CHALLENGES OF INNOVATION STRATEGY: A CASE STUDY OF M-PESA PRODUCT INTRODUCED BY SAFARICOM

BY:

NEDDY NANJALA MUNYASI

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DECLARATION

This research project is my original work and has never been presented in any other University or College for the award of degree or diploma or certificate.

Signature………………………… Date…………………………

NEDDY N. MUNYASI

Reg. No.: D61/9043/2005

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

Signature………………………… Date…………………………

PROFESSOR  PETER K’OBONYO
DEDICATION

This project is dedicated first and foremost to the Almighty God whose providence, grace and care I cherish.

Secondly, to my husband, my mother, my other family members and friends that stood by me during the entire research period. Thank you for your support and advice.
This research would not have been possible without the input of the following people to whom I am deeply indebted. First, I acknowledge my university supervisor Professor Peter K’ Obonyo who gave me focus and direction on how to go about the research.

I also acknowledge the staff at Safaricom Limited for taking time out of their busy schedule to give me the information that I needed. Without their support, I would not have reached this far.

I also thank my family and friends who had to put up with me during the entire research period. I was not able to be with them all the time and their encouragement has finally seen me achieve my dream.

Finally I thank the Almighty God for the life and strength He gave me. His protection has seen me through the turbulent times.
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ABSTRACT

Safaricom has emerged as one of the key telecommunication companies that have taken up innovation strategy and this study specifically zeroed in on the organization. The aim of the study was to establish the various challenges that Safaricom has experienced in pursuit of the innovation strategy through introduction of M-PESA services. The study has also mentioned how the company handled some of the challenges it encountered while implementing the innovation strategy.

Data was from four top managers at Safaricom from the various business lines. These managers have been part of the team that has and is still implementing the innovation strategy. The data was then analyzed using content analysis techniques. The results of the study showed that competition is a major challenge and driving force for innovation at Safaricom. The results also showed that changes in the external environment affect the organization’s survival in the market. The limitation of the study is that it was conducted exclusively on one mobile service provider. A further study should be conducted to establish whether innovation at Safaricom is sustainable in the near future with the entry of competition in the transactional money service space by other providers.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

User demand for convenient and intelligent ways in which to make payments for goods and services using the mobile phone is creating exciting opportunities for organizations that are part of the mobile payment ecosystem. The ecosystem includes mobile operators, banks, retail merchants, handset manufactures and other variants as necessary. The telecommunications industry in Kenya has become pivotal in day to day life owing to its reach and convenience. As such it has found application in the financial sector more so in the settling of transactions and this has created a host of opportunities and new business structures in this fast-paced growing market (http://www.cck.co.ke).

Technology push, through maturing wireless networks and market pull via pervasive adoption; have paved the way for several innovative applications on the mobile phone platform. One fascinating prospect is to use the mobile phone in order to initiate, activate, and/or confirm payment, explicitly termed by Karnouskos, (2004) as Mobile Payments. These user demands have pushed mobile service providers to come up with a solution to meet customers’ expectations. However, the mobile service providers have faced various challenges in their introduction of more innovative products.
1.1.1 Innovation Strategy

Innovation is defined as the process whereby new and improved products, processes, materials, and services are developed and transferred to a plant and or market where they are appropriate (White and Bruton, 2007). Many companies now recognize that the key to their future survival and growth is continuous flow of new and improved products. Product innovation in a business perspective is defined as that which represents change in, or an addition to, the physical entities that comprise a product line (Rothberg, 1976). Innovation and entrepreneurship are fundamental drivers of today’s economy as stated by Johnson, Scholes and Whittington, 2008.

They further describe innovation as that which involves the conversion of new knowledge into a new product, process or service and the putting of this new product, process or service into use, either via the market place or by other processes of delivery. An Innovation strategy is at the heart of an entrepreneurial mindset and is viewed as a specialized form of differentiation strategy (Peng, 2009). It offers advantages first; it allows a potentially more sustainable basis for competitive advantage. Firms first introduce new goods and services likely to earn monopoly profits until competitors emerge. Also through innovation new ways of doing business emerge which enable the firm to be well positioned in its environment. Therefore firms seen to be uniquely ready for innovation where the owners, managers and employees tend to have an innovative mindset are considered to be using the innovation strategy in their organizations.
1.1.2 Challenges of Developing Innovation Strategy

Innovation has two primary ingredients: knowledge and creativity. Only by understanding the determinants of creativity, then fostering through appropriate organizational environment can the firm hope to innovate successfully (Grant, 1998). Grant observes that motivating creativity presents a further challenge. Creatively oriented people are typically responsive to different incentives than those who are effective in motivating other members of the organization. They desire to work in an environment and culture with enough space and resources to provide the opportunity to be spontaneous, experience freedom, and have fun in performance of the task that, they feel, makes a difference to the strategic performance of the firm.

