost saving, higher IT spending can create network effects lowering bank profits. Furthermore, it was found that the relationship between IT expenditures and banks financial performance is conditional to the extent of network effect.

Nader (2011) study analyzed the effect innovation strategy on performance of the Saudi Arabia Commercial Banks during the period 2008 – 2012. The results of this study indicated that availability of phone banking, number of ATMs and number of branches had a positive effect on profit efficiency of Commercial Banks. Kagan et al (2015) in their study on whether internet banking affects the performance of community banks found that banks that provide extensive online banking services tend to perform better. It was further found out that online 45 banking helps community banks improve their earning ability as measured by return on equity and improved Product innovation by reducing the proportion of overdue and underperforming assets.

Baker and Sinkula (2012) investigated effect of response strategy on organizational competitive advantage found that innovation strategy helps companies deal with the turbulence of the external environment and is therefore one of the key drivers of long term success in business, particularly in dynamic markets. However other studies challenge this view and give conditions under which innovation is successful. This is in line with the findings of Danneels (2013) who observe that big organizations are more likely to have experience with innovation projects leading to organizational innovation capabilities. Smaller and especially new firms often lack this organizational capability and thus run the risk of engaging in managerial undertakings without experience.

Wright, Palmer and Perkins (2015), study on the influence of innovation strategy on the performance of SMEs using a sample of small businesses, found that product innovation does not affect performance in benign environment, but has a positive effect on performance in hostile environment. Similarly, Simpson, Siguaw and Enz (2016) found that innovation is an expensive and risky activity, with positive outcomes on firm performances but also with negative outcomes, such as increased exposure to market risk, increased costs, employee dissatisfaction or unwarranted changes. However, the sample was unrepresentative given that it was selected using purposive sampling technique. The current study used random sampling technique that yielded a representative sample.

Mwangi (2011) carried out a study on factors influencing innovation of companies listed of the Nairobi Securities Exchange. The findings concluded that the laws protecting investors was the major factor influencing financial innovation. The author also observed that the absence of automated trading system as a technical factor was found to have influence on innovation. In addition, it was found that financial competition and integration had an influence on financial innovation with increased financial competition amongst financial institution influencing innovation the most.

Researchers have recently increased their efforts to analyze empirically the economic effects of innovation and these efforts have increasingly targeted the effects at the firm level (Evangelista & Vezzani, 2010). Earlier studies focusing on innovation and firm performance typically reported a positive relationship (Hashi & Stojcic, 2013). In these studies, Research and Development (R&D) expenditures were mostly used as the main measure of innovation. Unfortunately, R&D expenditures suffer from many short-comings when used as a measure of innovation activity, since they are an input measure and do not include other critical elements in innovation such as learning-by-doing and investments in physical and human capital.

H_0: There is no relationship between innovation strategy and performance of Airtel Kenya Limited in Nairobi City County

IV. RESEARCH METHODOLOGY

This study adopted descriptive cross-sectional research design. As noted by Orodho (2005) descriptive research design seeks to establish state of an entity with respect to the variables of interest to the researcher. It has also been noted that a descriptive research design has predictive power and can thus be used to examine cause-effect relationship between variables. Furthermore, cross-sectional study seeks to measure the relationship of variables at a specified time so as to provide information on how the variables are related (Kothari, 2004). Descriptive research design is predominantly concerned with relationships between non manipulated variables has been used by extant researchers (Thangaru & Kinyua, 2017; Mbai, Kinyua & Muhoho, 2018) as it facilitates making observations in natural rather than laboratory environment.

This study intended to investigate the effect of innovation strategy on performance of Airtel Kenya Limited in Nairobi City County, Kenya. The research designs adopted was suitable for the current research due to its quantitative nature and focus of determining the effect of innovation strategy on performance. In addition, the research data for this study was collected at only one point in time in order to enhance uniformity of the environmental context. Simple regression model was utilized for the purpose of guiding the statistical analysis. In this case, innovation strategy was regressed on performance as shown in model 3.1

Performance = $\beta_1 + \beta_1$Innovation Strategy + ε ………..3.1

The population of this study comprised of employees working in different technical departments of Airtel Kenya Limited. Proportionate stratified and simple random sampling techniques were used for selecting a representative sample of 56 employees from the strata deriving from the various technical departments. The choice of proportionate stratified sampling was necessary given the heterogeneous nature of target population where as simple random sampling technique was critical for ensuring randomness in identifying the actual employees to observe from the different strata.

