

**CHALLENGES FACED BY SAFARICOM LIMITED, KENYA, IN ITS  
EXPANSION STRATEGY USING THE M-PESA AGENTS NETWORK**

**By**

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## DECLARATION

This research project is my original work and has not been submitted for examination to any other University.

Signed.



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This research project has been submitted for examination with my approval as the University Supervisor.

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## **DEDICATION**

This project is dedicated to my beloved parents Bernard and Peninah, for their unending support and commitment during my formative years to provide my siblings and I, with formal education. You always believed in me. Thank you and May the Lord bless you.

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## **ABSTRACT**

M-PESA, a key mobile money transfer widely used in Kenya, was launched in Kenya on March 6, 2007 by Safaricom in partnership with Vodafone. Based upon its success in Kenya. M-PESA has now gone global and has become the most preferred medium of personal cash transfers making it a highly phenomenal and globally recognized money transfer service. To this end, many success stories have been written about it in almost all forms of media. Sixteen respondents were selected to participate in the study. Depth interviews were conducted with them being drawn from Safaricom's four sections that deal directly or indirectly with M-PESA business, namely: Agent administration. Operations team. Customer Care and Risk and Fraud Detection team. The data was obtained by means of an interview guide of questions that was circulated in advance to enable them reflect on the questions in preparation for an interview session with the researcher. Probing questions were posed one-on-one to the subjects so as to gain an insightful idea of what the subjects' opinions were. The data was analyzed by means of the qualitative content analysis where the identified key challenges were grouped under respective themes and then discussed in line with the thematic approach in the content analysis. Results were reported by means of narratives with explanations of the various major issues that were captured. Elaborate explanations were given describing the pertinent issues that were raised. Among the expansion strategies adopted by Safaricom was using the M-PESA agents network to reach as many areas and customers as possible. This approach has mainly been targeting entrepreneurs who in most cases have been small business operators. And as any business can attest, the approach has not been without challenges as the business environment is always very dynamic with unforeseen challenges, meaning that in using the agent model. Safaricom limited has been faced with various challenges as well.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Because of the challenges that business organizations face, it is important that they consider how they can improve their competitive position by means of developing and implementing a number of business strategies. Strategy can be competitive (that is, battling against all competitors for advantage) and/or cooperative (that is, working with one or more companies to gain advantage against other competitors).

Strategy has been defined as the pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents (Quinn, 1980).

One of the strategies that an organization can have is that of expanding its capacity. The strategic implications of capacity decisions can be enormous for an organization, impacting all areas of the organization. This is because capacity decisions establish a set of conditions within which operations will be required to function (Stevenson, 2007). Some organizations use a strategy of maintaining a capacity cushion for the purpose of blocking entry into the market by new competitors. The excess capacity enables them to produce at costs lower than what new competitors can.

In cases where capacity expansion will be undertaken, there are two strategies for determining the timing and degree of capacity expansion.

One is the expand-early strategy under which an organization decides to achieve economies of scale, to expand market share, or to preempt competitors from expanding. The other approach is the wait-and-see strategy where capacity only is expanded after demand materializes (Stevenson, 2007).

Before an organization can begin formulating strategy for its business, it must undertake an analysis of the external and internal environments for the purposes of identifying possible opportunities and threats, strengths and weaknesses. Environmental scanning is the monitoring, evaluation, and dissemination of information from the external and internal environments to key people within the corporation (Wheelen and Hunger, 2008). A corporation uses this tool to avoid strategic surprises and to ensure its long-term health. Research has found a positive relationship between environmental scanning and profits (Thomas *et al*, 1993).

### **1.1.1 Concept of Strategy**

Throughout the business community, the term "strategy" is subjected to numerous interpretations and misunderstandings. The diverging viewpoints over this term are explained only partially by the uncertain nature of the strategic phenomenon in business (Cannon, 1965). Business strategy is defined as a company's directional signals. Business strategies are the basic action decisions which blueprint management's efforts toward achievement of its purposes.

Such efforts involve key decisions for delegating company resources to business activities over both the short and the long term. Business strategies, therefore, are concerned with fundamental questions as to what kind or kinds of business the company is to pursue and how it is to pursue them.

It is also concerned with deciding on what kinds of products or services should be provided, the geographic coverage of the company, what its channels of distribution should be, how its product development would be undertaken, and how its markets will be captured, developed and maintained.

Wheelen and Hunger (2008) have defined strategy as the comprehensive master plan that states how a corporation will achieve its mission and objectives. A strategy enables the corporation to maximize its competitive advantage while minimizing its competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business, and functional. Corporate strategy describes a company's overall direction in terms of its general attitude toward growth and the management of its various businesses and product lines.

Corporate strategies typically fit within the main categories of stability, growth, and downsizing. Business strategy usually occurs at the business unit or product level and emphasizes improvement of the competitive position of a corporation's products or services in the specific industry or market segment served by that business unit. Functional strategies, on their part, emphasize the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. However, Business firms use all three types of strategy simultaneously.

### **1.1.2 Expansion Strategies**

According to Porter (1979), the essence of strategy formulation is coping with competition. The state of competition in an industry depends on five basic forces. These are: the threat of potential entrants, intensity of rivalry among industry competitors, bargaining power of suppliers, threat of substitutes, and bargaining power of buyers. The strongest competitive force or forces determine the profitability of an industry and so are of greatest importance in strategy formulation. Different forces take on prominence, in shaping competition in each industry. Every industry has an underlying structure, or a set of fundamental economic and technical characteristics, that give rise to competitive forces.

Porter (1979) observed that access to channels of distribution, which is a strategy to expand operations and lock out competitors, is one aspect of strategy that can be considered under the threat of entry of new competitors. A new operator must secure distribution to his product or service. A new food product, for example, must displace others from the supermarket shelf via price breaks, promotions, intense selling efforts, or some other means. The more limited the wholesale or retail channels are and the more that existing competitors have these tied up. obviously, the tougher that entry into the industry will be. Sometimes this barrier is so high that, to surmount it, a new contestant must create its own distribution channels, as Safaricom has done through its M-PESA network of agents.