Brown, Lamming, Bessant and Jones (2000) mention that as the firm attempts to develop and apply new technology or develop new products, it encounters several challenges. Key among them is ensuring there is sufficient and suitable human capacity know-how and learning in place to accompany and complement the investment in new process development. Davenport (1993) advises that technical risks involved in the bulk of industrial research and development for products processed in a laboratory are a perquisite in the development of a new product. He further cautions that some projects may not achieve their technical objectives and are terminated before completion because new market information concerning the product indicates that it may not be profitable to continue with the project.
Commercial risks can be experienced whereby some projects may not yield the expected economic profit envisioned earlier by the organization (White and Bruton 2007). Accuracy of predictions of technical success is a challenge, as the new product is processed it may not be easy for the firm to predetermine that the expected results will be realized. The regulatory bodies and agencies in which an organization exists may be a challenge to the organization’s innovation development based on the laid down polices and guidelines of conducting business (Grant, 1998).

1.1.3 Challenges of Implementing Innovation Strategy

Once the firm has laid the foundation for an innovation strategy through the planning and development process, implementation becomes the concern. Implementation efforts must occur whether the goal is a small change in a product or a radical shift in an entire industry (Peng, 2009). Good strategy execution involves a strong fit between the way things are done internally and what it will take for the strategy to succeed. A series of tight fits must be created between strategy and an organization’s competences, capabilities, policies and structures; between strategy and budgetary allocation; between strategy and internal support system; between strategy and the reward structure and between strategy and the corporate culture (Thompson and Strickland, 2003). To ensure that the implementation process succeeds the management in a firm need to prioritize actions necessary to carry out the strategy.
The organization has goals and objectives that are established in its planning process and it is the duty of the concerned manager to ensure that the firm makes the correct choice on how to implement the goals and objectives that are in line with the innovation strategy required (White and Bruton, 2007). Organizations do not have unlimited resources for the implementation process, therefore activities higher on the prioritization list should receive the priority for resources (Roberts, 2002). There are several areas of concern as the firm prioritizes the key activities which include timing, human resources and effective use of existing platforms. Four critical issues emerge when implementing an innovative strategy namely; leadership, engagement, extension and alignment.

The leadership of the organization plays a pivotal role in the success of the strategy. The leaders of successful innovative companies ensure that there is cooperative behavior among employees, a culture of collaboration and successful cross functional initiatives (Rothberg, 1976). The organization is required to ensure various entities of the organization are moving towards the same direction through the engagement process. Culture in this case becomes the key element in determining the level of engagement in the organization (White and Bruton, 2007). Extension is concerned with firms having knowledge of the product and market competencies so new ideas lead to action through a filter experience. This requires an organizational memory so that lessons learned in the past can be used in the future. The fourth critical issue to look at is alignment, it is achieved by the firm ensuring there is a good fit between the overall business strategy and the proposed change i.e. not innovating because it is fashionable or as a knee-jerk response to a competitor (Brown, Lamming, Bessant and Jones, 2000).
1.1.4 The M-PESA Innovation Strategy

Safaricom Limited, is a leading mobile network operator in Kenya. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone group Plc of the United Kingdom, the world's largest telecommunication company, acquired a 40% stake and management responsibility for the company. Following an Initial Public offering in 2008, the shareholding structure for Safaricom is; Government of Kenya 35%; Vodafone 40%; Free Float 25%. Safaricom is in the business of Provision of mobile telecommunication services namely voice, messaging, data and fixed broadband (http://www.safaricom.co.ke).

Declining average revenue per user and increased competition in the telecommunications landscape in Kenya requires innovation to maintain a competitive edge in the market and sustain revenue required to sustain operations. Safaricom has had various initiatives among which are the mobile money transfer known as M-PESA which can be adapted for various applications. M for mobile, PESA is Swahili for money is the product name of a mobile-phone based money transfer service whose initial concept and design was Kenyan and was later developed by Sagentia for Vodafone. The development was initially sponsored by the UK-based Department for International Development (DFID) in 2003–2007. M-PESA is a mobile money transfer product where the money is in electronic value and is stored and conveyed through mobile phones.
The electronic transactions are conducted over the Safaricom network and individual
account transactions and records are managed by Sagentia in Europe on behalf of
Vodafone (http://www.vodafone.com/start/media_relations/news). Within Safaricom, M
PESA is supported by a wide range of staff covering most aspects revolving around it.
These include Technical, Sales and Marketing, Legal, Customer Support, Financial
Controls, Information Technology among others. The popular form of transactions on M
PESA are remote payments for goods and services by taking advantage of the
convenience of network coverage as an alternative to travelling long distances or
achieving faster response from a transaction. M-PESA is run through a SIM toolkit
application that is enabled on Safaricom subscribers’ SIM-cards. The application makes
use of the Short Messaging service which is a store and forward technology
(http://www.mitpressjournals.org/loi/itgg). The project faced formidable financial, social,
cultural, political, technological, and regulatory hurdles. A public sector challenge grant
helped subsidize the investment risk. To implement, Vodafone through Safaricom had to
marry the incredibly divergent cultures of global telecommunications companies, banks,
and microfinance institutions and cope with their massive and often contradictory
regulatory requirements.

