Influence of Mckinsey Framework on Competitive Advantage of Firms in the Telecommunication Industry in Kenya

Kellen Nyawira Njeru 1 & Dr. Paul Kariuki 2

1 & 2 College of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology
Corresponding Author email: nyawiranjeru91@gmail.com

To cite this Article:

Abstract

The main objective of the study was to assess the influence of McKinsey Framework on Competitive Advantage of firms in Telecommunication Industry in Kenya. The study adopted Contingency theory and the Dynamic Capabilities theory. To achieve objectives, the study adopted descriptive survey design. The target population for this study comprised of all the 179 telecommunications firms licensed by communications Authority. The study targeted the heads of the strategic units from each of the companies since they are key determining the strategies which would give the firms a competitive edge over the other firms. Yamane formula was used to determine a sample size of 123 firms which were randomly selected. Data was collected using questionnaires which were structured using closed-ended questions in likert scale form. Descriptive and inferential analysis was conducted to achieve the objectives of the study. The study findings indicated that the two McKinsey Framework factors, that is strategy and staff have a positive and significant influence on competitive advantage. Based on the findings, the study recommends that telecommunication firms which aim to improve their competitive advantage to ensure that they have put in place better strategies such as strategic innovation, differentiation and cost leadership. The firms should also focus on building its staff capacity through staff training and development, staff performance and appraisal and staff promotion and compensation.

Key Words: Staff, Strategy, Telecommunications Firms, Kenya
Introduction

Regardless of the business size, competitive advantage is vital to its sustainability. Due to massive industry competition in the current modern world, there is a need for any business to have a competitive advantage in order to stand out (Lewis, 2017). With that said, ways of achieving competitive advantage changes daily and the traditional methods such as market position are no longer strong. This is because new challenges such as economic-political shifts, technological changes and customer attitudes changes affects such strategies as market position strategy (Gikang’a, 2016).

Other approaches such as the use of McKinsey model are taking the center stage of competitive advantage analysis. The purpose of this paper is therefore to test the applicability of the model in gaining competitive advantage in the telecommunication sector in Kenya. This work tends to focus on four elements of the framework mainly strategy, systems, structure and staff. Gikang’a (2016) observed that strategy, branding and marketing are the three main factors that have ensured Safaricom emergence over its rivals in the telecommunication industry. A firms systems and structure always informs its brand whereas the staff will have a key role to play in marketing hence the need for the research to focus on those four key elements as they are the leading elements that have ensured the success of the study population.

Statement of the Problem

The telecommunication industry in Kenya is highly volatile and competitive and has been characterized as an industry of diminishing returns, increased regulations and high changing consumer preferences (Ogutu, 2015). The Communications Authority (2016) report revealed the closure of Yu mobile from the telecommunication industry in Kenya due to stiff competition. Furthermore, there was closure of Orange which had a 70% share in Telkom Kenya as a result of poor performance due to the stiff competition in the industry (Communications Authority, 2016). The market share of Safaricom has recently dropped from 70% to 66.3% due to increased competition from Airtel and Finserve. Recent statistics by the CA (2018) revealed that Safaricom lost its market share by a further 1.6% in subscriptions as Bharti Airtel gained by 1.7%, Telkom gained by 0.2% and Finserve lost by 0.1% (CA, 2018).

This high competition in the industry threatens the competitive advantage of the players in the industry. Mckinsey 7s Framework has been a relevant field globally attracting the interest of researchers. It has been linked to competitive advantage previously (Mitchell, 2015). As a result, there was a need to find out its effect on the competitive advantage of telecommunication firms taking. The study also focused on filling the knowledge gaps from the previous studies. (Mitchell, 2015) conducted studies on Mckinsey Framework in the National Basketball Association (NBA) franchises. The study focused on strategy, staff and skills. This study focused on structure, systems, strategy and staff hence different in the aspect of the Mckinsey elements being focused on in the study. Ravanfar (2015) study focused on only organizational structure as an element of McKinsey in Qeshm free zone which is noted to be unfavorable. In addition to structure this study will focus on systems, strategy and staff hence different also in terms of the McKinsey elements being focused on. Alshaher (2013) assessed the use of McKinsey 7s Model to show how ready a firm was in implementation of e-learning systems but focused on only four of the seven element of McKinsey hence different in terms of the concept being focused on. Maru (2015) sought to establish the application of the McKinsey 7S model in the process of strategy implementation in Kenya Revenue Authority which is in the public sector. The knowledge gaps identified motivated the study to establish the influence of McKinsey Framework on Competitive Advantage of firms in Telecommunication Industry in Kenya.
Objectives of the Study