### **1.1.3 Challenges of Strategy faced by small scale business operators**

Small scale enterprises face unique competitive strategic challenges arising principally from their operations. Small businesses, more often than not, operate in a single market or a limited number of markets. In most of the cases they operate with a limited range of products or services. The scope of their operations is therefore likely to be less of a strategic issue than it is in the case of larger organizations. Johnson and Scholes (1999) also point out that small businesses are unlikely to have a central service department to undertake complex analysis and market research. Instead, this work is done by senior managers themselves, perhaps even the founder of the firm, who has direct contact with the market place and whose experience is therefore very influential.

The owner's role in the management of small scale enterprises is very significant. The owner may have his strategies while no one else knows about them in the organization. Small scale enterprises face significant competitive pressures. Because of the scale of their operations, such organizations are likely to be private. As such, issues of raising capital are bound to be significant. Before an organization can begin strategy formulation, it must scan the external environment to identify possible opportunities and threats and its internal environment for strengths and weaknesses. Environmental scanning is the monitoring, evaluation, and dissemination of information from the external and internal environments to key people within the corporation. A corporation uses this tool to avoid strategic surprise and to ensure its long-term health (Wheelen and Hunger, 2008).

Research indicates that high-performing chief executives vary their environmental scanning emphasis according to the level of dynamism they perceive in their external environment. In dynamic environments, successful CEOs pay more attention to the task environment, whereas in stable environments, CEOs focus forces in the societal environment (Garg, *et al*, 2003).

The societal environment that has impacted firms and business organizations in Kenya has been greatly defined by changes brought about by forces of technology. One of these forces has been the rise of mobile telephony technology. According to a study conducted by the Communication Commission of Kenya, there were a total of 28.08 million mobile subscriptions in the country in the quarter ended 3T<sup>1</sup> December 2011 (that is, from 1<sup>st</sup> October 2011 to 31<sup>st</sup> December 2011) up from 26.49 million subscriptions recorded during the previous quarter. This represents an increase of 5.99 percent during the period. Prepaid subscriptions grew by 6.03 percent to record 27.84 million subscriptions while post-paid subscriptions grew by 1.31 percent to record 236.436 subscriptions during the period. Mobile penetration was recorded as 71.3 percent during the period up from 67.2 percent recorded during the previous period.

For a long time, voice has been the most important segment of the mobile telephone companies. However, with increasing saturation of voice and falling revenues, service providers have developed new and innovative services and value added products. The major innovations have been in money transfer services using telephones. The mobile money payment system is based on a system of low-value accounts held by a mobile operator and accessible from subscribers' mobile phones through a SIM card-

which holds the customers' account details for the service. The conversion of cash into electronic value (and vice versa) is performed at a network of retail stores. Mobile money transfer has become the fastest growing segment for the major mobile service providers because it is an efficient and effective way of transferring money both locally and internationally. The four main players in the mobile phone money transfer are Safaricom (M-PESA), Bharti Airtel (Zap), Essar Telecom with (YU Cash) and Orange (IKO Pesa).

#### **1.1.4 Overview of expansion strategies used in the Telecommunications industry in Kenya**

The telecommunications industry is pyramidal in nature. At the apex, there is the industry regulator, the Communications Commission of Kenya (CCK). The next layer is dominated by the large providers, namely: Telkom Kenya Limited, Safaricom, Bharti Airtel, Essar Limited, and other relatively smaller players. The bottom layer is represented by agents of these large scale telecommunication providers. It is at the bottom layer that we find Safaricom's M-PESA agents network.

The telecommunications industry' in Kenya, just like the rest of the world, is going through profound changes. In the past decade, technological advancement and regulatory restructuring have transformed the industry. However, in recent times, the giant with 80% of the market share has seen an increased challenge to topple its dominance. In particular, it was caught up in a price war that threatens to shake the very foundations of the Kenyan telecom market, leading the firm to also adjust its calling rates downwards.



Therefore, it has also had to re-think its cost management in the wake of decreasing revenue growth. Through cost cutting initiatives, the company's strategy is to save more funds in different areas through the different departments in order to invest more in the areas that promise more revenue like data and M-PESA.

Kimani (2007) found that the small scale operators in the telecommunications industry in Kenya relied on giving customers more value, being low cost producers, and selling differentiated products. However, for the large scale service providers like Safaricom limited, it is the mainly expansion strategies that have been adopted. These include: capital capacity expansion, distribution channels expansion, economies of scale expansion, and product differentiation.

Safaricom limited, for example, has undertaken an ambitious project of expanding its capacity to offer services through network upgrading. A major aspect of this has been the expansion of the M-PESA platform mainly by increasing capacity in terms of the transactions that it can handle at any given time with a focus on having a stable platform with a dedicated team of technical experts on standby at all time to monitor its operations. From inception, the company has invested heavily in increasing this capacity from very few transactions to up to the current 110 transactions per second while the system is operating optimally. The staff also manning the performance has been increased during this time. Additionally, the company has also expanded its distribution channels through M-PESA dealers at the medium and retail levels. Initially, the existing Safaricom dealers who were the airtime distributors were the ones who carried the expansion strategy. I his required heavy capital investments thus limiting expansion as they were very few.

However, with the advent of the M-PESA service, floodgates were opened as the conditions of entry were less stringent, particularly financially, and it allowed for independent entrants such as organizations that had a customer base capable of using the service such as Sacco's, hospitals, schools amongst other entities including large corporate organizations. Finally, it has undertaken massive advertising campaigns to market the product as a means to accomplish a wide range of business transactions such as paying utilities ranging from electricity, water, national insurance contributions amongst several other financial payments that traditionally required liquid cash remittances. New comers have found it difficult to compete using the same strategy as the company was the first thus creating a niche with a loyal customer base.

### **1.1.5 Safaricom Kenya**

Safaricom, which started as a department of Kenya Posts & Telecommunications Corporation, the former monopoly operator, launched operations in 1993 based on an analogue network and was upgraded to GSM in 1996 (license awarded in 1999). It began as private limited company, later was converted into a public company with limited liability following offer and sale of 25% stake of a 60% shareholding by the Government of Kenya. The study is based one of its key products, a mobile money transfer service. M-PESA, launched in March 2007.