Finally, the project had to quickly train, support, and accommodate the needs of
customers who were unbanked, unconnected, often semi-literate, and who faced routine
challenges to their physical and financial security. Safaricom had no roadmap, but created
solutions as it went and persevered when a pilot slated to take several months took almost
two years. The backdrop to this case study lies in the development debate.
As part of the Millennium development Goals, many of the world’s leading nations have committed to reduce poverty by 50% by 2015. Traditionally the realm of state organizations, donor agencies and nongovernmental organizations, development is today understood to be unachievable without the engagement of the private sector. There are now more than two billion mobile phone users world-wide and for the vast majority of people the first phone call they ever make will now be on a mobile device. Hence this formed a key objective for Vodafone through Safaricom to implement this (Hughes, N., & Lonie, S. 2007).

The project then moved to piloting stage where a Vodafone expatriate with a Western style mobile commerce background by the name Susie Lonie came to Kenya in February 2005 to work on the ground directly with the Safaricom team to ensure the project is a success (www.innovarions / winter & spring 2007.com). Safaricom had a fair idea of what they wanted the service to do, but were not sure how to do it. The first big decision was buy or build? If they could buy software off the shelf to meet their needs it would make sense to buy. So Safaricom went shopping and found a multitude of financial service platforms with a fairly similar range of functionality. Therein lay the problem: They had all been designed with Western banking infrastructure as the point of reference, and then added on other features. It became clear that Safaricom would have to make some significant compromises around the functionality and user experience if it bought one of the proprietary products. Safaricom then reluctantly decided that it would have to bite the bullet and build its own service from scratch.
This decision raised a key point which has reappeared regularly in every aspect of the project. There is a fundamental difference between the way banks and telecoms operate. Mobile network operators are relatively young, entrepreneurial companies that have experienced rapid growth and high profits through huge volumes of low-value transactions. Banks tend to be mature organizations with well established business practices and a reassuringly cautious attitude to change. Their business is based upon fewer transactions that generate relatively high margins. The net result is that when a telecom decides to create a financial service such as M-Pesa, there is a collision of philosophies. So Safaricom decided to build an M-Pesa service (http://www.mitpressjournals.org/loi/itgg).

1.2 Statement of the Problem

Strategic managers need to choose the organizational structure that will allow them to operate a number of different businesses efficiently. A firm does concentrate on its core competencies to get a distinctive competitive advantage in relation to its competitors. Firms can also strategize to grow by using its core competencies to venture into other related or unrelated lines of business to achieve its long term goal (Hill and Jones, 2001). The top management engages into strategy formulation for the company which involves planning and making decisions that will develop the company’s strategic goals. Innovation is a strategy which has its challenges during its development and implementation.
This study will bring out the various challenges faced by Safaricom in its development and implementation of the innovation strategy amid the liberalization and privatization of telecommunications industry in Kenya. The industry is currently characterized by emergence of several mobile service providers leading to intensive rivalry and threat of new entrants into the market. As a result, sustaining growth and market leadership is increasingly challenging (www.cck.co.ke). Therefore, mobile service providers are under pressure to constantly engage in innovation. Various local studies have been carried out in the Telecommunications industry in Kenya, some of which are on mobile phone services and some specifically on Safaricom Limited. Koskei (2003) carried out a study on formulation and implementation of strategy in Telkom Kenya Limited where he highlighted the importance of constant strategy review due to the dynamic environment in which the organization exists and recommended further study on this concept.

Muthangya (2007) carried out a study on Safaricom’s strategic response to a competitive environment. His conclusions asserted the company’s position as the market leader. The study confirmed that the company was able to survive in the competitive environment and Olunga (2007) studied responses of Safaricom Limited to Changes in the Telecommunication Industry in Kenya. His findings showed that Safaricom focused on introducing new products such as 3G data services in the country and the bonga points loyalty program to retain its market share (www.safaricom.co.ke).
His conclusion emphasized the need for creating value for customers and recommended further studies on how the organization should continue to respond to changing industry conditions. He proposed further studies on the firm especially with the government policy changes that are aimed to open up the market for new entrants; Maina (2001) studied customer perceptions and satisfaction with mobile service providers in Nairobi. From the study it emerged that the subscriber’s main concern is low tariff rates, clarity and country wide network coverage. He recommended a further national study to establish whether all Kenyans share the same opinions and expectations from mobile service providers; Nene (2002), Maina (2004) and Senaji (2005) carried out studies on technology and government regulations in the telecommunications industry.

