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## **Influence of Strategic Innovation on Performance of Telecommunication Firms: A case of Safaricom Company**

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# Influence of Strategic Innovation on Performance of Telecommunication Firms: A case of Safaricom Company

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## Abstract

Strategic innovation is the implementation of new ideas, processes, products or services. Strategic innovation is a future-focused business development framework that identifies breakthrough growth opportunities, accelerates business decisions and creates near-term, measurable impact within the context of a longer-term vision for sustainable competitive advantage. Strategic innovation challenges an organization to look beyond its established business. Strategic innovation is an important factor for organization, sustainable competitive advantage and financial performance. As today's business environment becomes increasingly competitive, business organizations are becoming more aggressive and dynamic in identifying competitive strategies that will ensure profitable existence. Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage. Innovation as a term is not only related to products and processes, but is also related to marketing and organization. Telecommunication companies in Kenya operate in a heavily regulated environment that requires certain degree of uniformity on their part in disclosing critical information. Continuous change, hyper competition, changing demographics and customer needs require these telecommunication companies to build adaptability competency for survival and fostering of organizational performance. 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 in this industry. Safaricom Limited, which is the largest mobile telephony company in Kenya, has not been spared by the volatility in the telecommunication industry and the attendant challenge of predictability of performance. The study was guided by Resource Based Theory and Kaizen Costing System Theory. The paper used a desk study review methodology where relevant

empirical literature was reviewed to identify main themes. The results indicated there was positive and significant relationship between product development and the performance. The study recommended that Safaricom (K) Limited should consistently analyze and measure their services operations in an effort to enhance operations efficiency and improved performance.

**Key words:** *Product development, cost management, Performance*

## **1.0 Introduction**

### **1.1 Background of the study**

Strategic innovation is the implementation of new ideas, processes, products or services (Kodama, 2018). According to Witjara, Herwany, Santosa (2019), strategic innovation is a future-focused business development framework that identifies breakthrough growth opportunities, accelerates business decisions and creates near-term, measurable impact within the context of a longer-term vision for sustainable competitive advantage. Strategic innovation challenges an organization to look beyond its established business. Strategic innovation is an important factor for organization, sustainable competitive advantage and financial performance (Nybakk and Jenssen, 2012). Strategy innovation is seen as capable of creating organizational direction by charting the course of the firm's effort, by focusing the effort through promoting coordination, by providing people with an easy way to understand the organization and by providing consistency and reducing ambiguity (Wijethilake, Munir & Appuhami, 2018). It has been suggested that in service industries like in the telecommunication industry, where competition can move very quickly and new players can enter easily, there is a constant need to think strategically about what is going on (Coccia, 2017). This appears to be precisely what mobile service providers, in particular, have begun to do in recent years.

According to Nybakk and Jenssen (2012), Strategic innovation is one of the fundamental instruments of growth strategies to enter new markets, to increase the existing market share and to provide the company with a competitive edge. Motivated by the increasing competition in global markets, companies have started to grasp the importance of strategic innovation, since swiftly changing technologies and severe global competition rapidly erode the value added of existing products and services (Pisano, 2015). Strategic innovations therefore constitutes an indispensable component of the corporate strategies for several reasons such as to apply more productive processes, to perform better in the market, to seek positive reputation in customers' perception and as a result to gain sustainable competitive advantage. Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage (Kuratko & Hoskinson, 2018).

As today's business environment becomes increasingly competitive, business organizations are becoming more aggressive and dynamic in identifying competitive strategies that will ensure profitable existence (Lilly & Juma, 2014). Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage (Kuratko, Hornsby & Hayton, 2015). Innovation as a term is not only related to products and processes, but is also related to marketing and organization. Mirvis, Herrera, Googins and Albareda (2016) describe different types of innovation: new products, new methods

of production, new sources of supply, the exploitation of new markets, and new ways to organize business. Drucker (2013) defined innovation as the process of equipping in new, improved capabilities or increased utility.

Strategic innovation involves the implementation of a new ideas involving significant changes in product design or packaging, product placement, product promotion or pricing (Hyun, 2018). Strategic innovations target at addressing customer needs better, opening up new markets, or newly positioning a firm's product on the market with the intention of increasing firm's sales (Kotler, 2011). Ramus (2018) posits that, an organizational innovation is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations. Organizational innovations have a tendency to increase firm performance by reducing administrative and transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradable assets (such as non-codified external knowledge) or reducing costs of supplies.