### **1.1.6 Safaricom's M-PESA money transfer service**

M-PESA, a key mobile money transfer widely used in Kenya, was launched in Kenya on March 6, 2007 by Safaricom in partnership with Vodafone. Based upon its success in Kenya, M-PESA has now gone global and has become the most preferred medium of personal cash transfers ([www.safaricom.co.ke](http://www.safaricom.co.ke)). The service has been configured in such a way as to enable subscribers to use their mobile phones to carry out transactions to pay for goods and services, pay bills, send to and receive funds, withdraw cash for own use, top up own airtime account or top up someone else's account and manage their own accounts. The service is largely supported by the agent network, which is the direct link between the ordinary customer and the company. It is the point at which customer can register for free and also undertake the most basic transactions of depositing funds as well as withdrawing.

The state of the mobile phone infrastructure in Kenya, particularly at the retail level, is represented by a vibrant and dynamic small scale sector that provides services at a profit. Majority of the M-PESA operator enterprises are located in Nairobi. In most cases, the owner of the business works as the overall administrator of the enterprise, with other persons mostly employed as agent assistants working in the various locations as attendants.

Momanyi (2011) conducted a recent study on M-PESA service operators where she found that 80% of M-PESA service operators faced challenges of effective capacity. A further 42% reported that system delays presented the greatest challenge to the M-PESA money transfer service. This means that the existing M-PESA capacity does not fully meet the expectations of the customers and therefore calls for better management of the various factors that have an impact on the effectiveness of the M-PESA money transfer service, including the network of agents who offer retail M-PESA services.

## **1.2 Research Problem**

A report prepared by the Financial Sector Deepening organization indicates that Safaricom's M-PESA services is not about generating revenue directly but instead is seen as part of a strategy to decrease churn and increase the stickiness of their customers. A secondary concern is to increase the average revenue per customer. ARPU rate. The report observes that as new operators enter the market, M-PESA should help make customers more reluctant to switch to an upcoming competitor (Financial Sector Deepening Report, 2010).

Momanyi (2011) found that Safaricom's expansion strategy has been hampered by a number of challenges, among them insufficient capacity. According to her study, Safaricom's money transfer service has not been optimally managed in a way that would ensure effective capacity utilization. She found that M-PESA's existing capacity was constrained thereby negatively affecting the quality of services.

The following were the variables impacting on M-PESA capacity: cash flow and liquidity management, technology, quality of service, government regulation, cash in transit and capacity management.

Kimani (2007) found that small scale telecommunication firms in Nairobi have adopted three major strategies, namely: giving customers more value, being low cost producers, and selling differentiated products. These strategies show that firms compete on the basis of low price and catering to a price-conscious market segment. These strategies are targeted at meeting needs of price-conscious customers.

More consumers are turning to mobile money transfer services from the traditional banking concepts. The increased importance of mobile money transfer has led to the enrolment of many agents at the retail level who are the link between the service operator and the retail customer. Safaricom's M-PESA is currently the country's leading money transfer service, having enrolled about 39,400 agents to offer M-PESA retail services to about 14 million customers. The service moved slightly over Kenya Shillings 16 billion in the year ended 31<sup>st</sup> December 2011.

To achieve organizational goals, Safaricom has developed strategies relating to the operations of the M-PESA service. These strategies cover the long term, intermediate term, and short term future of the money transfer system. The objective of these strategies is to ensure that M-PESA business supports the organization's mission and its goals, in line with literature (Stevenson, 2007). Studies of M-PESA services have mainly concentrated at evaluating the technical capacity (Momanyi, 2011).

This means that recent studies on the M-PESA services have tended to focus on only one aspect of the strategy of expansion-that is- on capacity expansion of the M-PESA system. The present study will be broader as it will consider the challenges faced by Safaricom Limited in its expansion strategy using the M-PESA agents' network.

Unfortunately, M-PESA agents have continued to face a number of challenges, a situation which has slowed down efficiency in service provision. Some of the challenges are as a result of the low capitalization of M-PESA businesses while others are technological in nature. Some of the major challenges identified include: low penetration of channels of distribution, high turnover of agent assistants, unfamiliar technology (M-PESA platform is an internet technology-based service), problems of fraud and money laundering, as well as increased competition among operators in a given area leading to thin profit margins. Additionally, there exist operational regulations stipulated by the company, which some agents fail to adhere to, leading to suspensions and even termination. The research will attempt to answer the following research question: what are the challenges Safaricom Limited, Kenya, facing in its expansion strategy by using the M-PESA agent network?

### **1.3 Objectives of the Study**

The objective of the study was to investigate the challenges faced by Safaricom Limited, Kenya in its expansion strategy using its network of M-PESA agents.

## **1.4 Value of the study**

The study will help potential investors and aspiring agents in understanding the challenges that M-PESA operators face. This will be useful in providing information that these parties might not have foreseen before venturing into this business, thus arming them adequately in advance with useful tips on how to tackle the same.

Safaricom and its managers will find the study useful in informing them on their efforts to improve the success of the M-PESA service operations by consolidating the findings obtained from the various departments. This should possibly provide a smoother mode of operation while using the agent network model.

The study will also bring to light the challenges that an expansion strategy can face when utilizing a new innovation. This should provide additional insights into the distribution and dealer network mode of operations as used by a company like Safaricom Limited to reach a mass market. As such, the study will also provide a source of literature for academicians and other researchers studying the dealer network model.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Business organizations have experienced profound changes in the way they operate in the last ten years or so. The changes have been brought about by changes in technology, political-legal forces, and the internationalization of business. These changes have spawned major challenges to businesses with the result that those which have been most adaptive have managed to survive while those which have been unable to adapt have perished. They have had to adjust by coming up with various strategies to outdo the competition.

These have been competitive strategies to address the questions on whether the company should compete on the basis of lower cost or differentiation or whether the company should compete head to head with its major competitors for the biggest but most sought-after share of the market or whether it should focus on a niche in which it can satisfy a less sought-after but also profitable segment of the market.

#### **2.2 The Concept of Strategy**

While Strategy is the direction and scope of an organization over the long-term, strategy management is a crucial component of strategy. Strategy management can be described as the identification of the purpose of the organization and the plans and actions to achieve that purpose (Lynch. 2009).



According to Johnson *et al.* (2006), the essence of strategic management revolves around defining the nature of the business, the basic direction for the future, organizational culture and leadership styles and the overall attitude to strategy change management. It also looks at customers portfolio, level of competition and competitive advantage, how to be innovative and creative to improve business processes and how and where to add value within the business.