i. To examine the influence of Strategy on Competitive Advantage of firms in telecommunication Industry in Kenya

ii. To establish the influence of staff on a firm’s Competitive Advantage in telecommunication Industry in Kenya

Theoretical Review

The study hinges on the Contingency Theory and the Dynamic Capabilities Theory. The origin of the Contingency Theory was by Fred Edward Fiedler in the year 1964 in Australia. The theory centres on the argument that a firm must be flexible in its strategies since there is no best strategy to manage a firm. This is because there are contingent factors such as technology, culture and the environment of operation which keep changing and hence a firm must change their strategies accordingly. To survive, there must be a fit between the three factors and a firm’s systems, features, size and strategy (Islam & Hu, 2012).

There is therefore a need for organizations to work out unique strategies depending with the situation they are in in order to survive the turbulent environment of operation and should not rely on one fit only. Through the organization combining different strategies in an industry they can be able to develop and sustain competitive advantage. This is much applicable in the current dynamic environment that businesses are operating in especially the telecommunication industry. There are so many contingent factors that keep on affecting the industry hence the need for the organization to continually come up with strategies to be able to manage them and have a sustained competitive advantage.

The concept of Dynamic Capabilities theory originated from Teece, Pisano and Shuen in the year 1997. It is how the firm is capable of integrating and reconfiguring its internal and external competences in an effort to adapt to the fast changing environments. It is assumed in this theory that sustainable competitive advantage is achieved by the use of core competencies to transform short-term competitive positions. Some of the core competencies that an organization can utilize to achieve competitive advantage include staffing. Human capital aspect of a firm is a key unique resource which firms can use to develop competitive advantage by developing highly skilled and efficient workforce that can’t be easily copied by the competitors.
Conceptual Framework

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic innovation</td>
<td>Return on Investment</td>
</tr>
<tr>
<td>Differentiation</td>
<td>Market Share</td>
</tr>
<tr>
<td>Cost leadership</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Staff</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff training and development</td>
<td></td>
</tr>
<tr>
<td>Staff performance and appraisal</td>
<td></td>
</tr>
<tr>
<td>Staff promotion and compensation</td>
<td></td>
</tr>
</tbody>
</table>

Independent Variables

Figure 1 Conceptual Framework

Empirical Review

Several studies have been carried out on the elements of McKinsey 7S model and also on competitive advantage of a firm. Simiyu (2013) did a study to investigate challenges affecting strategy implementation as a McKinsey element in government corporations, the researcher adopted a case study design method of data collection, the findings shown that the top management involvement in the harmonization of the seven elements of the organization determines success of strategy implementation. This is because firms must first determine the way they want to achieve their objectives. This is taking into account that there will be changes in customer demands that would require the company to change its strategy in order to suit with environmental demands.

Omuoso (2010) interrogated the challenges for implementing strategies and revealed that organizational culture was critical. Apparently, every company has its own unique culture that is passed on from one generation to another. While the culture is developed by the management, its implementation determines the way such companies engage with the stakeholders. For instance, some companies in Kenya deals with competitive pressure by being more innovative while other introduces new products and services into the market.

Thairu, (2015) did a study on competitive strategies and firms performance Telekom Kenya and concluded that the strategies adopted by the firm such as cost leadership improved firms’ competitive advantage. Kariuki (2014) interrogated the competitive strategies for survival among commercial banks in Kenya and found out that that cost leadership, differentiation and focus strategies are being used by the commercial banks in Kenya to attract Maru (2015) sought to establish the application of the McKinsey 7S model in the process of strategy implementation in Kenya Revenue Authority and found out that the seven elements of the McKinsey 7S model existed within KRA and are used in the strategy implementation process that had led to its success corporate clients.