Kodama (2018) pointed out that, Strategic innovation is considered acritical requirement for the growth and profitability of organizations. It has a considerable impact on corporate performance by producing an improved market position that conveys competitive advantage and superior performance. Study by Gebauer, Worch and Truffer (2012) found that strategic innovation enhances competitiveness, overall productivity and value maximization of the firm. The need for strategic innovation is more to private sector organizations operating in increasingly competitive market and in which case innovation is often a condition for survival (Tidd, Bessant & Pavitt, 2014). Organizations that have adopted strategic innovation strategies achieve their success by moving beyond industry norms or „sustaining“ innovations to achieve certain business model innovation, thereby disrupting established competitors and generating value for themselves, their customers and their shareholders (Bason, 2018).

Arasa and Gathinji (2014) argue that, firms in the mobile telecommunication industry in Kenya are operating in increasingly competitive, highly regulated and dynamic market and therefore they have to formulate strategies to ensure their survival. The telecommunication industry environment in Kenya has in the recent past been affected adversely by the changing operating environment that has seen three out of the four firms in the industry make huge losses (CCK, 2017). Interestingly, while Safaricom is making the highest profits in East and Central Africa, Airtel and Telkom Kenya have been making huge losses. The Mobile telecommunication industry in Kenya has been very competitive (Arasa & Gathinji, 2014). There was a growing price war between Safaricom and Airtel. Airtel intensified its marketing and introduced products to attract more customers. Safaricom replied by introducing new products and by cutting down further the prices of its products. More recently the price wars lead to the calling rates in Kenya being the lowest in Africa with the four companies fighting to retain and even attract more customers hence growing their market share. The enactment of the Kenya Communications Act, 1998 led to the introduction of competition in the cellular mobile industry. Currently the Communication Authority of Kenya (CAK) has licensed three mobile operators namely Safaricom, Airtel and Telkom Kenya who have all rolled out their networks. The continued

growth in the sector is a clear indication of the operators' increasing focus to offer competitive and innovative products and services to attract customers.

Strategic innovation is considered to be one of the most important factors influencing firm performance worldwide (Yang, 2014). It refers to the entire process through which companies redesign their business processes and products to enable them to provide more superior products and services to their customers (Seybold, 2014). Strategic innovation refers to the process undertaken by firms, which totally changes the nature of competition within an industry as well as the gaining of a competitive advantage by employing strategies different from their competitors (Afuah, 2009). Innovation does not just refer to activities in the Research & Development department performed for the creation of nextgeneration products and services; they also challenge the conventional wisdom in particular areas (Belderbos, Carree, Lokshin, & Sastre, 2015). Innovation involves recreating markets, consumers' needs, and the entire value-delivery chain. Through innovation, companies can also redesign methods used by their businesses, and, ultimately, bring more value to customers in the marketplace (Yang, 2014).

The recommendation that companies must embrace innovation strategies does not take into account whether a firm has the capacity to improve its activities in pursuit of more complex and advantageous strategies. Hence, even small and medium manufacturing industries must respond by adopting more innovation to establish or sustain competitive advantage in the marketplace (Brunswick, & Vanhaverbek, 2014; Drucker, 2014). Strategic innovation directly affects the ability of companies to develop their products to fulfill the wide range of customer and market needs. According to Curado, Muñoz-Pascual and Galende (2018), innovation is part of the strategy implementation and is a direct requisite for specific strategies. Innovation therefore serves as a medium of creating new business with exceptional control mechanisms, value addition and risk reduction. Strategic innovation is essential in improved performance amongst many firms and is reflected by increased profitability and market share growth (Doran & Ryan, 2016). As a result, firms that desire to remain competitive by enhancing their growth capacities and capitalizing on the available opportunities can achieve all these by embracing strategic innovation.

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 (Swann, 2018). 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.

## **1.2 Statement of the Problem**

Strategic Innovation has been empirically linked with superior performance (Walker, 2004). Strategic innovation enhances global competitiveness, overall productivity and value maximization of the firm. Innovation is challenging and faces uncertainties that are existent in both incremental innovations, such as updated versions or extensions of current products and processes, and radical innovation that base upon the development or application of new ideas and novel technologies (Dewar and Dutton, 1986). Uncertainty is inherent in the organizational



development of an innovation. Both market and technological uncertainties affect the organizational orientation towards innovation and the activities while implementing innovation

Telecommunication companies in Kenya operate in a heavily regulated environment that requires certain degree of uniformity on their part in disclosing critical information. Continuous change, hyper competition, changing demographics and customer needs require these telecommunication companies to build adaptability competency for survival and fostering of organizational performance (Lilly & Juma, 2014). It is against this background that these telecommunication companies have realized that conformity to convectional strategies produce convectional results. In order to produce strategic competitiveness in new competitive landscape, these telecommunication companies have embraced new ways of doing business that not only add value to customers but earn them premium. Strategic innovation is practiced both for survival and sustenance.