In whole, Mintzberg *et al.* (1996) argue that a strategy to an organization is, amongst other things, a plan of how the organization can achieve its goals and objectives, implying a commitment of current resources to future prospects. The aim of strategic management is to decide on organizational goals, the means of achieving those goals, and ensuring that the organization is sustainably positioned in order to pursue these goals. Furthermore, the strategies developed provide a base for managerial decision making.

An organization's strategies have a major impact on what the organization does and how it does it since strategies are the roadmaps for reaching the destinations. They provide the focus for decision making. Organizations have overall strategies called organizational strategies, which relate to the entire organization. They also have functional strategies, which relate to each of the functional areas of the organization. The functional strategies should support the overall strategies (Stevenson, 2007). The contemporary competitive landscape is characterized by the fundamental nature of globalization and rapid and significant technological changes (Hitt, Keats and DeMarie, 1998).

In many industries, agent network is one of the most important drivers of competitive success (Schilling, 2005). Miles & Darroch (2004) contend that strategy is ingrained in competitive advantage. Other important related concepts are strategy development and implementation.

### **2.2.1 Strategy Development**

Strategic analysis and development may play a role in how the future organization strategy is determined, since its tools and techniques are employed in strategic management. At this point, the intended strategy is converted into action by the organization through communication, providing agreed objectives and coordinating resources by involving people. An environmental scanning, during analysis is important to understand the operating environment of the organization (Lynch, 2009), including scanning the customers, suppliers, competitors and the regulations in place for the particular industry (Pearce & Robinson, 2009). Other than the operating environment, the firm will also need to evaluate its own strengths and weaknesses as well as the threats and opportunities that the firm has and will need to be put into consideration during strategic planning (Haines, 2004).

Proper analysis and development will ensure a firm attains strategy fit. which expresses the degree to which an organization is matching its resources and capabilities with the opportunities in the external environment, to appraise the company's actual resources and capabilities to execute and support the strategy (Haines, 2004).

Strategic fit indicates how well the firm's mission and strategies fit its internal capabilities and its external environment. This can only be achieved through planning and implementation of a winning strategy and this starts with strategy development.

There are two broad explanations of strategy development. One is associated with the idea of intended strategy: that strategies are as a result of care consideration mainly associated with the decision by the executive management and the second is that of emergent strategy: that strategies do not develop on the basis of a grand plan but rather tend to emerge over time (Johnson et al., 2006). Processes of the intended strategy include strategy vision, leadership and command, strategic planning and externally imposed strategies whereas those of emergent strategies are logical incrementalism. resource allocation, cultural processes and political processes. The challenges and implications for both processes are intended and realized strategies.

### **2.2.2 Strategy Implementation**

The most important reason of strategy implementation is to deliver the mission and objectives of the organization. Indeed, Hrebiniak (2005) posits that many of today's top executives are far better at developing strategy than executing it and overcoming the political and organizational obstacles that stand in their way. In general, strategy implementation involves four basic elements namely, identification of the general strategic objectives, formulation of specific plans, resource allocation and budgeting and monitoring and control procedures (Pearce & Robinson, 2009).

Organizations that are successful at strategy implementation effectively manage the key supporting factors including action planning, organizational structure, human resources, the business plan, monitoring and control and finally the attendant linkages.

Strategy change management is also an important aspect of strategy implementation, with the areas of practices comprising all the professional change agents that are involved, specialists in the field of change, facilitators of change and consultants both individuals and firms (Burnes, 2004). Further, according to Lynch (2009), strategy implementation addresses the aspects: activities needed to be undertaken in order to achieve the agreed objectives, timelines for the implementation and progress monitoring and controlling. In whole, the underlying premise of competitive advantage is that it provides a company with a means to out-perform the competition by more efficiently and effectively delivering products and services to the market, by exploiting and successfully maintaining its advantages over its competitors (Lumpkin & Eisner, 2007).

Thus, expansion is a strategy that companies can use to build capacity before demand materializes. The intent might be to achieve economies of scale, to expand market share, or to preempt competitors from expanding. Safaricom has used its dealer network to acquire the largest market share so as to encourage penetration to as many locations as possible as well as to achieve economies of scale by utilizing a structured distribution network.

## **2.3 Expansion Strategies**

Strategy can be looked at as the direction and scope an organization will take over a long term, enabling it achieve advantage in a changing environment through its configuration of resources and competencies with an objective to maximize wealth and meet stakeholder expectations (Johnson et al., 2006) . There are three levels of strategy namely the corporate level comprised of mainly the executive committee which is responsible for the firm's financial performance and achievement of non-financial goals, the business level strategy composed of principally of business and corporate managers whose responsibility is to determine how the firm will compete in the selected product-market segment and functional level strategy whose the in-charge develop annual objectives and short-term strategies (Pearce & Robinson, 2009).

Since strategic management is an ongoing process of ensuring a competitive superior fit between the organization and its environment and includes understanding the strategic position of an organization, strategic choices for the future and organizing strategy into action (Johnson & Scholes, 2002), companies adopt expansion strategies to achieve economies of scale, expand market share or to preempt competitors from expanding. Porter (1980) has identified the following as some of the major expansion strategies: Capital capacity expansion. Distribution channels expansion. Economies of scale expansion, and Product differentiation.

Under capital capacity expansion strategy, companies invest huge financial resources in manufacturing facilities in order to produce large volumes in products or services. The need to invest large financial resources in order to compete creates a barrier to entry, particularly if the capital is required for unrecoverable expenditures in up-front advertising or Research and development. Capital is necessary not only for fixed facilities but also for customer credit, inventories, and absorbing startup losses.

Distribution channels expansion strategies involve creating access to distribution channels. Small entrepreneurs often have difficulty obtaining supermarket shelf space for their goods because large retailers charge for space on their shelves and give priority to the established firms that can pay for the advertising needed to generate high customer demand. The more limited the wholesale or retail channels are and the more that existing competitors have these tied up, the tougher that entry into the industry will be.

Economies of scale expansion have to do with those economies that deter entry by forcing the aspirant either to come in on a large scale or to accept a cost disadvantage. Scale economies in production, research, marketing, and service are probably the key barriers to entry in the capital intensive industries such as computers and mobile telephony. Economies of scale can also act as hurdles in distribution, utilization of the sales force, financing, and nearly any other part of a business.

Product differentiation is another expansion strategy. Brand identification creates a barrier by forcing entrants to spend heavily to overcome customer loyalty. Advertising, customer service, being first in the industry, and product differences are among the factors fostering brand identification.