The research made use of both primary and secondary sources of data in this study. Primary data was collected using a questionnaire which facilitated the collection of quantitative data. The questionnaire had two major sections for general information about the respondents and specific information regarding the objectives of the study. Secondary data for this study was collected through document review from published records in the custody of Airtel Kenya Limited and the communication Commission of Kenya (CCK). These published sources included Airtel Kenya Annual Report and CCK Supervisory Annual Reports. The secondary data was essentially crucial for verifying and validating the primary data obtained from employees of Airtel Kenya Limited.

The researcher carried out a pilot study to facilitate pre-testing of the research instrument. Face validity was ensured through consultations with experts in field of management. However, content and construct validity were ensured through extensive review of relevant theoretical and empirical literature. Internal consistence assessed using Cronbach's Alpha index of at least 0.7 as recommended by Treiman (2009). In this case, innovation strategy and performance yielded Alpha indexes of 0.849 and 0.701 respectively.

A research permit was sought from the National Council of Science, Technology and Innovation (NACOSTI). Research consent was processed and appointment placed with management and target respondents of Airtel Kenya Limited. The researcher administered the questionnaire using drop-and-pick later method. A contact person was established and follow-up made. The completed questionnaires were later collected at the time agreed upon with the respondents.

V. RESULTS AND DISCUSSION

The researcher distributed 56 questionnaires to the employees of Airtel Kenya Limited. However, 39 completed questionnaires were collected from the field translating to a response rate of 70%. This response rate was considered favourable and adequate for making generalizations to the population of the study as recommended by Mugenda and Mugenda (2003).

A. SAMPLE MEASURES

The sample measures that were considered relevant to the objective of this study were sample mean, sample standard deviation and coefficient of variation. These statistical measures were used for summarizing, describing and comparing the characteristics of the sample with respect to the research variables of interest.

Innovation Strategy	**n**	**Min**	**Max**	**Mean**	**Std Dev**	**CoV**
Divers attractive product features	39	1.00	5.00	3.56	0.46	0.13
Product features are used to lock in customers	39	1.00	5.00	4.33	0.43	0.10
Improved processes	39	1.00	5.00	4.12	0.67	0.16
Easy of reaching out to potential customers	39	1.00	5.00	4.21	0.61	0.14
Length of product life cycle	39	1.00	5.00	4.25	0.45	0.11
Changing needs of customers	39	1.00	5.00	4.37	0.59	0.14
Information monitoring	39	1.00	5.00	4.30	0.38	0.09
Aggregate score for innovation strategy				4.16	0.51	0.12
Performance						
Diverse products for different needs of customers	39	1.00	5.00	3.97	0.53	0.13
Distinct offerings are distinct in the industry	39	1.00	5.00	4.15	0.49	0.12
Keenness on improving existing offerings	39	1.00	5.00	3.72	0.58	0.16
improved processes enhance delivery of services	39	1.00	5.00	3.84	0.44	0.11
Products of Airtel Kenya have unique features	39	1.00	5.00	4.28	0.66	0.15
Aggregate Score for performance				3.99	0.54	0.14

Source: Survey Data (2018)

Table 1: Descriptive Statistics for the Study Variables

The results of descriptive analysis for innovation strategy show that the aggregate mean score was 4.16 that translating to agree on the five point scale adopted for the questionnaire. The results also shows that the aggregate score for standard deviation and coefficient of variation are 0.51 and 0.12 respectively implying low level of variability and as such the responses from the different subjects are close to the sample mean. The mean score of individual responses ranges from 3.56 to 4.37. It can also be noted that the coefficient of variation for responses on individual measures ranges from 9% and 16% consistently implying narrow variability across responses. The low variability implies that the sample mean is a stable estimator of the population mean. Moreover, the narrow variation of responses reveals that the activities that have been adopted as measures of innovation strategy are practiced in Airtel Kenya Limited.