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 in this industry (Bett, Obura & Oginda, 2018). Safaricom Limited, which is the largest mobile telephony company in Kenya, has not been spared by the volatility in the telecommunication industry and the attendant challenge of predictability of performance. Being the giant company in the telecommunication industry in Kenya, Safaricom needs to maintain the competitive advantage that it has in the sector (Opilo, Mulili & Kimani, 2018). New technologies, customer demands, emerging customer product services mean that innovation should be a strategic objective. This study therefore sought to establish the Influence of Strategic Innovation on Performance of Safaricom Company.

### **1.3 Specific objectives**

- i. To establish the influence of product development on the performance of Safaricom Company
- ii. To evaluate the extent to which Cost management influences the performance of Safaricom Company.
- iii. To recommend the best strategic innovation(s) to Safaricom company to enhance performance.

### **1.4 Research Questions**

- i. What is the influence of new product development on the performance of Safaricom Company?
- ii. To what extent does cost management influence the performance of Safaricom Company?
- iii. What are the best strategic innovations that can be adopted by Safaricom Company to enhance performance?

## **2.0 Literature Review**

### **2.1 Theoretical Review**

#### **2.1.1 Resource Based Theory (RBT)**

The theory was first proposed by Penrose (1959). The resource based theory (RBT) emerged as a complement or dual to Porter's theory of competitive advantage (Barney, 2002). Initially, Wernerfelt (1984) developed a theory of competitive advantage based on the resources a firm develops or acquires to implement product market strategy. Wernerfelt (1984) primary contribution to the RBT literature was recognizing that firm specific resources as well as competition among firms based on their resources can be essential in order for organizations to gain advantages in implementing product market strategies (Barney, 2002). Resources refer to all components that an organization makes available to performers of innovative work tasks (Amabile, 1997). Employees need access to sufficient resources to be creative and to create a climate of innovation. Resources include appropriate access to funds, materials, facilities, knowledge, information, sufficient time to produce novel work in the domain, and the availability of training (Amabile, 1997). It is also important to have sufficient resources for innovative problem solving (West & Farr, 1999).

The resource-based approach sees firms with superior systems and structures being profitable not because they engage in strategic investments that may deter entry and raise prices above long run costs, but because they have markedly lower costs, or offer markedly higher quality or product performance. This approach focuses on the rents accruing to the owners of scarce firm-specific resources rather than the economic profits from product market positioning. Competitive advantage lies 'upstream' of product markets and rests on the firm's idiosyncratic and difficult-to-imitate resources.'

New impetus has been given to the resource based approach by recent theoretical developments in organizational economics and in the theory of strategy, as well as by a growing body of anecdotal and empirical literature that highlights the importance of firmspecific factors in explaining firm performance. Cool and Schendel (1988) have shown that there are systematic and significant performance differences among firms which belong to the same strategic group within the U.S. pharmaceutical industry. Rumelt(1991) has shown that intra industry differences in profits are greater than inter industry differences in profits, strongly suggesting the importance of firm-specific factors and the relative unimportance of industry effects. Jacobsen (1988) and Hansen and Wemerfelt (1989) made similar findings. The resource-based perspective puts both vertical integration and diversification into a new strategic light. Both can be viewed as ways of capturing rents on scarce, firmspecific assets whose services are difficult to sell in intermediate markets (Teece, 1980). Empirical work on the relationship between performance and diversification by Wemerfelt and Montgomery (1988) provides evidence for this proposition. It is evident that the resource-based perspective focuses on strategies for exploiting existing firm specific assets.

### **2.1.2 Kaizen Costing System Theory**

Kaizen a term with Japanese origin (Sani & Allahverdizadeh, 2012), was launched by Masaaki Imai (Rof, 2012), the concept is a coinage of two Japanese words: KAI (Change) and ZEN (for better) (Rof, 2012). Thereafter, Yashuhiro Monden from Japan developed Kaizen Costing as the costing counterpart to the Kaizen approach (Industrial and Financial Systems, 2001). This concept refers to the process of ‘continuous improvement’ (Rof, 2012; Sani & Allahverdizadeh, 2012). The principle behind Kaizen Costing application is on achieving small, gradual but continuous improvements in the production process at minimal cost (Rof, 2012). Ellram (2000, cited in Modarress, Ansari, & Lockwod, 2004) observed that Kaizen Costing ensures that products meets or exceeds customer demands for ‘quality, functionality, and prices’ in order to sustain the product’s competitiveness. This according to Rof (2012) can be achieved through a sequential elimination of all the processes that would increase the product’s cost of production without a corresponding increase in value.