It is perhaps the most important entry barrier in soft drinks, over-the-counter drugs, cosmetics, investment banking, and public accounting. To create high fences around their businesses, brewers' couple brand identification with economies of scale in production, distribution, and marketing. »

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter discusses the research design that was used for the study. It defines the data collection methods that the researcher applied and highlights the qualitative data analysis technique of content analysis for interpreting and reporting the data.

#### **3.2 Research Design**

The study employed a case study research design. The case study research design was an appropriate method because it is an essential aspect of inquiry that is preliminary to the formulation of types and generalizations (Doby. 1967). It was used as a way of ordering social data with the view toward preserving the unitary character of whatever was being studied. It merely selected and treated some socially defined objects or act as a whole. The function of the case study is to describe the case in terms of the particularities that are observable. This made it possible for the researcher to undertake an intensive examination of the specific factors implicated in the case.

#### **3.3 Data Collection**

Data for this study was collected by means of an interview guide (see Appendix 1). Depth interviews were conducted with 13 respondents drawn from Safaricom's four sections that dealt directly or indirectly with M-PESA business, namely:



Agent administration. Operations team, Customer Care and Risk and Fraud Detection team.

The data was obtained by means of an interview guide of questions that was circulated in advance (see Appendix 1) to enable them reflect on the questions in preparation for an interview an session with the researcher. This ensured that respondents had thought through the questions and in this way. helped to save time and achieved effectiveness during interview administration. Depth interviews made use of defined set of probing questions posed one-on-one to a subject so as to gain an idea of what the subjects opinions were about something. The objective of depth interviewing was to obtain unrestricted comments or opinions and to ask questions that would help the researcher better understand the various dimensions of these opinions as well as the reasons for them (Bums and Bush, 2006).

The roles of the five departments were as follows: Agent administration was the department that was concerned with developing procedures for persons interested in starting the M-PESA business. The department also provided guidance to prospective and current agents. Once agents commenced their business, the Operations department took over and was responsible for linking M-PESA agents Head Office with the company for all their operational needs. It acted as the point of resolving issues the agents would encounter during their operations. The Customer Care department became the first point of contact for M-PESA agents at outlet level and ordinary users of the service as a front office and helpdesk point and provided trouble-shooting help for day-to-day issues and guiding agents on how to go about the routine operations.

For issues which could not be resolved at this level, the department escalated to the Operations team. Risk and Fraud department was the one responsible for monitoring and ensuring integrity of usage of the service by detection and prevention of any fraud related to money transfer.

According to Babbie (1973), there are a number of advantages in having the interviewer administer the questions. These include the fact that interviews typically attain higher response rates. The respondents would be unwilling to decline to answer the questions, and there would be fewer cases of respondents saying they do not know answers (the researcher would be able to clarify any difficulties in the questions). The researcher would take notes during the interviews and write them up later for analysis and interpretation.

### **3.4 Data Analysis**

The data was analyzed by means of the qualitative content analysis where the identified key challenges were grouped under respective themes and then discussed in line with the thematic approach in the content analysis. Results were reported by means of narratives with explanations of the various major issues that were captured. Elaborate explanations were given describing the pertinent issues that were raised.

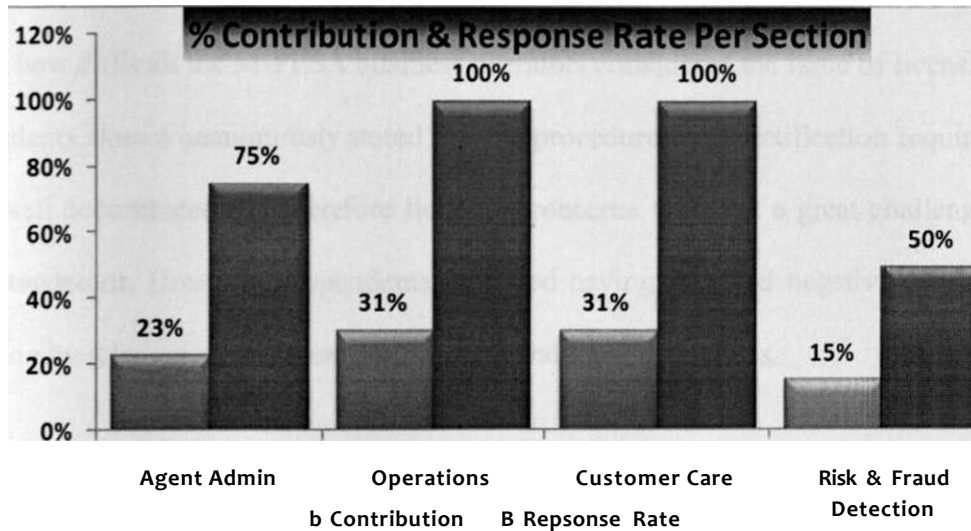
## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 General information**

In this chapter the findings of the study are presented. Data collection was done using interview guides and probing the interviewees. The study targeted to interview sixteen respondents drawn from Safaricom's four sections that dealt directly or indirectly with M-PESA business, namely: Agent administration. Operations team. Customer Care and Risk and Fraud Detection team. In the end, thirteen respondents were interviewed, representing an 81% response rate. The objective of this study was to investigate the challenges faced by Safaricom Limited, Kenya, in its expansion strategy using its network of M-PESA agents. Based on their departments, table 4.1 below captures the percentage contribution into the response base and response rates for each of the above sections.

**Table 4.1: Percentage Contribution and Response Rates per Section**



The Operations and Customer Care teams recorded 100% response rates while Risk & Fraud Detection recorded the lowest response rate at 50%. Respondents were asked about their specific roles and generally, at least 60% are in middle level management or above.

#### **4.2. Agent Administration Department**

Firstly, the respondents in the Agent administration department were asked to mention the difficulties they face in evaluating applicants for M-PESA business. The common response with 80% repeat rate was difficulty in ascertaining financial sustainability of the applicants' businesses, given that the M-PESA business is driven by availability of hard cash as well as e-cash. Respondents further cited outlet branding problems, ability to meet the bare minimum cash handling security measures and having well-trained and equipped outlet attendants.