The studies highlighted the critical role of regulators in the industry as they seek to ensure consumer’s interests are taken into consideration by mobile service providers. Safaricom has faced several challenges mainly competition and having to operate within the regulatory framework laid down by the Communications Commission of Kenya as it provides services in Kenya today. However, none of the studies carried out before addressed the specific challenges faced by Safaricom in developing and sustaining its M-PESA product. The following research question is derived from the statement of the problem; what challenges has Safaricom faced in developing and implementation of its innovation strategy through its M-PESA product?
1.3 The Research Objective

i. To determine the challenges Safaricom encountered in developing and implementing its innovation strategy through M-PESA product.

1.4 The Importance of the Study

The study will be useful to the Management of Safaricom Limited in determining effective responses necessary to sustain growth and profitability in the prevailing and competitive environment. For other organizations the study will help in determining responses necessary for the firm’s positioning in the industry. For potential entrants the study will help in identifying driving forces in the industry and the reactions. For the government and regulatory agencies the study will be important in formulating policy and regulations in the telecommunications industry.
CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Strategy

The concept of business strategy can be traced very far back in history to many situations including the context of war. Strategy in war is obviously important, given the decisive role it plays in shaping outcomes of battle. Clausewitz (2003) put it that strategy gives an aim to the whole and it maps out the plan of war, and to the aforesaid aim it affixes the series of acts which lead to the object of war. This echoes the central purpose of strategy which is to provide the blue print by which the end can be attained under conditions of direct combat. This is true whether the “war” is actual military conflict or market competition. Just as the significance of strategy rises with the threat of war, so too does the import of business strategy when rivalry intensifies. Price has always been a central focus of competition, although as firms got larger and larger, fears of competition-driven, downwardly spiraling prices led many rivals to seek other non-price ways by which to compete. Out of this bog of combative posturing and maneuvering among powerful rivals came the modern form of competitive strategy in which the concept of Innovation is captured.

2.2 Theories of Innovation Strategies

Companies have been created in order to serve the needs of societies in which they operate. Therefore management which is the process by which such companies are run in order to achieve their goals is a very important activity as it determines the organizations survival in the environment.
Davenport (1954) argues that nothing is more critical to a firm’s competitive success than its ability to develop new products and services and deliver them to customers. Product/service delivery processes are likely candidates for innovation in virtually any company and yet few companies have adopted a process view of these activities, applied innovative thinking to the processes, and employed information technology or human resources to enable radical change. In a review of the management of product innovation, Edward B. Roberts (2002) observes that the management of technological innovation is complex, involving the effective integration of people, organizational processes and plans. Because a great many processes are linked, innovation both in product development and in delivery often consists of improving interfaces between processes and sub processes.

The approach of innovation strategy is further expounded on by Kim and Mauborne (2005) in their book called the Blue Ocean Strategy which looks at the importance of value innovation. Under the blue ocean strategy, they argue that head to head competition results into nothing but a bloody red ocean as rivals fight over shrinking profits. Success comes not from battling competitors but from making competition irrelevant by creating “blue oceans” of uncontested market space. The creators of blue oceans do not use competition as their benchmark. Instead they follow a different strategic logic called value innovation. The strategy is called value innovation because instead of focusing on beating the competition in existing market space, it focuses on getting out of existing boundaries by creating a leap value for buyers and your company which leaves the competition behind.
When exploring the future of management, Hamel (2007) examines what fuels long-term business success and notes that success is not achieved through operational excellence, technology breakthroughs, or new business models, but by management innovation. He further defines innovation as finding new ways of mobilizing talent, allocating resources, and formulating strategies. Through history, management innovation has enabled companies to cross new performance thresholds and build enduring advantages. He emphasizes that organizations need management innovation now more than ever. This is because the management paradigm of the last century centered on control and efficiency factors which no longer suffice in a world where adaptability and creativity drive business success. He concludes by saying that to thrive in the future, companies must reinvent management.

Until now, the literature on innovation has focused either on radical innovation pushed by technology or incremental innovation pulled by the market. Verganti (2009) introduces a third strategy, a radical shift in perspective that introduces a bold new way of competing which he refers to as design driven innovations. Under this concept, he highlights the fact that design driven innovations do not come from the market; they create new markets. They don’t push new technologies; they push new meanings. It’s about having a vision, and taking that vision to your customers.
This is highlighted by Safaricom through M-PESA services which have changed people’s lives both in the local and international market. There are increasing number of organizations that claim to depend substantially on innovation for their strategic success, and still others that argue the importance of becoming more innovatory. But this can only happen if an organization is able to both generate and integrate knowledge from both inside and around the organization to develop and deliver new product or service features. In a fast moving world, constant improvement and change become essential to survival and success (Johnson, Scholes and Whittington 2005).