Moreover, the aggregate mean score for the five measures of performance of Airtel Kenya is 3.99 which translate to agree on the five point Likert scale used in this study. Notably, the variability of responses from the aggregate mean score is low as revealed by the coefficient of variation of 14%. This aggregate mean response indicates that the activities that operationalize performance are practiced in Airtel Kenya Limited. In addition, this narrow variability suggest that the responses of employees are concentrated around the aggregate mean score and thus the sample mean is a stable estimator of the true mean in this study.

B. TEST OF HYPOTHESIS

Simple regression analysis was used to facilitate the statistical test for the relationship between the research variables. Innovation strategy was regressed on performance as shown in Table 2.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Std. Error	Beta		
(Constant)	.490	1.106		4.426	.000
Innovation Strategy	.896	.225	3.022	4.094	.024

R	R Square	Adjusted R Square	Std. Error of the Estimate
.654[a]	.487	.428	1.171

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.771	4	.443	4.323	.001[b]
Residual	64.460	35	1.371		
Total	66.231	39			

a. Predictors: (Constant), Innovation Strategy **b. Dependent Variable:** Performance

Source: Survey Data (2018)

Table 2: Results of Regression Analysis

The regression model estimated in Table 2 is presented in model (ii)

Performance = 0.490 + 0.896Innovation Strategy…………….. (ii)

The results of the model summary show that the coefficient of multiple determination is 0.428 implying that innovation strategy is responsible for 42.8% of variation in performance of Airtel Kenya Limited. Moreover, the results of ANOVA Table reveals that regression model adequately fitted the observed data as the estimated model was confirmed to be statistically significant at F (4, 35) = 4.323 and calculated probability value of 0.001 which is less than the 0.05 threshold adopted. Therefore, the regression analysis revealed that holding innovation strategy to a constant zero, performance would be at a level of 0.490.

The researcher sought to determine the of effect innovation strategy on performance. The results reported in Table 2 revealed that innovation strategy is significant at β=0.896; t = 4.094; p = .024. This suggests that at 95% level of confidence, innovation strategy has a positive effect on performance of Airtel Kenya. These results further demonstrate that a unit increase in innovation strategy is responsible of 0.896 increases in performance. Therefore, researcher concludes that innovation strategy affects performance of Airtel Kenya in Nairobi City County, Kenya.

These results are corroborated by the empirical findings of Nader (2011) that concluded that innovation strategy affected performance of Commercial Banks in Saudi Arabia. These results are also consistent with the conclusion made by Wright, Palmer and Perkins (2015) to the effect that innovation strategy affects performance of SMEs particularly in hostile environment. Similarly, the conclusion of this study corroborates the results of Hashi and Stojcic (2013) that there is a positive relationship between innovation and firm performance.

V. CONCLUSION AND RECOMMENDATIONS

The objective of this study was intended to establish the effect of innovation strategy on performance of Airtel Kenya in Nairobi City County, Kenya. In this study, the researcher measured innovation strategy using product features, extension of product life cycle and informational resources. Analysis of summary measures of the sample showed that activities regarding innovation strategy were significantly practiced and thus crucial in Airtel Kenya Limited. Results of statistical analysis showed that innovation strategy has the greatest statistically significant positive effect on performance and as such the expectation of this study was confirmed.

The conclusion of this study is that innovation strategy positively affects performance Airtel Kenya Limited in Nairobi City County, Kenya. Thus, it is necessary for management of Airtel Kenya Limited to focus on enhancing practices that can realization of innovation strategy. It would be important to provide sufficient resources for research and development so as create more innovative offerings and enhance the features of existing products. Relationship management should also be used to enhance customer loyalty and thus encourage repeat purchases.

Notably, the findings and conclusions of this study are limited to innovative strategy and performance of Airtel Kenya Limited. Future researchers should carry out replicative studies in other organizations in telecommunication and other industries as this would help in validating the findings and conclusions of this study. Moreover, further research should be carried out to investigate the effect of other factors that have not been conceptualized in this study particularly considering the empirical implication of the coefficient of determination reported from the output of model summary.

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