Furthermore, concerns around Know Your Customer (KYC) and Anti-Money Laundering (AML) compliance by the M-PESA agents received at least 70% repeat rate. Asked how difficult the M-PESA business operators considered the issue of licensing, the respondents almost unanimously stated that the procedures and certification requirements were well documented and therefore licensing concerns were not a great challenge from their standpoint. However, respondents indicated having received negative feedback on licensing by relevant government departments and local authorities.

Regarding whether prospective M-PESA agents were required to provide any certified documents from other institutions, there was a 100% agreement. The respondents explained that these documents were necessary to ascertain mostly the existence of the businesses applying while others were as a result of statutory requirements. As such, some of the documents required are obtainable from the State Law office, while others are from the agents' referees particularly those requests seconded by institutions that needed to request for the service. Respondents cited some difficulty in processing the documents since some of them have in the past turned out to be forged. They also noted that applicants have also complained regarding the number of paperwork required in the application process and the attendant red-tape.

Lastly, the respondents within the Agent administration section were asked whether all applications for M-PESA agent outlets were always approved. All the interviewees responded to the contrary, thus 100% consensus. Some applications have in the past not been approved for failing to meet the set standards, at least the bare minimum.

The study finds that the main consideration prior to approval is on financial sustainability and outlet branding. Other considerations like outlets density per location and education qualification of agent assistants came secondary.

### **4.3 Operations Department**

When asked the major challenges that the M-PESA agent outlets face when offering M-PESA services, at least based on the feedback of the outlets, the interviewees gave various challenges. Cash handling was identified as a major challenge due to increased insecurity and crime rates, coupled with lack of an appropriate insurance product tailored for the market. Falling prey to fraudster tricks has been a constant feedback for some time now. Inadequate presence of super-agents, where the agents convert cash into e-float or otherwise, was another key challenge leading to escalated operational costs for agents. Another notable challenge given by the agents was the unregulated setting up of outlets which had been authorized to operate in another area, that is being illegally relocated, and set up next to each other and thus splitting the profit margins.

On the aspect of M-PESA Agent head offices facing staffing and technical challenges that affect their operations, there was at least 75% consensus that technical challenges were posing a serious challenge on M-PESA agent operations. Staffing at the M-PESA Agent head offices was also considered a serious challenge. This was so mainly because of high turn-over of the agent assistants. Another notable concern was the hiring of unqualified assistants who had not attained a basic education thus limiting their understanding of the technical operations of the service.

Regarding M-PESA agents not adhering to their contractual obligations, there was 100% consensus that such cases were rampant, especially non-compliance with the statutory Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations. Various punitive measures are used including suspension of the offending agents' operations, complete termination of the contract and agent commission claw back. Finally, there was unanimous agreement that approximately 80% of the M-PESA agents faced liquidity constraints in their operations. Generally, any agent outlet that does not maintain a minimum hourly average of KES 30,000 e-cash per day is considered to be having e-cash problems.

To address this e-float challenge, Safaricom had entered into an agreement with a leading financial institution for the agents to receive loans to be used as their capital investment which was payable from their earnings. Another approach to mitigate against agent risks. Safaricom had entered into partnership with selected insurance companies to develop a product to compensate agents who lose cash under given circumstances.

Over and above the mitigation responses of the above challenges, the company terminates outlets that consistently do not meet the minimum e-float requirement over a sustained period of time. However, the company is in the process of developing an emergency loan scheme to the agents to address this problem.

#### **4.4 Customer Care Department**

The Customer Care section gave a 100% consensus that the M-PESA agent outlets had a direct means of accessing the customer care services by dialing the short code 2134 which was only accessible to the agents, and not the general public. On the other hand, M-PESA customers had a direct means of accessing the customer care services by dialing the short code 234 from any Safaricom line or line 100 for prepay customers and line 200 for postpaid customers. When asked about the major challenges they faced when offering M-PESA services, the respondents cited congestion on the customer care line 234 leading to high waiting times on the queue, occasional M-PESA system downtimes during which agent issues could not be resolved as well as poor product knowledge by some of the shop attendants employed by the agent head offices.

Prolonged closure of agent queries that had dependencies within and without the company were also alluded to as an impediment; most of the external dependencies mentioned were the mother company Vodafone Pic in the United Kingdom and local financial business partners.

On the major enquires that M-PESA agents consulted the customer care services for, the Customer Care team mentioned numerous requests for transaction reversals for money deposited into wrong customer accounts, agent assistants being conned of cash or being given fake cash by fraudsters, and customer accounts enquiries relating to registration or activation.



The team also stated that there were instances when requests had to be escalated further especially if the issue involved huge amounts of money, delayed closure of agent requests or if it was an issue that depended on cross-functional teams. Every escalated issue was assigned a unique service request ID which was shared by the agent, for ease of follow up in case the issue was not resolved within the prior advised period.

For every call made to the customer care line, the agents were always advised on the timeframe within which resolution would be given for their inquiries. This act, the respondents noted, formed part of the Key Performance Indicators (KPIs) for the customer management personnel and indeed any other staff at contact points, like the relationship managers. Every agent request was assigned to a particular staff in the contact centre who was required to follow up on the issue till its successful closure. The staff was also required to regularly contact the agent so as to update them of the progress of their request via telephone call, Short Message Service (SMS) or email, depending on the urgency and magnitude of the issue. Regarding challenges faced using these modes of communication; the respondents noted cases where the agents had claimed not have received an SMS or an email sent to them. Sometimes when not reachable via phone, the agents have claimed their phones were on but did not receive any call or missed call from customer care.

When asked whether customer care assistants educated the M-PESA agents on the service or only offered resolutions as per agents' specific queries, there was 100% consensus that educating M-PESA agents on other related services and offering multiple alternative solutions to specific queries had also been factored into the Key Performance Indicators (KPIs) for the contact centre personnel; the KPIs are reviewed semi-annually and disciplinary action was taken against those who did not meet the minimum KPI score.

#### **4.5 Risk and Fraud Department**

As far as the queries received by the Risk and Fraud detection section from M-PESA agent outlets are concerned, the major issues related to fraud included agent assistants being conned of cash or being given fake cash by fraudsters. Also, there had been cases of some agent head offices selling M-PESA sub-agent tills to fellow businessmen, yet the contractual terms between M-PESA agents and the Safaricom Limited prohibit this practice. The team has also received complaints from the sub-agents who complain of the head offices not sending their monthly commissions on time or even not at all impacting negatively on the sub-agents' seamless running of the outlets.