The philosophy emphasizes continuous improvement in our ways of life, social life and home life. This technique has made tremendous changes in management policies not only in Japan, but all over the world (Ogundele 2004). Blocher, Chen and Lin (1999), define Kaizen costing technique as the application of continuous improvement specifically to reduce costs; it focuses on making production and service delivery processes more efficient. Kaizen costing is used for making improvement to a process through small incremental amounts, rather than through large innovations. Unlike target costing, Kaizen costing is applied during the production stage of the product life cycle (Target cost is applied during the design stage). Adeniji (2011) asserted that Kaizen costing is the process of continuous improvement, encouraging constant reductions by tightening the ‘standard’. The cost reduction objective is to set for each process, and then adopt value analysis and Value engineering to achieve the set objective. With target costing, the focus is on the product, and cost reductions are achieved primarily through product design.

## **2.2 Empirical Review**

### **2.2.1 Product Development and Performance**

Liu, Lin and Huang (2014) examined the effects of product development on operating performance in textile industry. The study was geared towards exploring the effects of Product Development on Operating Performance in textile industry Taiwan. A descriptive survey design was used in the study. The study targeted 450 respondents made up supervisors, employees and customers of Tainan Spinning. Structured questionnaires were used to collect primary data for the study. The study results indicated positive and significant relationship between product development and the performance of the textile industry in Taiwan. The study indicated also that, more successful product development better enhanced operating performance in textile industry in Taiwan. Apparently, electronic marketing had largely changed consumers’ purchase behaviors; especially consumers did not need to shop on streets, but relaxingly purchased desired goods through the Internet. Online shopping therefore had become the trend for the consumers. However, consumer demands were found to be changeable that it is essential to understand the factors in customers shopping online in order to increase sales. The study concluded that, functional innovation presents remarkably positive effects on the operating performance. it was



asserted that, Textile enterprises transfer the original products into the ones with distinct quality and characteristics through prices, quality, and performance or provide better products based on brand-new knowledge to satisfy or create the demands for different levels and consumers so as to enhance the operating performance. The study recommended that, the textile alliance could be expanded to different-industry alliance to provide the complete upstream of materials, fiber, and yarns, midstream of cloth, and downstream of costume and accessories, dyeing and finishing, waste recycle and reuse conforming to international environmental standards. Particularly, based on the trust of Taiwanese textile industry among international brands, the national image of environmental kingdom could have Taiwan become the first choice of textile purchase.

In Nigeria, Orji, Andah, Chima and Abba (2017) conducted a study to determine the Impact of New Products Development on the Profitability of Nigerian Deposit money Banks. The main objective of the study was to evaluate the impact of new products development on the profitability of Nigerian deposit money banks. The study was designed in line with survey research using data collected from both primary and secondary sources. The secondary sources comprised mainly of text books, journals and periodicals, while primary data was collected using questionnaires. The study targeted the entire staff of 24 Nigerian major licensed Commercial/deposit money banks. Based on the study findings, there was a positive and significant relationship between new product development and profitability in Nigerian deposit money banks. The study results revealed that, poor knowledge of the benefits derived from new product innovation was responsible for low rate of profit maximization in banks. Also that new products innovation and developments came as a result of bank's marketing research efforts. The study indicated further that, for a bank to successfully play its financial role and attain its general objectives of profitability, growth and increased share of the market in today's competitive environment, the innovation and marketing of its new financial products and services has become increasingly necessary. The study concluded that, the inability of banks to actively involve in marketing research hampers their new product innovation and development efforts. And the poor knowledge of the benefits derived from new product innovation is responsible for low rate of profit maximization in banks. Based on the results, the study recommended that Nigerian deposit money Banks should pay more attention and intensify their research efforts to provide timely information on product development and other areas of their operation so as to maximize on profit.