### 2.2.1 Development of Innovation Strategy

A key choice for managers is whether to lead or follow in innovation. First movers on the basis on the basis of innovation leadership get the easy sales of early fast growth and can establish a dominant position (Johnson, Scholes and Whittington, 2008). Grant (1998) asserts that to develop innovation strategy in an organization, two primary ingredients: knowledge and creativity must be harnessed. He further advises that only by understanding the determinants of creativity, then fostering through appropriate organizational environment can the firm hope to innovate successfully. Innovative strategy development process involves idea generation, screening, testing and implementation. During the idea generation stage, major sources are both internal through employees and external sources such as customers, competitors, distributors and suppliers. This is then followed by idea screening whereby, ideas generated are reduced in order to spot good ideas and drop poor ones.
Once a good idea is chosen, it is then developed into a product concept followed by concept testing to confirm if the concept has strong consumer appeal. Once the test is successful, the next stage will be to carry out a marketing strategy development which involves a description of the target market, the planned product positioning and the sales, market share and profit goals for the first few years (Kortler, 2008). The innovation strategy development is well defined during the new product development process.

Innovation involves new product development process. This refers to the development of original products, product improvements, product modifications and new brands through the firm’s own Research and Development efforts (Kortler 2008). New products are important to both customers and the organization because they solve problems for consumers and bring variety to their lives, as for organizations they are a key source of growth. To create successful new products, a company must understand its consumers, markets and competitors and develop products that deliver superior value to customers. The process involves idea generation whose major sources are both internal through employees and external sources such as customers, competitors, distributors and suppliers. This is then followed by idea screening whereby ideas generated are reduced in order to spot good ideas and drop poor ones. When a good idea is chosen, it is then developed into a product concept followed by concept testing to confirm if the concept has strong consumer appeal. If the test results are successful, the next stage will be to carry out a marketing strategy development which involves a description of the target market, the planned product positioning and the sales, market share and profit goals for the first few years.
Once the management has decided on its product concept and marketing strategy, it can evaluate the business attractiveness of the proposal through business analysis. This involves a review of sales, costs and profit projections for the new product to find out whether they satisfy the company’s objectives. If the product passes the business test it moves into product development stage where the product concept is developed into a new product (Brown, Lamming, Bessant & Jones, 2000; Kortler, 2004). Test marketing is applied on the product whereby the product and marketing program are tested in more realistic market settings. Finally, the new product is commercialized by being introduced as a new product in the market. When the new product is introduced in the market, it undergoes a product life cycle process. The life cycle describes the course of a product’s sales and profits over its life time. It involves five distinct stages: product development, introduction, growth, maturity and decline. Under the product development stage, the company finds and develops a new product idea, during this stage the sales are zero and the company’s investments costs mount.

### 2.2.2 Implementation of Innovation Strategy

It is possible to view implementation as an activity that follows strategy development and formulation; where structures and systems are changed to accommodate changes in strategy, however, implementation, instead of following formulation, may be considered in depth at the same time as the proposed strategy is thought through and before final decisions are made.
Good strategy execution involves a strong fit between the way things are done internally and what it will take for the strategy to succeed. A series of tight fits must be created between strategy and an organization’s competences, capabilities, policies and structures; between strategy and budgetary allocation; between strategy and internal support system; between strategy and the reward structure and between strategy and the corporate culture (Thompson and Strickland 2003). Knowledge management is key component of innovation strategy implementation. This is so because innovation is always a race which front runners are always being chased and caught. Therefore the knowledge an organization has in terms of what it knows about and can deploy in new products and processes (Brown, Lamming, Bessant and Jones, 2000).

This places emphasis on the aspects of innovation to do with acquiring, capturing and managing the knowledge bases of the firm as a key task. The area of involvement in the past and to a large extent in today’s innovation operations emphasizes on specialists. These are those individuals who by virtue of possessing particular skills or experienced are licensed to participate in the innovation process. However, the innovation process has to do with everyone’s contribution in the organization (Peng, 2009). The challenge for a strategic operations manager is therefore to make high involvement by a reality. The concept of sustainability poses a major challenge to strategic operations managers since one of the implicit problems of innovation is that it assumes anything is possible, that there is always something new in product or process. The trouble with this view is that we live on a planet with finite resources, many of which are not renewable.
White and Bruton, 2007 conclude that innovation is not a luxury but an imperative; it is necessary for survival and growth. Yet although uncertain, it is not lottery; evidence shows that it can be managed for competitive advantage. The key lies in recognizing that is a process like any other in organizational life, the difference being that this process is concerned with renewing the things the organization offers and ways in which it creates and delivers them. Managing the process is thus of central concern in strategic operations management. From the study done by Koskei (2003) on formulation and implementation of strategy in Telkom Kenya Limited, it emerges that constant strategy review is a very important concept to be used by an organization due to its existence in an ever changing environment. Strategy implementation is often characterized by several challenges such as cost, resistance to change by individuals in the organization, competition copying the same strategy and minimum returns on revenue from products.

