

**THE STRATEGIC RESPONSE FOR SUSTAINABLE GROWTH OF THE
MOBILE MONEY PRODUCT (M-PESA) BY SAFARICOM LIMITED IN
THE KENYAN MARKET**

BY

JOSHUA NGUKU

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER
OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY
OF NAIROBI**

NOVEMBER 2015

DECLARATION

I declare that this project is my original work and has not been submitted for a degree in any other university.

Signature

JOSHUA NGUKU

DATE

SUPERVISOR

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

Signature

DATE

PROF. ZACHARY B. AWINO
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENTS

First I wish to thank my supervisor **Prof. Zachary B. Awino** whose guidance has been very valuable throughout this study.

Secondly, I wish to thank my loving wife Jackline and daughter Abigail Mumo for the unrelenting support and understanding accorded during my entire MBA course without which I wouldn't have made it through this course.

Many thanks also to my classmates, colleagues and friends for their support and prayers.

DEDICATION

This study is dedicated to my Wife Jackline Mutuku and Daughter Abigail Mumo.

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ABSTRACT

Organizations are open systems, they depend on the environment for resources and also to discharge their outputs. More importantly they operate in an environment of change. This means that they have to proactively monitor the changes in their business environment which has become very competitive, volatile and more importantly unpredictable and align themselves accordingly. It is the environment in which organizations operate which shapes them and influences their choices of the strategy and determines their performance. Gone are the days when organizations used to sit and wait for customers, customers now have a choice and they value quality products and services. Companies require strategic thinking and only by evolving good business strategies can they become strategically competitive (Ansoff and McDonnell 2009). Kenya's mobile money industry is a major player in the Financial Services Sector of the Kenyan Economy. This study used a case study approach to investigate the strategic responses by Safaricom Limited Kenya to the dynamic business environment. Data was collected using an interview guide which was administered by face to face meetings with the respondents namely; The General Manager, M-PESA services, and the functional head of Safaricom Limited who include; Head of Strategy and Innovation, Head of Network Operations, Head of Product Development, Head of M-PESA Operations and Head of Human Resources. In total 12 face-to-face interviews were conducted. The qualitative data collected was analyzed using content analysis technique. The study identified that one of the major challenges within the mobile money industry was poor regulation and lack of prudent governance framework. The study recommends that the regulation within the industry should be improved and a collaborative approach used. There is also need to ensure there is transparency and ethical practices within the sector and the government bodies charged with over-sight authority. This will be useful in driving investor confidence and for the long term sustainable growth of mobile money products and the industry generally. The adoption of strategic responses by Safaricom Limited has enabled it maintain its market share. The findings from the study indicates that the company uses an innovative and collaborative low costs strategy model to market its M-PESA products so as to gain competitive advantage. The company also ensures that the products, processes and operations are safe for the environment and targets to reduce energy usage and related greenhouse gas emissions, conservation of water, reduction of waste and exploration of opportunities for reuse and recycling in driving the sustainability agenda. The upholding of ethics and values that promote integrity and highest ethical business practices are promoted and encouraged within the Safaricom staff. This promotes sustainable practices within the business ecosystem especially within then the distribution channel that is directly response for providing M-PESA retails services. Although the company has managed to differentiate themselves from other players in the market, differentiation alone without aggressive marketing of the products will not attract sufficient customers and it is recommended therefore, that the company continue to allocate more funds to the advertisement of its M-PESA product especially now that there is a new entrant in the market. The findings of the study indicated that firms at times are quick to come up with strategies to deal with changes in the business environment without considering the effects that those responses may have on the business. Thus strategies should be considered wisely, and an analysis of the effectiveness of those responses should be carried out before the strategies are adopted. This will ensure that the strategies suit all the organization thus ensuring a strategic fit for the organization.