Pothiyadath and Wesley (2014) did a study regarding the development of a measurement scale for 7-S framework. The study argued that organizations use every possible mean to gain a competitive advantage in the market place.
It thus concluded that human resources and specifically the nature of staff may make an organization to have a competitive advantage over others. Without the right people, the organization loses its competitive edge.

Mithwani (2015) did a study on factors influencing strategy implementation in the Bakery Industry in Mombasa County. Among the factor identified is top management commitment, which falls under staff. The author argued that top managers in any company serve as role model for the rest of the staff. Without effective top management team, such companies fail to go in the right direction, hence lose their competitive advantage.

**Research Methodology**

The research study adopted a descriptive survey design. The target population for this study comprised of all the 179 telecommunications firms licensed by communications Authority (2018). The study targeted the heads of the strategic units from each of the companies since they are key determining the strategies which would give the firms a competitive edge over the other firms. Yamane (1957) formula indicated below was adopted to determine the sample size of 123 respondents.

\[
n = \frac{N}{1 + Ne^2}
\]

Where: \(n\) = Sample size, \(N\) = Population size (179), \(e\) = Margin of error 5%

Questionnaire administration was used by the researcher to collect data from the respondents. A pilot test was conducted on 12 selected respondents from other telecommunication firms not included in the main survey. Reliability was measured using internal consistency method, Cronbach’s Alpha at a threshold of 0.7. Quantitative methods were adopted in analysis and those were descriptive and inferential methods. The same ranged from frequencies, mean, standard deviations and percentages. Inferential analysis was correlation and regression to establish the relationship between the variables. The regression model of the multivariate form shown below was adopted by the study:

\[
Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \varepsilon
\]

\(Y\) = Competitive Advantage, \(\beta_0\) = Constant, \(X_1\) = Strategy, \(X_2\) = Staff, \(\beta_1\) & \(\beta_2\) = Regression Model Coefficients and \(\varepsilon\) = error term

**Research Findings**

After conducting a pilot study, 123 questionnaires were issued to the telecommunication firms sampled. Out of the number, 91 respondents responded to the questionnaire while 32 respondents did not fill the questionnaire. The response rate was hence 74%. According to Mugenda (2008) and Kothari (2004) a response rate of above 50% is adequate for a descriptive study. This response rate is hence adequate for this study.

**Reliability Tests**

Pretesting of the research instrument was done to a set of 12 respondents from other firms not included in the study. The questionnaires were then analyzed to establish the reliability of the research instrument. The pilot test results indicated that all the variable constructs had Cronbach’s Alpha above the minimum acceptable reliability coefficient of 0.7 which implied good internal consistency. Based on this analysis, all items measuring various variables were accepted and considered for the study. According to Sekara (2008) the closer a Cronbach’s Alpha is to 1 the higher the reliability and a value of at least 0.7 is recommended. Reliability test was not conducted on competitive advantage since the study sought secondary data.
Table 1: Pilot Test Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s alpha</th>
<th>Number of Items</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>0.716</td>
<td>3</td>
<td>Reliable</td>
</tr>
<tr>
<td>Staff</td>
<td>0.794</td>
<td>3</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Demographic Results

Table 1: Demographic Results

<table>
<thead>
<tr>
<th>Demographic Factor</th>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent’s Level of Education</td>
<td>PhD</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Masters</td>
<td>49%</td>
</tr>
<tr>
<td></td>
<td>Degree</td>
<td>45%</td>
</tr>
<tr>
<td>Respondent’s Work Experience</td>
<td>Over 5 Years</td>
<td>66%</td>
</tr>
<tr>
<td></td>
<td>Between 2 and 5 Years</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>Below 2 Years</td>
<td>6%</td>
</tr>
</tbody>
</table>

Descriptive Findings and Analysis

Descriptive findings were used to establish the mean and standard deviation of the responses on the Likert scales used in the study. A scale of 1 to 5 was used in the study. The study weighed the rating and presented the average response per statement. The standard deviation was also presented to indicate the variations in the responses.