Lilly and Juma (2014) conducted a study on Influence of strategic innovation on performance of commercial banks in Kenya: The case of Kenya commercial bank in Nairobi County. The aim of the study was to establish the relationship between strategic innovation and performance of Commercial banks in Kenya. The study adopted a descriptive research design. The target population of the study was 170 managers of 59 branches in Nairobi County. The sample size was 119 respondents out of the possible 170 managers in Nairobi County branches of KCB. The study findings revealed a positive and significant relationship between new product development and performance of Kenya Commercial Bank. The study indicated that, Continuous engagement in introduction of new products and services, upgrading of the existing systems as well as introduction of new software for business operations greatly affect the ability of the commercial banks to perform. This facilitates its product/services quality improvements, technical

specification creating new and significantly better customer value thereby influencing the bank's performance and growth. It was indicated further that, strategic innovation has a considerable impact on corporate performance by producing an improved market position that conveys competitive advantage and superior performance. The study concluded that, the banks' ability to introduce new improved product to facilitate their entry and creation of new markets for their services, application of modern technologies and innovative strategies to target specific markets well as the introduction of new product/service designs affect their performance. This is as this allows them to enter the market and acquire a significant share of the market boosting their customer base and consequently bringing about their improved profitability and competitiveness.

Mbithi, Muturi and Rambo (2015) carried out a study dubbed 'Effect of Product Development Strategy on Performance in Sugar Industry in Kenya'. The purpose of the study was to examine empirically the effects of new product development strategy on company performance. A cross-sectional survey research design was used in carrying out the study. The study targeted both parastatal and private companies in the sugar industry in Kenya totaling to nine companies by 2014. The study findings revealed a positive and significant relationship between product development strategy and performance. The study confirmed that, product development had significant predictive influence on performance in terms of capacity utilization specifically when developing new products while improvement of existing products was found to have no statistical significant influence on performance of the sugar industry. It was indicated by the study that, products help to shape the market environment; the nature of the market environment changes as consumers and competitors learn from new products and services. Innovative performance is an important driver for firm growth in particular the combination of product and process innovations that significantly improves firm growth. Financial markets may be attuned sharply to product development outcomes in publicly traded firms. The study concluded that, introduction of new products/services was realized through either bringing on board brown sugar, using byproducts after extraction of sugar except for Mumias where extra products like water bottling or ethanol was realized. Improvement of new procedures was largely through adoption of diffuser technology and ISO certification on major scale. It was hence recommended that, sugar companies should expand product base since one sugar company has already devised ways of using the already existing infrastructure to add bottling in the product bracket. Further with improved procedures aiming at effective and efficient operations, it is evident that same products can be manufactured with less costs and thereby improvement on the returns.

Njeri (2017) assessed the Effects of Innovation Strategy on Firm Performance in Telecommunications Industry: A Case of Safaricom Kenya Limited. The aim of the study was to investigate the relationships between innovation and organization performance in the telecommunication industry in Kenya. To achieve the objectives, the study targeted 2,970 staff of Safaricom (K) Limited drawn from the customer service department. The study employed a descriptive survey research design as it sought to present current information about innovation strategies and their effect on firm performance. The study findings revealed that, there was a positive and significant correlation between product innovation strategy and performance. The multiple regression analysis confirmed that, an increase in product innovation led to significant increase in performance. The study indicated that, product innovation relates positively to the

growth and increase in revenues. It was concluded from the results that, among the innovation strategies included in the study, product innovation strategy had the most influence on performance of Safaricom (K) Limited. The study recommended that Safaricom (K) Limited should consistently analyze and measure their services operations in an effort to enhance operations efficiency. This can be achieved by keeping up with best practices in the global telecommunication sector and integrating these processes in their operations to maintain their competitive advantage.

### **2.2.2 Cost Management and Performance**

Metka (2012) examined the Relationship Between Cost Management and Company Performance: The Slovenian Case. The aim of the study was to emphasize the relationship between cost management and company performance theoretically and empirically. The study investigated first, how company performance was influenced by the use of particular cost management techniques and methods, and second, whether better performing companies were more inclined to implement a particular cost management technique or method, by providing final results of empirical research conducted in Slovenian companies. The study findings indicated that there was positive and significant relationship between cost management and performance. It was pointed out by the study that on average companies using CCMCs performed better than those which failed to do so. Larger firms tended to know CCMCs better and use them more frequently than smaller firms because larger companies possessed more financial and managerial resources, had greater production capacity, and attained higher levels of economies of scale. Similarly, according to a survey conducted by the Cost Management Group of the Institute of Management Accountants (IMA) ABC adopters tend to be somewhat larger on average than no adopters. Possible reasons for the size difference include availability of resources (human and financial) and economies of scale in implementing ABC at multiple sites. The study concluded that many companies are currently engaging in continuous improvement efforts that recognize the need to eliminate non-value-added activities so as to reduce lead time, make products or perform services with zero defects, reduce product costs on an on-going basis, and simplify products and processes.