CHAPTER ONE

INTRODUCTION

1.1 Background

Organizations are open systems. They rely on the environment for their inputs such as information, finances, raw materials, ideas among others to produce the final product or service. Strategic response enables an organization to survive in a turbulent environment with certainty. In responding to changes in the environment a lot of emphasis is placed on scanning the environment to be able to formulate, implement and monitor a strategy. This is because according to Dettwiller, Lindlof, and Lofsten (2006), organizations often respond to changing environment as major shifts in the business environment can render strategies obsolete.

In dynamic nature of environment organizations have to constantly adapt the activities and internal configurations to reflect the new external realities since if this does not happen may put the organization in jeopardy (Aosa, 1998). For organizations to fit in the turbulent environment they are required to realign structures, systems, leadership behaviour, human resources, policies, culture values and management processes (Russe 2000).

The dynamic capability theory focuses attention on the firm's ability to renew its resources in line with changes in the environment. These means that firms with greater dynamic capabilities will outperform firms with smaller dynamic capabilities. Dynamic capabilities help to understand how firms can create and sustain a competitive advantage over other firms by responding to and creating environmental changes (Teece, 2007).

According to Helfat et al. (2007), a dynamic capability 'is the capacity of an organization to purposefully create, extend, and modify its resources base' (p. 4). The resource-based perspective highlights the need for a fit between the external market context in which a company operates and its internal capabilities. The business strategy chosen should allow the firm to best exploit its core competencies relative to opportunities in the external environment.

The classical school, or rational system definition of an organization is a group of people who collectively contribute to a formally stated purpose. This school focuses on formal aspects of organization such as strategy and mission statements, formal structure and authority, resource allocation systems, standard operating procedure and technical training. The human relations school or natural system definition is that an organization is a group of people who, for individual reasons, collectively contribute to an overall purpose.

In global and highly competitive markets, organizations strive to be innovative and agile enough to meet customers' demands. Competitiveness, based on organizational capabilities and production strategies, may lead to quality, efficiency and flexibility. In the pursuit of 'mass customization', flexibility and scale economies are followed simultaneously. The search for a system's flexibility, responsiveness and reliability on the one hand, and low costs on the other, has led to the reconfiguration of the design and production activities and thus advocated the changes in the overall supply chain management (Suri, 1998).

As the current economic environment becomes more competitive and introducing new brands becomes increasingly costly, companies must find new strategies to increase their capacity and competitiveness (Lipponen et al., 2004). Today's market is enormously more complex. Henceforth, to survive in the market, the company not

only needs to maximize its profit but also needs to satisfy its customers and should try to build upon from there (Slater and Olson, 2001). Flexibility and adaptability have become key management concepts to develop a sustainable competitive advantage, and successful firms apply them in new organizational strategies that put into question many conventional tenets on organizations and their management (Nandi, 2002).

The intensity of competition in an industry is not a matter of luck. Rather, competition is rooted in underlying industry economics and goes well beyond the established competitors. Not all industries have equal potential. They differ fundamentally in their ultimate profit potential as the collective strength of the forces of competition differs; the forces range from intense in industries like tires, paper and steel, where no firm earns spectacular returns, to relatively mild in industries such as oil field equipment and services, cosmetics and toiletries, where high returns are common (Kroll et al.,1999).

The essence of competitive strategy for a company is to find a position in its industry where it can best cope with these competitive forces or can influence them in its favor. Knowledge of the underlying sources of competitive pressure can reveal the basic attractiveness of an industry, highlight the critical strengths and weaknesses of a company, clarify the areas where strategic changes may yield the greatest payoff and pinpoint the industry trends that promise the greatest.

The market has heavily rewarded corporations that have captured the imagination of a generation. Google for instance became a sensation simply by its emotional connection with the end user. Its customer experience gave it an edge in terms of brand promise that no amount of advertising could ever be able to do. The Google guys got strategy right. Their revolutionary G-mail features left Yahoo scrambling to salvage the little that had been left. Safaricom, which started as a department of

Kenya Posts & Telecommunications Corporation, the former monopoly operator, was incorporated in 1997, and soon displaced Airtel (formerly Kencell) as a household name in mobile service provision by the early millennium. Professor. Zack Awino, Strategic Management lecturer in the University of Nairobi, contends that Safaricom has consistently excelled in environment scanning, being visionary and execution of strategy.