### 2.2.3 Challenges of Innovation Strategy Implementation

Implementing strategy involves action, which in turn involves uncertainty and risk. Pearce and Robinson (2007) argue that many dominant product businesses face the question of what grand strategies are best suited to continue to build value. As businesses jumped on the innovation bandwagon, managers soon find challenges in managing resource needs of innovation in businesses and their respective strategic missions, particularly in times of limited resources.
For a company that has embraced innovation, the strategy making challenges involve carrying out business analysis so that the new product or the improved product offering meets customer’s expectations while at the same time providing value for the organization. This involves a review of sales, costs and profit projections for the new product to find out whether they satisfy the company’s objectives. If the product passes the business test it moves into product development stage where the product concept is developed into a new product. When the new product is introduced in the market, it undergoes a product life cycle process. The life cycle describes the course of a product’s sales and profits over its life time. Various challenges are experienced during this process because the product has to successfully go through all the stages to satisfy the organizations objective (Kortler 2004).

Cost becomes a challenge of innovation in incases where some products or projects maybe very expensive to implement for the organization and yet the profits gained on the particular product may be minimal hence not justifiable to the business. Technical know-how can be restraining factor because organizations may not have highly competent staff to apply the skills required for creating new products. The product life cycle stages themselves are a challenge and Kortler (2008) categorically highlights this. Under the product development stage, the company finds and develops a new product idea. During this stage the sales are zero and the company’s investments costs are high. The second stage of introduction involves a period of slow sales growth and profits are nonexistent because of heavy expenses of product introduction. Growth stage is a period of rapid market acceptance and increasing profits.
The fourth stage is maturity which is characterized by slowdown in sales because the product has achieved acceptance by most potential buyers. Profit level off or decline because of increased market outlays to defend the product against competition. The decline stage is the last one where sales fall off and profits drop.

White and Bruton (2007) observe that there are four critical issues for organizations to address while implementing an innovative strategy. These are leadership, engagement, extension and alignment. Under leadership they mention the need for the organization to install supportive systems and policies, to create mechanisms for innovation and allocate ample resources to critical activities. As for engagement it is important for the organization to build a knowledge-based culture through training, development and mentoring programs. The organizations need to ensure all its members are aligned to the innovation strategy at hand. This is done by tying rewards to achievements, ensuring a “build fit” effect whereby not only must systems align but also the different internal groups must support each other. On the element of extension, the organization must develop and share lessons learned in the different projects, monitor organizational competencies and look for other opportunities.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This research was conducted through a case study. A case study was chosen because it enables the researcher to have an in-depth understanding of the behavior pattern of M-PESA services. More specifically case study is appropriate because the targeted innovative strategies are unique to Safaricom.

3.2 Data Collection

Primary data was collected from four heads of departments namely, M-PESA, Corporate Strategy, Value Added Services, Sales and Marketing departments. Thus, the number of departments for this study was four because these departments are the ones that are directly concerned with M-PESA. Data was collected through personal interviews which contained different sets of questions to the respective respondents. An interview guide was used for this purpose. The guide is attached as appendix 2.

3.3 Data Analysis

The data collected was analyzed using content analysis. This is a technique of making inferences systematically and objectively identifying specific characteristic messages and using the same approach to relate trend. The method also aids in picking out repetitive responses in the data hence arriving at analytical conclusions.
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

The objective of this study was to determine challenges Safaricom encountered in developing and implementing innovation, namely M-PESA product. In this chapter we present the analysis of data collected from the interviewees using a guide attached as Appendix 1. The interviews were done with four departmental heads from M-PESA, namely Corporate Strategy, Value Added Services, Sales and Marketing departments. The interview guide contained a total of six questions. The first question was a general one and applied to all respondents. It was intended to find out how long they have worked for Safaricom. The other set of questions were different and specific to the departments but touched on the objective of the study. The interview guide had open ended questions.

4.2 Changes in External Environment

The interviewees were asked what changes in the external environment affect their operations. From the responses, the interviewees were unanimous on the changes that affect the operations of their business. One of the changes cited was technological change. The level of technological sophistication has been increasing steadily as more and more number of customers continue to use Safaricom services. Thus, there has been an increasing need to maintain high quality services. This has meant that Safaricom invests in unique and efficient devices to remain competitive in the market.
Another change that the interviewees identified as affecting their operations is in the legal environment. The regulatory guidelines promulgated by the Communications Commission of Kenya (CCK) have been posing a major challenge to the organization. One of the most recent ones was the reduction in voice tariff charges by over 50%, which forced Safaricom to revise its rates from Kshs.8 to Kshs.3 since its competitors had already introduced their revised rates in the market. As a result, Safaricom has had to cushion its revenues by aggressively pushing M-PESA services. The interviewees also reiterated that new entrants into the telecommunications industry have increased competition, particularly in product innovation. Some of the competitors have introduced their money transaction services to compete directly with M-PESA.