Henri, Boiral and Roy (2016) carried out a study on Strategic cost management and performance: The case of environmental costs. The aim of the study was to examine the relationship between both components of SCM, and financial performance. Two main research questions were investigated by the study: (i) to what extent do executional and structural cost management influence financial performance? (ii) To what extent does structural cost management mediate the link between executional cost management and financial performance? The study used survey research design by sampling 319 Canadian manufacturing firms to examine the link between SCM and financial performance. The study findings indicated that there was a positive and significant direct link between cost management and performance. The study suggested that more refined information on environmental costs increases managers' awareness of costs and enhances their short-term decisions which in turn improve financial performance. The study concluded that the tracking of environmental costs is one important executional cost management tool that helps align a firm's resources and associated cost structure

with short-term tactics through cost reductions. Empirically, the study results suggested a positive and significant association between the tracking of environmental costs and financial performance. The study concluded further that, the development of environmental initiatives is one aspect of structural cost management that helps to align a firm's resources and associated cost structure with long term strategy through the re-engineering of the value chain and 278 production of a different cost structure. Empirically, the study results suggested a positive and significant association between the implementation of environmental initiatives and financial performance.

In Nigeria, Oluwagbemiga, Olugbenga and Zaccheaus (2014) carried out a study to determine the relationship between Cost management practices and firm's performance of manufacturing organizations in Nigeria. The study investigated the relationship that existed between cost management practices and firm's performance in the manufacturing organizations using data from 40 manufacturing companies listed on the Nigeria stock exchange during the period of 2003 to 2012. In the study, Direct Material Cost, Direct Labour Cost, Production overhead Cost and Administrative overhead cost were considered as independent variables while profitability (operating profit) was taken as dependent variable representing firm performance. The study adopted a descriptive research design. The study findings affirmed that there was a positive significant relationship between cost management practices and firm's performance in the manufacturing organizations in Nigeria. The study indicated that, profit increases as direct labour cost increases. This implies that an increase in direct labour leads to increase in production and revenue and thereby leads to increase in profitability. The same study pointed out that, Profitability was negatively correlated with administrative overhead cost, meaning that profitable manufacturing organizations maintained low administrative overhead cost. The study concluded that, there existed a significant positive relationship between direct material cost, direct labour cost and firm performance. However, production overhead cost and administrative overhead cost were found to be negatively correlated with firm performance. It was therefore recommended that, cost management strategies that focus on reduction of production overhead and administrative overhead should be embarked upon by the manufacturing organizations if their profit maximization and wealth creation objectives will be met.

Gichuki (2014) in a study on Effect of cost management strategies on the financial performance of manufacturing companies listed on the Nairobi securities exchange found that, there was positive relationship between cost management and performance. The study achieved this by adopting quantitative research approach using a population of 700 manufacturing companies registered by Kenya Associate of Manufacturers. The study revealed that, the manufacturing companies indicated that a threat to their operations and to the advancement of their financial performance was high distribution costs that automation of the production process, retrenchment of unproductive staff and replacement of high salaried employees with low salaried ones had a positive impact on financial performance. They indicated that if the remuneration policies regarding salaries and wages changed, they would have a negative impact on their financial performance. They indicated that they indeed utilized ratios in measuring their profitability and the ratios employed were return on assets and return on equity. Majority of the manufacturing firms found return on equity to be a better measure of profitability as compared to return on

assets. The study concluded that, an increase in the different costs which the organization has to deal with results in their financial performance being negatively affected. A prudent organization which is able to manage its costs is able to effectively improve its financial performance. It was concluded also that, majority of the manufacturing companies in their daily operations are usually challenged by cost management. Some organizations have allocated an entire department with smaller cost departments to try and deal with the issue of cost management. It was therefore recommended that, company policy makers and transaction advisors should be keen on making cost management policies to be applied since they greatly impact on financial performance of the company.