The team noted that the M-PESA agents had a means of reporting fraud incidents or suspicions that they encountered while in their operations either by way of telephone, SMS or email. The Risk and Fraud detection team, and indeed Safaricom as a whole, operated on a confidential code and did not reveal the identity of any whistleblowers. The interviewees strongly agreed that this information was readily available to them since they have access to the reporting communication channels.

Asked whether M-PESA agents are required to adhere to any regulations pertaining to money laundering and other forms of network fraud, there was 100% repeat rate that there are clear guidelines on Know Your Customer (KYC) and Anti-Money Laundering (AML) issues. They stated that Safaricom Limited was keen on these, to augment government efforts in combating terrorism financing and financing of other social ills and economic crimes. Regular training workshops are organized to train agents on all these and other related fraud issues. M-PESA agents, who do not adhere and are found out, are penalized either by clawing back the monthly commission earned, suspension of all their agent tills or complete termination of their contracts with the company. Interviewees also noted that this fraud takes different forms like multiple customer deposits or withdrawals, lack of proper and authorized customer identification documents, huge amounts of customer deposits and withdrawals, and generally suspicious looking customers.

Other than training workshops, other modes of communication to the M-PESA agents alerting them of current trends in fraud and how to mitigate them are employed including SMS broadcasts, periodic agent bulletins as well as use of the broadcast media in general. However, even with all these effort, there were still challenges encountered of agents failing to adhere to previously highlighted scams, mostly due to care-free attitude by some of the agents. Lack of well trained and educated staff was also a key determinant of increasing the chances of being defrauded.

This was also aggravated by instances where the main head office employed staff without integrity and not having done a background check on them whereby they ended up defrauding the business or being in collaboration with the fraudsters.

Finally, the respondents agreed that some M-PESA Agents face risk in terms of the locations of their premises being in insecure places thus promoting incidents of exposing the outlets to insecurity and fraud. The most notable insecure places mentioned revolved around slum dwellings in urban centers or secluded locations with no other premises nearby, especially in the deep rural areas.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This study focused on the challenges faced by Safaricom Limited. Kenya in its expansion strategy using its network of M-PESA agents. The researcher managed to accomplish the objective and this section presents the summary of the findings, conclusion, recommendations and suggestions for further research.

#### **5.2 Summarized Findings**

The study interviewed thirteen respondents drawn from Safaricom's four sections that dealt directly or indirectly with M-PESA business, namely: Agent administration. Operations team. Customer Care and Risk and Fraud Detection team. The study finds that amongst the challenges faced by the Agent administration section in evaluating applicants for M-PESA business include, ascertaining financial sustainability of the applicants' businesses, outlet branding problems, ability to meet the bare minimum cash handling security measures, having well-trained and equipped outlet attendants, and concerns around Know Your Customer (KYC) and Anti-Money Laundering (AML) compliance by the M-PESA agents. Furthermore, presentation of falsified documentation and licensing bureaucracy (by the State Law office) are challenges. The Operations team cited staffing and technical capacity at agent head offices, non-adherence to contractual obligations and liquidity constraints, as some of the challenges.

On the other hand, the Customer Care personnel mentioned congested customer care line, frequent M-PESA system downtimes during which agent issues could not be resolved as well as poor product knowledge by some of the shop attendants employed by the agent head offices. The team further noted that there were numerous requests for transaction reversals for money deposited into wrong customer accounts, agent assistants being conned of cash or being given fake cash by fraudsters, and customer accounts enquiries especially registration and account activation. Over and above these, the Risk and Fraud detection section cited cases of some agent head offices selling M-PESA sub-agent tills to businessmen contrary to contractual agreement, complaints from the sub-agents who complain of the head offices not redistributing their monthly commissions on time or even not at all and not adhering to Anti money laundering (AML) and Know Your Customer (KYC) policies.

### **5.3 Conclusion**

Developments in mobile technology have expanded opportunities for additional mobile services. For instance, the extent and nature of mobile money transfer is highly dependent on the quality and quantity of the agent network, on which a company can ride to expand its operations. Based on the results, this study concludes that there are numerous challenges facing Safaricom limited in its expansion strategy using the M-PESA agent network as highlighted in the above summarized findings. The Management of Safaricom Limited, therefore, faces a daunting task in streamlining these challenges before it rides on the expansive M-PESA agent network in rolling out its expansion strategies, to beat the competition.

The prospective M-PESA agent also can get a glimpse of the challenges they are bound to face when they opt to venture into this business and come up with the best way possible to beat the same.

#### **5.4 Recommendations**

This study gives some key implications on use of an agent network as a channel of distribution and as a strategy tool to expand operations and lock out competition or the threat of entry of new competitors. Considering the amount of resources invested into agent networks, it is essential to ensure that the company rides on them to gain strategic advantage at the marketplace. In order to achieve this goal, and based on the findings, this study recommends that a proactive awareness programme should be developed and implemented to align agents with Safaricom's long-term development objectives. The agents should also be educated that a strong M-PESA agent network is also good for their revenue growth, over and above cost savings, operational efficiency and customer base growth and retention.

Furthermore, recognition and reward programmes for agents who adhere to all laid down procedures and who emerge tops in defined performance metrics should be developed to ensure that agents remain motivated. This will make it easier in surmounting the challenges Safaricom Limited is currently facing in its expansion strategy using its network of M-PESA agents. Also, there is a need to develop better Strategic Management integration to improve the organization's corporate strategy by creating links with all stakeholders. Further, enhanced communication within the company's value chain is recommended.

## **5.5 Suggestions for Future Research**

The focus of this study was on the challenges faced by Safaricom Limited, Kenya, in its expansion strategy using its network of M-PESA agents. Being a case study specific to Safaricom Limited, it is recommended that further research should test the findings of this research using a larger sample and use a more quantitative research method for the purposes of statistical generalization, and to determine if indeed the companies riding on their agent networks face similar challenges. With globalization creating a village-like marketplace, research about company behavior in one continent could lead to potential consolidation of company expansion strategies providing much needed competitive advantage. Thus, future research can extend inquiry into different geographical areas as well. Further, this study does not discuss in detail how expansion strategies riding on agent networks fare across sectors and the sector-specific requirements to accommodate the resultant consequences. To fill this gap, it requires further research, much beyond the present one in terms of objectives and agenda.