4.3 General Challenges to Innovation

The interviewees said that one of the challenges the company is facing is the need to have better quality products that meet customer needs and expectations in order to provide value to its customers. They observed that M-PESA is both an internal and market driven innovation which was made possible by a partnership between Safaricom and Vodafone. The M-PESA concept took three years to develop. The two organizations worked together on the project and a major challenge faced was the need to ensure that the two teams worked together on the project seamlessly despite the distance. As a result, expatriates from Vodafone were flown in to Kenya to work directly with the Safaricom team on the ground to ensure its success.
They further noted that understanding the target market, implementing a mobile payment for the masses and financing the M-PESA project were some of the major challenges faced during its conceptualization stage. M-PESA, being a new concept it required a lot of research and finding a correct partnership in the financial sector. In order to overcome these challenges Safaricom sought and got funding for the project from the Department for International Development (DFID) in the year 2003–2007. Also, the company carried out a pilot project with Faulu Kenya, a micro finance institution to understand customer needs.

4.4 Internal and External Challenges to M-PESA Product

The internal challenges emanated from the employees while the external ones were customer based. The interviews confirmed that M-PESA being a financial service, the employees were faced with challenges unique to the financial sector such us ensuring that the correct amounts of money are transacted by the real owners of the money and to enable customers track their finances more easily. Another challenge highlighted was creation of proper communication channels by forming cross functional project teams to focus on the project and conducting of staff product training sessions on the product. Initially, the project team members had to be picked internally from the core network and support sections. However, due to the magnitude of the project it was resolved that an M-PESA department which has its own cost centre and resources be created to focus exclusively on the project. On the other hand, Safaricom customers were used to voice services provided by the organization. As a result, they did not fully understand the money transaction services.
To address this issue, Safaricom invested in marketing awareness program to educate its customers on the new services and inform them on how to register and use the M-PESA service.

4.4.1 Challenges of Growing M-PESA Sales

Safaricom faced challenges of managing market perception as the banking industry made an onslaught on the organization claiming that it has entered its territory. M-PESA is a branchless banking service, meaning that it is designed to enable users to complete basic banking transactions without the need to visit a bank branch. This challenge was exemplified in December 2008 through an announcement by the then Minister of Communications, Honorable John Michuki, that an audit by Central Bank of Kenya be carried out on M-PESA money transfer system due to fears of money laundering tendencies. In response, Safaricom’s Chief Executive Officer Michael Joseph welcomed the audit by the Central Bank of Kenya since it would verify the concerns and satisfy the regulator that measures against money launderings have been put in place and thus, the risks were minimal. He further stated that the audit would reinforce the public confidence in the service.

Another notable challenge in selling M-PESA, is that the product is unique and hence the new sales team faced a steep learning curve. M-PESA sales rode on Safaricom’s existing distribution network however, agent recruitment posed a challenge because there was need to ensure that Safaricom uses correct businesses partners that meet its laid down conditions, including raising enough capital to run the business.
The interviewees further said that Safaricom faced anti money laundering challenges which the organization had to adhere to as stipulated by the Central Bank of Kenya. Further, Safaricom faced “know your customers issues” which were addressed through the system by confirming the customers Personal Identification Number (PIN) numbers on each transaction made.

To penetrate the market further, Safaricom has continued to expand its network all over the country and has also introduced affordable handsets which are low priced and affordable to users in the remote locations or those operating on low budget. With access to mobile services, users can automatically have access to M-PESA services.

4.4.2 Marketing and Communication Challenges

Safaricom faced communication challenges. M-PESA communication had to be solely focused on customer education and awareness. The marketing team noted that they had to create a “send money home” campaign to show users the need for M-PESA service. They said that the communication strategy has since been reviewed and segmented to cover the broad range of M-PESA services available in the market today. The marketing team had to carry out market awareness programs countrywide especially for the poor and illiterate. There are concerns about security, but Safaricom confirms that even if M-PESA customer's phone is stolen the PIN system prevents unauthorized withdrawals. However, the only danger is sending cash to the wrong mobile number and the recipient redeeming it straight away. The marketing team faced a major challenge to communicate this to the market properly in order to allay any fears on the risk of loss.
4.5 Success of M-PESA Strategy

The interviewees were asked to elaborate on whether the M-PESA innovation strategy used by Safaricom to react to competition has been successful. All interviewees agreed that to a large extent, the strategy has been successful. This is evidenced by the current 13 million registered users who transact approximately 30 billion shillings in transfers a month. In addition Safaricom has over 20,000 M-PESA agent outlets, making it the largest network of agents in the region that delivers services to customers.

4.6 The Future of M-PESA

There has been need for further developments on M-PESA by upgrading its system to a more robust platform. This will be able to handle high capacity due to growth of uptake of the service. Further improvements will be done to enhance M-PESA functionality by enabling users pick the sender’s number straight from the phone book address. This will curb the current challenge faced by users where they have to record the number to send money to, separately to avoid instances of sending money to a wrong recipient. Also, the company will continue with customer education program on Personal Identification Number (PIN) disclosure and anti-money laundering as part of managing growth. These developments will require more resources to ensure they are achieved.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusions and recommendations of the study. The conclusions are made on the basis of the objective this study was set to achieve.