### 2.3 Conceptual Framework

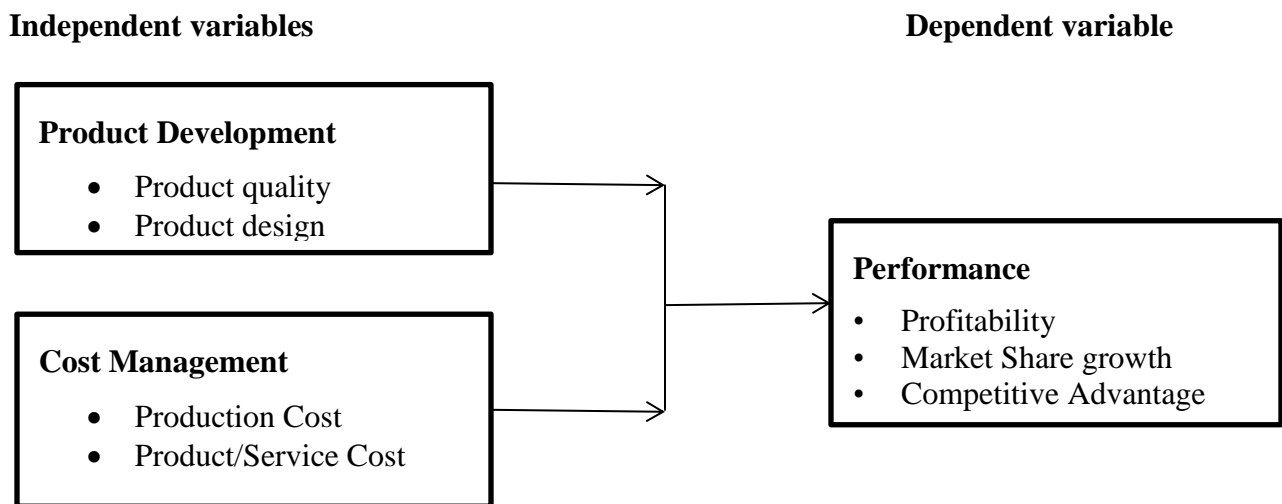


Figure 1.0: Conceptual Framework

### 3.0 Research Methodology

The study established the Influence of Strategic Innovation on Performance of Telecommunication Firms: A case of Safaricom Company. The paper used a desk study review methodology where relevant empirical literature was reviewed to identify main themes. A critical review of empirical literature was conducted to establish the Influence of Strategic Innovation on Performance of Telecommunication Firms in Kenya.

### 4.0 Results and Discussion of Findings

Based on the results from the reviewed literature, there is positive and significant relationship between product development and the performance of the textile industry in Taiwan. The results indicated also that, more successful product development better enhanced operating performance



in textile industry in Taiwan. Apparently, electronic marketing had largely changed consumers' purchase behaviors; especially consumers did not need to shop on streets, but relaxingly purchased desired goods through the Internet. Online shopping therefore had become the trend for the consumers. However, consumer demands were found to be changeable that it is essential to understand the factors in customers shopping online in order to increase sales.

The findings of the reviewed literature indicated that, there was a positive and significant relationship between new product development and profitability in Nigerian deposit money banks. The study results revealed that, poor knowledge of the benefits derived from new product innovation was responsible for low rate of profit maximization in banks. Also that new products innovation and developments came as a result of bank's marketing research efforts. The study indicated further that, for a bank to successfully play its financial role and attain its general objectives of profitability, growth and increased share of the market in today's competitive environment, the innovation and marketing of its new financial products and services has become increasingly necessary.

Based on the findings of the reviewed literature, Continuous engagement in introduction of new products and services, upgrading of the existing systems as well as introduction of new software for business operations greatly affect the ability of the commercial banks to perform. This facilitates its product/services quality improvements, technical specification creating new and significantly better customer value thereby influencing the bank's performance and growth. Strategic innovation has a considerable impact on corporate performance by producing an improved market position that conveys competitive advantage and superior performance. The reviewed literature further shows that there is positive and significant relationship between product development strategy and performance.

The results from the reviewed literature affirms that, product development had significant predictive influence on performance in terms of capacity utilization specifically when developing new products while improvement of existing products was found to have no statistical significant influence on performance of the sugar industry. Products help to shape the market environment; the nature of the market environment changes as consumers and competitors learn from new products and services. Innovative performance is an important driver for firm growth in particular the combination of product and process innovations that significantly improves firm growth. Financial markets may be attuned sharply to product development outcomes in publicly traded firms.

From the findings of the reviewed literatures, the results indicated that there is a positive and significant relationship between cost management and performance. It was pointed out that on average companies using CCMCs performs better than those which fail to do so. Larger firms tended to know CCMCs better and use them more frequently than smaller firms because larger companies possessed more financial and managerial resources, had greater production capacity, and attained higher levels of economies of scale. Similarly, according to a survey conducted by the Cost Management Group of the Institute of Management Accountants (IMA) ABC adopters tend to be somewhat larger on average than no adopters. Possible reasons for the size difference

include availability of resources (human and financial) and economies of scale in implementing ABC at multiple sites.

The results obtained from the reviewed literature pointed to the fact that there is a positive significant relationship between cost management practices and firm's performance in the manufacturing organizations in Nigeria. The results indicated that, profit increases as direct labour cost increases. This implies that an increase in direct labour leads to increase in production and revenue and thereby leads to increase in profitability. The same study pointed out that, Profitability was negatively correlated with administrative overhead cost, meaning that profitable manufacturing organizations maintained low administrative overhead cost.