## **5.6 Policy Implications**

Since its inception in March 2007, M-PESA has won many accolades and many success stories have been written about it in almost all forms of media. Further, over that short span of time, the M-PEA agent network has grown phenomenally, presenting a potential strategic tool to Safaricom Ltd. Thus, among the expansion strategies adopted by Safaricom is using the M-PESA agents network to reach as many areas and customers as possible, primarily targeting entrepreneurs who in most cases have been SMF.s and SOHOs.



And as any business can attest, the approach has not been without challenges as the business environment has been very dynamic and turbulent. The agent model strategic tool has presented unprecedented challenges with it.

Given the pyramidal nature of the telecommunications industry in Kenya, this study draws some policy implications for the industry regulator, the Communications Commission of Kenya (CCK). Firstly, the threat of global anti-terrorism is real and potentially catastrophic. While effort has been exerted by Safaricom for the agents to comply with Know Your Customer (KYC) policies, there is a compelling need for CCK to enact tougher measures to ensure that KYC is not treated casually as it is at the moment by the mobile money agent network. Secondly, unclean money from the black market is likely finding its way into mainstream financial system through the mobile money platforms via the agent network. As such, policies regarding Anti money laundering (AML) need to be taken a notch higher as regards their enforcement. To this extent, the CCK and its sister regulator, the Central Bank of Kenya, need to rethink on the policy framework on this aspect so as to stymie the known negative impacts of such money as well as insulate the economy from resultant macroeconomic instabilities.

Thirdly, with the current stiff competition amongst the telecom operators in Kenya and given the accompanying potential unhealthy practices, competition regulation needs to be enforced to protect the thriving industry from probable collapse. To this end, there is a clear need to speedily promulgate the proposed Competition Authority of Kenya in order to help safeguard the gains made so far. and if need be, impose interoperability within the agencies of the various players.

This also has the ability of ensuring that the profitability of the agents businesses is not greatly diluted. Also, there is required development and implementation of policy framework on consumer education and awareness, as many consumers and agents, may be unaware of the relationship between their money dealings and businesses on one hand, and national security and prosperity on the other hand.

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**APPENDIX 1**  
**LETTERS OF INTRODUCTION**

1<sup>st</sup> October, 2012

Greetings,

I ANDREW KAMUNYU KARURI, (ADM NO D61/60033/2011) have been a graduate student at the University on Nairobi, school of business. As part of the program I am required to do a thesis. My interest is in the area of Strategic Management and my topic is on *'Challenges faced by Safaricom Limited, Kenya, in its expansion strategy using M-PESA agents network.*

By participating in the interview as a respondent, you will be providing helpful information to the development of knowledge in the field of agent network as a mode of expansion as used in businesses. Your responses will be kept confidential and only used as part of supporting the research and results of my final project with analyzed data will be made available once completed.

If you have any questions or concerns regarding this study and would like to seek clarifications, please contact my supervisor at University on Nairobi. School of Business Dr John Yabs, via telephone +254722871738.

Thank you in advance for your assistance.

Sincerely,

Andrew Kamunvu Karuri

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Nairobi, Kenya

DAT

**TO WHOM IT MAY CONCERN**

The bearer of this letter is . . . . .

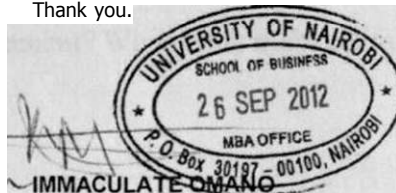
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is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



**IMMACULATE OMANG**  
**MBA ADMINISTRATOR**  
**MBA OFFICE, AMBANK HOUSE**

## APPENDIX 2

### INTERVIEW GUIDE FOR SAFARICOM M-PESA STAFF

*(Interviewer documented answers in a field notebook)*

#### **Introduction: Background questions**

1. What is your department? What is your specific role in this department?

#### **A. Questions for Agents Administration Department Staff**

1. What difficulties do you face in evaluating applicants for M-PESA business?  
Why? *(Probe)*
2. How difficult do the M-PESA business operators consider the issue of licensing?  
Please explain.
3. Are prospective M-PESA agents required to provide any certified documents from other institutions? Why? How do they find the provision of the same, easy or difficult?
4. Are all applications for M-PESA agent outlets approved? Is there any minimum requirement? What is the main consideration prior to approval?



## **B. Questions for Operations Department Staff**

1. As far as the queries you receive from M-PESA agent outlets, what are the major challenges they face when offering M-PESA services? *(Probe)*
2. Do you come across M-PESA Agent head offices facing any staffing and technical challenges that affect their operations? Are these challenges serious? *(Please explain).*
3. Do you encounter challenges of M-PESA agents not adhering to their contractual obligations? How do you normally solve such issues? *[Probe]*
4. Are the M-PESA agents faced by a challenge of liquidity in their operations? How is this resolved?

## **C. Questions for Customer Care Department Staff**

1. Do M-PESA agent outlets have a direct means of accessing the customer care services? What are the major challenges they face when offering M-PESA services? *{Probe}*
2. What are the major enquires that M-PESA agents consult the customer care services for?  
  
Are there requests that have to be escalated further? And are the agents advised on the timeframe within which resolution should be given for such?
3. Are the M-PESA agents contacted for follow up of any issues? Is there an official means of communication and what are the challenges faced using these modes?

4. Do customer care assistants educate the M-PESA agents on the service or only offer resolutions as per agents' queries?

#### **D. Questions for Risk and Fraud Department Staff**

- 1 As far as the queries you receive from M-PESA agent outlets, what are the major issue related to fraud that they face when offering M-PESA services? *{Probe}*
- 2 Do the M-PESA agents have a means of reporting fraud incidents or suspicions that they encounter while in their operations? Is this information readily available to them? Please explain. *{Probe}*
- 3 Are M-PESA agents required to adhere to any regulations pertaining to money laundering and other forms of network fraud? What form does such fraud normally it take? *{Probe}*
- 4 Is there a mode of communication to the M-PESA agents alerting them of current trends in fraud and how to mitigate them? Are there challenges encountered of agents still falling to previously highlighted scams?
- 5 Do M-PESA Agents face any risk in terms of agent locations of their premises? Are there any cases of premises being in unsecure places thus promoting incidents of exposing the outlets to insecurity and fraud?