5.2 Summary and Conclusions

The study was designed with the purpose of identifying the challenges Safaricom faced in the development and implementation of M-PESA as part of its Innovation Strategy. From the interviews that were conducted with managers in various departments of the company with the aid of an interview guide, it was found that the company was facing threats from the external environment as a whole. Competition is the biggest challenge, hence the reason why the organization opted for an Innovation Strategy.

5.3 Recommendations

The study is valuable to the managers of Safaricom Limited. The findings of the study show that although there are several environmental challenges facing the company, it has put up various strategies to counter the competitive waves with specific focus on innovation to counter competition in the industry. To the telecommunication industry, it is recommended that in order for businesses to remain relevant in the market today, managers need to find creative ways of providing value to customers or creating new markets for their products and services.
To the government and regulatory bodies, this research highlights the need to create level playing field in the market and enabling policies for organizations to provide new products and services. So far, M-PESA has been a success but more needs to be done by the company to enable it maintain its leadership position in the industry.

5.4 Recommendations for Further Research

This study concentrated on the innovation strategy that Safaricom adopted to counter changes in the external environment, especially from competition. One major strategy that the company has employed and found useful is the advertising and marketing strategy. A lot of resources in terms of monetary value and physical resources have been employed to promote Safaricom products. Further research needs to be done to determine whether new and innovative products being introduced by Safaricom are sustainable in the near future. With increasing competition, more studies need to be done to find out what Safaricom’s competitors are doing to tap into its market share that has experienced steady growth since inception of M-PESA product.
REFERENCE


Communications Commission of Kenya website: [http://www.cck.co.ke](http://www.cck.co.ke)


Safaricom Limited website: [http://www.safaricom.co.ke](http://www.safaricom.co.ke)


Vodafone website: http://www.vodafone.com/start/media_relations/news

APPENDIX 1: LETTER OF INTRODUCTION

NEDDY MUNYASI
SCHOOL OF BUSINESS
MAIN CAMPUS
NAIROBI
20TH AUGUST 2010

Dear Respondent,

RE: MBA RESEARCH PROJECT

As part of the fulfillment of the requirement for the degree of Master of Business Administration of the University of Nairobi, am required to complete a research project.

My chosen topic of study is challenges faced by Safaricom through M-pesa as part of its innovation strategy. I would be grateful if you could kindly spare some of your time for me to conduct an in-depth interview with you. An interview guide is here attached for your easy reference and to help you to prepare accordingly. The information you give will be treated with utmost confidentiality and will be used sorely for this research. A copy of the research project will be made available to you on request.

Your cooperation will be highly appreciated.

Thanking you in anticipation.

Yours Faithfully,

Neddy Munyasi
Student

Professor K’Obonyo
Supervisor
APPENDIX 2: INTERVIEW GUIDE

Questions to the Head of Safaricom M-PESA Department.

1. How long have you worked for Safaricom?

2. What challenges did you face in the conceptualization stage of M-PESA idea and how did you overcome them?

3. What challenges did you encounter when introducing M-PESA in the market?

4. In which of these M-PESA markets do you face greater challenges and how do you address them?
   a) Mass Market [ ]
   b) Corporate [ ]
   c) Both a and b [ ]

5. What are the challenges M-PESA is facing currently that have been brought about by competition and how are you addressing them?

6. What challenges if any do you foresee on the future of M-PESA services? Was it challenging not knowing how much the M-PESA project would cost?
Questions to the Head of Strategy at Safaricom.

1. How long have you worked for Safaricom?

2. Are there any problems you encountered when coming up with M-PESA strategy?

3. Did M-PESA concept fit in the overall innovation strategy in Safaricom?

4. What channels of communication did you use to share the M-PESA strategy information at Safaricom and were there any difficulties faced?

5. What challenges both internal and external did employees and customers face with the introduction of M-PESA services? How were they dealt with?

6. Would you confirm if M-PESA strategy is a success and why?

Questions to the Head of Value Added Services at Safaricom

1. How long have you worked for Safaricom??

2. What problems did you encounter when introducing M-PESA as an additional product for Safaricom and how did you overcome them?

3. Is M-PESA a Safaricom innovation done internally or was it market driven and what challenges were experienced?
4. Does an M-PESA service have any shortcomings and what further development plan do you have to improve the product?

5. How long did it take to come up with M-PESA as a final product and what challenges did you face at the market testing stage?

6. Did you face any challenges in forming a team to work on M-PESA?

Questions to the Head of Sales and Marketing at Safaricom

1. How long have you worked for Safaricom?

2. What were the challenges faced when developing marketing strategies for M-PESA service?

3. Did you face any difficulties in building up M-PESA sales in the market and how did you resolve them?

4. What is the approximate number of M-PESA customers?

5. Is the market fully aware and using M-PESA service? What challenges are you facing to penetrate the whole market?

6. Did you face any difficulties assembling a team to sell the M-PESA product and how did you address them?