The dynamic business environment has affected the telecommunications industry and banking industry in Kenya. The mobile money product provides time independence, convenience, promptness to customers. Due to evolving technology, as well as the convergence of both telecoms and banking industries and declining revenues from SMS and voice revenues Safaricom limited had to come up with other sustainable sources of revenue to ensured continued growth. The M-PESA product came about as a result of innovation and horizontal growth at Safaricom limited. A recent study (Financial Services Deepening Kenya, 2009) has shown that Kenyan banks have now connected their core banking systems to the M-PESA platform.

1.1.1 Strategic Response

In a highly competitive market place, companies can only operate successfully by creating and delivering superior value to target customers and also by learning how to adapt to a continuously changing business environment. Johnson et.al (2005) defines strategy as the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of its resources with the aim of fulfilling stakeholder expectations.

Pearce and Robinson (2007) defined strategic response as the set of decisions and actions that result in formalization and implementation of plans designed to achieve a firms objectives. Therefore it is a reaction to what is happening in the environment in

which an organization operates. Ansoff and McDonnell (1990) noted that strategic response involves changes in the firm's strategic behaviour to ensure success in transforming the future environment and that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to the environmental turbulence.

Day and Schoemaker (2005) explains how organizations can identify changes in their business environment as they emerge, in time to develop a response to potential threats and opportunities that may be important in the future. This means that today's managers must be proactive in anticipating change and continually refine and when necessary make significant changes to their strategies in order to succeed in the changing environment.

Muli (2013) notes that that banks and telcos are increasingly rolling out innovative mobile money products to exploit the opportunity of the untapped market. The study notes that for the past five years the percentage of mobile money transactions kept has increased progressively since the year 2008, with a marked increase of 29.1%. This is due to banks' aggressive strategy in adopting technology in core banking services which ultimately reduces on cost and improves on the efficiency of the banks operations. The study notes that as a result of various innovative products with differentiated capabilities such as equitel, the competition is increasing.

Mutugi (2006) found out that Barclays Bank Ltd responded to changes in retail banking by adopting mobile banking as well as corporate restructuring to ensure tapping of local talent with specialist executive directors being appointed to head new market segments. This strategic response paid off with reduced cost of doing business, lean operations, shorter reporting lines and increase in revenue.

The market segments were redefined and an aggressive campaign by the bank to its customers to adopt mobile and internet banking as a convenient service model. Anyasi and Otubu (2009) notes that in adopting mobile money innovation, banks and telecommunications firms in Kenya are able to do sophisticated products development, implementation of reliable techniques' to control and mitigate risk, enhances the geographical outreach and increased the market diversity. This latest revolution has tapped onto the synergies of mobile technology in telecommunication this facilitating the product uptake and heightening the level of competition amongst banks as well as with telecommunication firms.

1.1.2 Sustainable Growth and the Business Environment

Selznick (1984) defined the business environment as the flows of information of information relevant to goal setting and decision-making through managerial perceptions. Duncan (1972) defined business environment as the totality of physical and social factors taken into consideration by a firm for making decisions. Organizations are vulnerable to changes in their operating environment and this has great impact on their operations. The firm's environment consists of remote environment, industry environment, and the operating environment (Omollo, 2011).

The remote environment is comprised of political, socio-cultural, economic, ecological and technological categories (Dill, 1958) while the task environment comprises of customers, suppliers, competitors and regulators. The task environment is affected by the remote environment while most of the external environment is beyond a firms' or industry control. The remote factors affect the activities of the company. The environment is turbulent and ever changing. Organizations on the other hand environment dependent and environment serving. Organizations have to be aware of what is happening in the environment through regular scanning and analysis

in order to know how to respond to such changes either proactively or reactively. Failure to align the internal capability of the firm to its environment spells doom for the organization (Pearce and Robinson, 2002).