In Kenya the reviewed literature indicated that, a threat to their operations and to the advancement of their financial performance were high distribution costs that automation of the production process, retrenchment of unproductive staff and replacement of high salaried employees with low salaried ones had a positive impact on financial performance. They indicated that if the remuneration policies regarding salaries and wages changed, they would have a negative impact on their financial performance. They indicated that they indeed utilized ratios in measuring their profitability and the ratios employed were return on assets and return on equity. Majority of the manufacturing firms found return on equity to be a better measure of profitability as compared to return on assets. Finally the reviewed literature results indicated that more refined information on environmental costs increases managers' awareness of costs and enhances their short-term decisions which in turn improve financial performance.

## **5.0 Conclusion**

Based on the results from the reviewed literatures, the study concludes that, functional innovation presents remarkably positive effects on the operating performance. It can be concluded that, enterprises transfer the original products into the ones with distinct quality and characteristics through prices, quality, and performance or provide better products based on brand-new knowledge to satisfy or create the demands for different levels and consumers so as to enhance the operating performance. It can also be concluded based on the findings from the reviewed literature that, the inability of companies to actively involve in marketing research hampers their new product innovation and development efforts. And the poor knowledge of the benefits derived from new product innovation is responsible for low rate of profit maximization in such companies.

Based on the results obtained from the reviewed literature, the study concludes that, the companies' ability to introduce new improved product to facilitate their entry and creation of new markets for their services, application of modern technologies and innovative strategies to target specific markets well as the introduction of new product/service designs affect their performance. This is as this allows them to enter the market and acquire a significant share of the market boosting their customer base and consequently bringing about their improved profitability and competitiveness.

It can be concluded further from the reviewed literature that, introduction of new products/services can be realized through either bringing on board brown sugar, using byproducts after extraction of sugar by sugar manufacturing companies. Improvement of new procedures is generally largely through adoption of diffuser technology and ISO certification on major scale. Product innovation relates positively to the growth and increase in revenues. Among the innovation strategies included in the study, product innovation strategy is the most influence on performance.

As per the results obtained from the reviewed literature, this study concludes that, many companies are currently engaging in continuous improvement efforts that recognize the need to eliminate non-value-added activities so as to reduce lead time, make products or perform services with zero defects, reduce product costs on an on-going basis, and simplify products and processes. The tracking of environmental costs is one important executional cost management tool that helps align a firm's resources and associated cost structure with short-term tactics through cost reductions. Empirically, the study results suggested a positive and significant association between the tracking of environmental costs and financial performance. The study concluded further that, the development of environmental initiatives is one aspect of structural cost management that helps to align a firm's resources and associated cost structure with long term strategy through the re-engineering of the value chain and 278 production of a different cost structure. Empirically, the study results suggested a positive and significant association between the implementation of environmental initiatives and financial performance.

Based on the findings of the reviewed literature, this study concludes further that, there exists a significant positive relationship between direct material cost, direct labour cost and firm performance. However, production overhead cost and administrative overhead cost are found to be negatively correlated with firm performance. An increase in the different costs which the organization has to deal with results in their financial performance being negatively affected. A prudent organization which is able to manage its costs is able to effectively improve its financial performance. It can be concluded also that, majority of the manufacturing companies in their daily operations are usually challenged by cost management. Some organizations have allocated and entire department with smaller cost departments to try and deal with the issue of cost management.

## **6.0 Recommendations**

Safaricom Company should pay more attention and intensify their research efforts to provide timely information on product development and other areas of their operation so as to maximize on profit. Safaricom Company should expand product base and devise ways of using the already existing infrastructure to add value to their products and services. Further with improved procedures aiming at effective and efficient operations, it is evident that same products can be manufactured with less costs and thereby improvement on the returns.

It can also be recommended based on the results obtained from reviewed literature that, Safaricom (K) Limited should consistently analyze and measure their services operations in an effort to enhance operations efficiency and improved performance. This can be achieved by

keeping up with best practices in the global telecommunication sector and integrating these processes in their operations to maintain their competitive advantage.

Based on the findings of the reviewed literature, this study recommends to Safaricom Company that, cost management strategies that focus on reduction of production overhead and administrative overhead should be embarked upon by the company if their profit maximization and wealth creation objectives will be met. Safaricom Company policy makers and transaction advisors should be keen on making cost management policies to be applied since they are expected to greatly impact on financial performance of the company.

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