Strategy

The first objective of the study was to examine the influence of Strategy on Competitive Advantage of firms in telecommunication Industry in Kenya. The respondents were asked five point likert scale questions on strategy and their responses are provided in Table 2. The findings indicated that majority of the respondents agreed that the organizational culture allows for experimentation and creativity (Mean = 4.27), the organization provide the customer with unique value add products and services (Mean = 3.91) and that the organization as the industry leader produce it products in bulk thus economies of scale (Mean = 4.09).

On average, it was agreed that the firms have put in place better strategies such as strategic innovation, differentiation and cost leadership in order to enhance competitive advantage (Average Mean = 4.09). The findings are consistent with Simiyu (2013) who indicated that harmonization of the seven Mckinsey elements of the organization determines success of strategy implementation and improves competitive advantage.
Table 2: Descriptive Statistics on Strategy

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organizational culture allows for experimentation and creativity</td>
<td>4.27</td>
<td>1.23</td>
</tr>
<tr>
<td>The organization provide the customer with unique value add products and services</td>
<td>3.91</td>
<td>1.07</td>
</tr>
<tr>
<td>The organization as the industry leader produce its products in bulk thus economies of scale.</td>
<td>4.09</td>
<td>1.18</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>4.09</strong></td>
<td><strong>1.16</strong></td>
</tr>
</tbody>
</table>

Staff

The second objective of the study was to establish the influence of staff on Competitive Advantage in telecommunication Industry in Kenya. The respondents were asked five point likert scale questions on firm’s systems and their responses are provided in Table 3. The findings indicated that majority of the respondents agreed that there is frequent training, mentorship and coaching of the employees to facilitate staff development (Mean = 4.77), employee performance and appraisal exercise is done twice a year (Mean = 4.55) and that there is a HR policy in place which clearly outlines promotion and compensation criteria (Mean = 4.09).

On average, the findings indicated that practices such as staff training and development, staff performance and appraisal and staff promotion and compensation are practiced by the firms to enhance competitive advantage (Average Mean = 4.47). The findings are consistent with Pothiyadath and Wesley (2014) who did a study regarding the development of a measurement scale for 7-S framework and concluded that human resources and specifically the nature of staff may make an organization to have a competitive advantage over others.

Table 3: Descriptive Statistics on Staff

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is frequent training, mentorship and coaching of the employees to facilitate staff development.</td>
<td>4.77</td>
<td>0.42</td>
</tr>
<tr>
<td>Employee performance and appraisal exercise is done twice a year.</td>
<td>4.55</td>
<td>0.50</td>
</tr>
<tr>
<td>There is a HR policy in place which clearly outlines promotion and compensation criteria</td>
<td>4.09</td>
<td>0.80</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>4.47</strong></td>
<td><strong>0.58</strong></td>
</tr>
</tbody>
</table>
Competitive Advantage

The study established the competitive advantage of the firms based on their growth in revenue and customer base (Market share) in percentage. The findings in Figure 1 indicated that the trends in growth of revenue of the firms in the industry was high in the first two years of the study period (2014 and 2015). However, after the year 2015, probably as a result the stiff competition, the growth in revenue gradually decreased by a big margin.

Figure 1: Revenue Growth (%)

The findings in Figure 2 indicate that the customer base of growth of the firms on average is unsteady. Between the year 2014 and 2015, there was an increase by 72% from 56%. However the figure has since decreased to an average of 71% for the industry. This perhaps signifies the existing stiff competition in the industry.
Figure 2: Percentage Growth in Customer Base

**Correlation Analysis**

The study used correlation to ascertain the association between independent variables and dependent variable. The findings are presented in Table 4. The findings showed that strategy had a positive and significant influence on competitive advantage of telecommunication firms in Kenya (Pearson Correlation = 0.645, Sig = 0.000, < 0.05). The findings imply that an increase in the firm strategies leads to an increase in competitive advantage. The findings are consistent with Kariuki (2014) who did study competitive strategies used by commercial banks in Kenya to attract corporate customers and found out that cost leadership, differentiation and focus strategies are being used by the commercial banks in Kenya to gain competitive advantage.