Ansoff and MacDonald (1990) point out that the success of any organization is determined by the match between its responsiveness and strategic aggressiveness and how these are matched to level environment turbulence. Each level of environmental turbulence has different characteristics and require different firm's strategies and capabilities. There must be always a strategic fit between what the environment what the organization has to offer. Organizations must therefore continuously scan the environment to come up with sustainable strategies for growth.

1.1.3 Strategic Response and Sustainable Growth in the Business Environment

Businesses must be constantly alert to competitive pressures and adjust their business strategies accordingly. Even the best businesses can be knocked off their pedestals by a new market entrant or a major industry innovation. Companies continue to adjust to their markets by remaining dynamic and changing their strategies as changes in their environments dictate. Ansoff and McDonnell (1990) notes that strategic success hypothesis is the strategic diagnosis in a systematic approach to determining the changes that have to be made to a firm's strategy and its internal capability in order to assure the firm's success in its future environment.

Sustainability of corporate strategy and how firms ensure that their strategies are relevant for the long run is now a key component of strategy and planning in corporate organizations. Organisations are increasingly recognising that financial indicators alone do not adequately communicate either the opportunities or the business risks facing the company and that failure in non-financial areas can damage shareholder value.

By learning how to define, capture and report on non-financial indicators as part of performance measurement, organisations can uncover new ways to safeguard reputation, build trust among stakeholders, consolidate their 'licence to operate' and ultimately improve their strategic performance. In its Sustainability Report (2013), Safaricom notes that financial inclusion as one its key pillars for long-term growth.

In the contemporary business environment banks have welcomed wireless and mobile technologies that present the freedom to transact from any location, plan payments in a flexible manner and other array of benefits that present more personal and intimate relationship with the customer. Mobile banking can be classified as both push vs. pull and transaction vs. enquiry. As such the mobile money and mobile banking have presented new era of banking and telecommunication services in new market frontiers. Safaricom's M-PESA is leading the market in maintaining a grip on the person to person transfers as well as utility payments. The opportunities and areas of growth are many, but a clear strategy and strategic response that takes into consideration sustainability is required.

1.1.4 Strategic Response and Firm's Performance

There is always a link between the performance of any organization and the strategy adopted to drive performance and growth. Burke (1980) argues firm performance is the systematic progress in which a firm involves all of employees towards improving organizational target in attainment of the firm's mission and vision. Performance expectations, output and outcome are set for both corporate and individual departments in channeling their input towards achieving firm's objectives. There is considerable support for the view that the pace of firm performance is accelerating as never before, and that firms have to chart their way through an increasingly complex environment.

Firms have to cope with the pressures of globalization, climate change, changes in technology, the rise of e-commerce, situations where customers and suppliers can be both competitors and allies, and changes in emphasis from quantity to quality and from products to services. To cope with this growing complexity, firms are recognizing the need to acquire and utilize increasing amounts of knowledge if they are to make the performance necessary to remain competitive.

Pautzke (1989) clearly stated that, careful cultivation of the capacity to learn in the broadest sense to maximize performance of firms. For example; the capacity both to acquire knowledge and develop practical abilities, seems to offer realistic ways of tackling the pressing problems of the current times. Ongoing monitoring provides the opportunity to check how well employees are meeting predetermined standards and to make changes to unrealistic or problematic standards. According to Sorge (1997) and Whittington (1993), by monitoring continually, unacceptable performance can be identified at any time during the appraisal period and assistance provided to address such performance rather than wait until the end of the period when summary rating.

1.1.5 Mobile Money Industry in Kenya

An industry may be defined as a group of firms whose products have so many of the same attributes that compete for the same buyers. This definition can also be extended to include closely related industries supplying services to the market and receiving services from the industry such as the banking and insurance industry. Some industries are more profitable than others. The difference in profitability lies in understanding the dynamics of competitive structure in that industry. The most influential analytical model for assessing the nature of competition in an industry is Michael Porter's Five Forces Model. It draws upon industrial organization economics to derive the competitive intensity and therefore the attractiveness of the industry.

In the Kenyan market although Safaricom has a majority market share in mobile money market according to the latest Communications authority report, the competition is increasingly getting intense with new entrants like Equity Banks's Equitel rolling various strategies. Porter (1980) explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five competitive forces are: the threat of entry of new competitors (new entrants), the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the degree of rivalry between existing competitors.

Mobile Money started as a value added service for operators. When Safaricom piloted the project, the concept of M-PESA had been to create a service which would allow microfinance borrowers to conveniently receive and repay loans using the network of Safaricom airtime resellers. The users of the service would gain through being able to track their finances more easily. As a result the mobile money product was developed with full value proposition to customers which attracted other players in the banking and telecommunications' industry. Muli (2013) notes that the adoption of mobile phones in Kenya has occurred perhaps the fastest rate and to the deepest level of consumer-technology in history. In Kenya the first mobile phone companies were publicly owned and began operations in the mid-1990s on a small scale.

Before the privatization and liberalization of the telecoms industry in Kenya the services were being offered by the defunct Kenya Post and Telecommunication Corporation. The Telkom section would offer wireless and landline business while Postal Corporation would provide mail and Money Transfer services. After liberalization and privatization of the industry a number operators including Safaricom and Kencell (now Airtel) came on board and the industry started growing at an exponential rate.

According to Financial Sector Deepening Kenya (FSD Kenya), the most recent data in available indicates that only 19% of adult Kenyans reported having access to formal, regulated financial institution while over a third (38%) indicated no access to even the most rudimentary form of informal financial service. The main mobile money operators in the Kenyan market are Safaricom (which runs the M-PESA service), AirtelMoney (operated by Airtel Kenya) another telecommunications company with a Pan-African presence, Orange Money(which is operated by Orange Kenya) and a new entrant being run by the Equity Bank of Kenya i.e Equitel. The mobile money market is expected to get more competitive and prices are expected to decline over time as competition intensifies and the business dynamics change.

Besides revolutionizing the money transfer business, mobile money and banking has had an instant and dramatic effect in the way banks do their core operations. It has enabled the development of bank to mobile money transfer service commonly referred to as business to account transfer (B2C).

Other tangible outcomes associated with M-PESA and mobile money is SMS-based alerts, utility and bill payments and the recently launched 'LIPA NA M-PESA' product. The key drivers of the overall growth witnessed in the mobile money industry in Kenya are: strategic partnerships, innovative service e.g. online customer care, intensive and aggressive marketing, dedicated management, management and control of risk and fraud and finally the wide agency network and fast adoption of mobile phone technology in Kenya. The industry faces some challenges that sometimes could hinder the realization of the full benefits to customers such as fraud.

1.1.6 Safaricom Limited

Safaricom Ltd 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 acquired a 40% stake and management responsibility for the company. Safaricom employs over 4500 people mainly stationed in Nairobi and other big cities like Mombasa, Kisumu, Nakuru and Eldoret in which it manages retail outlets. Currently, it has nationwide dealerships to ensure customers across the country have access to its products and services particularly the flagship mobile Money Product, M-PESA.

M-PESA (M for mobile, pesa is Swahili for money) is a mobile-phone based money transfer and micro financing service, launched in 2007 by Vodafone for Safaricom, the largest mobile network operators in Kenya. M-PESA allows users to deposit, withdraw, and transfer money easily with a mobile device. Within eight months of its inception in March 2007, over 1.1 million Kenyans had registered to use M-PESA, and over US\$87 million had been transferred over the system (Safaricom, 2015).