The findings showed that staff have a positive and significant influence on competitive advantage of telecommunication firms in Kenya (Pearson Correlation = 0.408, Sig = 0.006, < 0.05). The findings imply that an increase in the firm staff leads to an increase in competitive advantage. This is consistent with Mithwani (2015) who linked human resources to competitive advantage of firms.
Regression Analysis

A regression model was used to establish the relationship between the study variables. The following tables indicate the findings of the regression model. Three categories of the findings is presented; coefficient of determination, ANOVA and Model coefficients.

Coefficient of Determination

Coefficient of determination indicates the change in the dependent variable accounted for by the independent variables. The findings are presented in Table 5. The findings indicate an R-square value of 0.649 which indicate that the two McKinsey Framework factors that is strategy and explain up to 64.9% of the variation in competitive advantage of telecommunication firms in Kenya. The findings imply that the two factors are very essential for competitive advantage of telecommunication firms in Kenya. Further, the remaining percentage of 35.1% of the variation in competitive advantage is accounted for by other factors other than the four.

Table 5: Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.806</td>
<td>0.649</td>
<td>0.613</td>
<td>0.3324</td>
</tr>
</tbody>
</table>

Predictors: (Constant), Staff, Strategy

Analysis of Variance (ANOVA)

The study conducted an analysis of variance to establish the model fitness and significance. The findings are presented in Table 6. The findings presented indicate that the model was significant in predicting competitive advantage of telecommunication firms in Kenya. This is because the F statistic (2, 88) was significant at 5% level of significance (Sig = .000, < 0.05).
### Table 6 ANOVA (Model Significance)

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>7.963</td>
<td>2</td>
<td>1.991</td>
<td>18.017</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>4.309</td>
<td>88</td>
<td>0.11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12.272</td>
<td>90</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Competitive Advantage
Predictors: (Constant), Staff, Strategy

### Model Coefficients

The findings for the model coefficients indicates the direction, magnitude and significance of the relationship between McKinsey Framework factors and competitive advantage. The findings are presented in Table 7. The regression findings showed that strategy had a positive (Beta = 0.207) and significant (Sig = 0.016, < 0.05) influence on competitive advantage of telecommunication firms in Kenya. The findings imply that a unit increase in strategy leads to a 0.207 units increase in competitive advantage of telecommunication firms in Kenya. The findings are consistent with Thairu (2015) who did a study on competitive strategies and firms performance and concluded that the strategies adopted by the firm such as cost leadership improved firms’ competitive advantage.

The findings also showed that that staff had a positive (Beta = 0.283) and significant (Sig = 0.023, < 0.05) influence on competitive advantage of telecommunication firms in Kenya. The findings imply that a unit improvement in staff competence leads to a 0.283 units increase in competitive advantage of telecommunication firms in Kenya. The findings are consistent with Pothiyadath and Wesley (2014) who did a study regarding the development of a measurement scale for 7-S framework and concluded that human resources and specifically the nature of staff may make an organization to have a competitive advantage over others.

### Table 7 Model Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.134</td>
<td>0.545</td>
</tr>
<tr>
<td>Strategy</td>
<td>0.207</td>
<td>0.08</td>
</tr>
<tr>
<td>Staff</td>
<td>0.283</td>
<td>0.121</td>
</tr>
</tbody>
</table>

Dependent Variable: Competitive Advantage

### Conclusion

Based on the study findings, the study concluded that strategy has a positive and significant influence on competitive advantage of telecommunication firms in Kenya and that having strategies in place such as strategic innovation, differentiation and cost leadership is associated with higher competitive advantage. The study also concluded that staff have a positive and significant influence on competitive advantage of telecommunication firms in Kenya and that when an organization engages in practices which improve the staff competence such as staff training and development, staff performance and appraisal and staff promotion and compensation, it enhance competitive advantage.
Recommendations

Based on the findings that strategy has a positive and significant influence on competitive advantage, the study recommends that telecommunication firms in Kenya which aim to improve their competitive advantage to ensure that they have put in place better strategies such as strategic innovation, differentiation and cost leadership. The study also recommends that since staff have a positive and significant influence on competitive advantage, any firm which aims to be a notch higher than its competitors in competitive advantage to first focus on building its staff capacity through staff training and development, staff performance and appraisal and staff promotion and compensation.

Conflict of Interest

No potential conflict of interest was recorded by the Authors.

References