Despite being successful in its initial years of operation in terms of profits, Safaricom Limited hit the world headlines when it launched its money transfer service of M-PESA in 2007. In April 2007, following a donor - funded pilot project, Safaricom launched a new mobile phone - based payment and money transfer service, known as M - PESA. M - PESA has spread quickly, and has become the most successful mobile phone - based financial service in the developing world. By use of M-PESA, the company has entered into partnerships with local banks to enable its customers who hold bank accounts to access their money through ease of transfer of the money between M-PESA account and the bank account.

The M-PESA has picked since its inception since the service does not require users to have bank accounts, and one can send money by use of short message service. With M-PESA, the user can buy digital funds at any M-PESA agent and send that electric cash to any other mobile phone user in Kenya, who can then redeem it for conventional cash at any agent. An M-PESA enabled mobile phone can also function as an electronic wallet and can hold up to 150,000 Kenyan shillings.

By September 2009, over 8.5 million Kenyans had registered to use the service and US\$3.7 billion (equivalent to 10 percent of Kenya's GDP) had been transferred over the system since inception (Safaricom, 2015). The explosive growth for M-PESA is mirrored in the M-PESA agents or service locations which have grown to over 18,000 locations by April 2010, from a base of approximately 450 in mid-2007 (Safaricom 2009). By contrast Kenya has only 491 bank branches. The mobile money industry is within sight of becoming a mature industry and products like M-PESA are continually evolving in response to competitive pressures and customer needs.

1.2 Research Problem

The environment is continuously changing hence giving businesses challenges to stay and maintain sustainable market growth. Building long-term relationships with customers has become a critical strategy for most financial institutions in today's competitive financial markets. As the current economic environment becomes more competitive and introducing new brands becomes increasingly costly, companies must find new strategies to increase their capacity and competitiveness (Lipponen et al., 2004). As customer loyalty is considered a vital objective for a firm's survival and growth, building a loyal customer base has not only become a major marketing goal but it is also an important basis for developing a sustainable competitive advantage.

It has been well accepted that the cost of obtaining a new customer is relatively high and the profitability of a loyal consumer grows with relationship duration (Chiou and Droge, 2006). Understanding loyalty cultivation or retention is thus considered to be a key element in delivering long-term corporate profitability as profits can be increased over the lifetime of a customer through his/her retention. According to resource dependence perspective, organizational choice is limited by a variety of external environmental pressures which are collective and interconnected and organizations must be responsive to external demands and expectations in order to survive (Pfeffer, 1982).

Challenges faced by M-PESA despite its breakthrough were stability in their system and the networks in general, curb fraudsters, faster resolution of customer queries, doubling of the transaction limits and the need to sustain growth as detailed in the study. Muciimi researched on the challenges faced by MPESA in international Money Transfer and found out that key challenges facing M-PESA international money transfer service were numerous regulatory and bureaucratic controls.

The need to remain competitive, productive and open to the challenges of the future in the face of change is becoming important and the demand for innovative technology and service in the information age environment is just one of the challenges facing companies today (Kaplan and Norton, 1966). Mobile banking is one area that is creating value and giving telecommunication and banking firms a competitive edge in their core functions. The objectives of mobile banking include cost reduction, performance improvement, wider customer outreach, increased revenue growth and customer convenience (Bradley et.al 2002). Besides other mobile money products like airtelmoney and orangemoney, M-PESA is now facing competition from the equitel.

Previous studies have been done on strategic response of firms to changes in the environment. Porter (1990) on the dynamic theory of strategy notes the need to link environmental circumstances and an organizational behaviour to market outcomes. Porter notes that for firms to have efficient strategies, the strategic responses should be anchored on the environmental needs with innovation and entrepreneurship as critical success factors. Ansoff and McDonnell (1990) found that strategic response involves changes in a firm's strategic behaviour to ensure success in transforming future environment and to gain competitive advantage. Gupta (1996) argues on the impact of competitive strategy and information technology on firms' strategic responses and notes that with globalization of trade and technology, the most agile competitive strategies will be able to cope on the global stage.

Omwaso (2012), while researching on the progress and prospects of M-PESA, notes that since its inception in 2007, M-PESA has rapidly developed to become one of the most dynamic innovations for delivery of financial services. Nkirote (2014) on the strategic response by National Bank in Kenya finds that in its strategic response the bank has six main strategies; mobile banking, diversification, strategic partnerships, turnaround time and operational efficiency. Deviesh (2013) found that service quality and innovation are key determinants in the Kenyan telecommunications' market, and firms have to come up with strategic plans on how to grow their service portfolio. Mbiti (2011) on the impact and growth of M-PESA finds that the service started as a corporate social program for improving financial inclusion on low income members.

The studies agree that organization need to come up with superior strategies in order to ensure sustainable growth for their technology based products such as mobile money. None of the studies have however focussed on how to execute a sustainable mobile money strategy, and thus as a result this study will focus to bridge the gap and

will establish the specific social, technological, environmental, and economic needs driving the rapid adoption of mobile money and how Safaricom has leveraged on these factors to create an appropriate strategic response to the change. What is the strategic response by Safaricom limited to the changing business environment that will assure sustainable growth of the M-PESA product?

1.3 Research Objective

To determine the strategic response by Safaricom limited and ensure sustainable growth of the M-PESA service in the dynamic business environment.

1.4 Value of the Study

Policy makers, regulators and the government gained an understanding in formulating the appropriate legislations and policies for the industry to the changes in the business environment and can also form a basis to partnerships with the Kenyan operators to formulate competitive strategic responses which can guarantee success in the competitive and dynamic business environment. Thus study also focused on how branding, channel management and pricing can be effectively employed when launching an innovation and how regulators and government can create an enabling environment.

This study has added to the existing body of knowledge on sustainability in corporate strategies. It addresses or gives examples through the subject of discussion how firms can address strategic challenges of sustainability. It was driven by the fact that sustainability is becoming a key reporting requirement for businesses since financial indicators are not solely sufficient in providing all the necessary information on how shareholders and other stakeholders can derive value in the long term. This study therefore focused on the strategic response adopted by Safaricom for its Mobile Money strategic business unit.

The results of this study were useful to scholars and researchers as a basis for further study. It contributed to theory building particularly in strategic responses and the dynamic business environment. The findings of this study enriched existing knowledge. It provides the required direction on research methodology, literature review and formulation of research objectives and questions. The study shows how Safaricom was capable of collaborating with policy formulators to identify the opportunities in the financial service sector and illustrated how the organization was able to translate this opportunity to a successful venture.

1.5 Chapter Summary

This chapter is an introduction of the study and attempts to look at the background on which the theories are based as well as the contextual environment on the subject of the study. It highlights the dynamic capability theory and analyses the dynamic nature of environment that organizations have to constantly adapt in order to remain competitive. The aspect of what entails strategic response in an organization operating in the mobile money market is covered where the responsiveness of a firm's strategic behaviour to ensure success in transforming the future environment and its own success is highlighted.

The research problem and the value of the study is also captured in this chapter which also highlights the competitive nature of mobile money market. The strategic value of rolling out mobile banking includes cost reduction, performance improvement, wider customer outreach, increased revenue growth and customer convenience for both telecommunications and banking firms. The product proposition for M-PESA and how Safaricom limited has grown and evolved the strategic business unit is discussed.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discloses important issues which will form the background of my study. It discusses both the conceptual and theoretical framework of this study. It addresses the empirical evidence of previous studies on the area of strategic responses of organizations to dynamic business environment.

2.2 Theoretical Foundation

Peters (1987) notes that the chaos theory provides a useful theoretical framework for understanding the dynamic evolution of industries and the complex interactions among industry actors. It is argued that industries can be conceptualized and modelled as complex, dynamic systems, which exhibit both unpredictability and underlying order. By understanding industries as complex systems, managers can improve decision making and search for innovative solutions.

The study offers a strategy to help corporations deal with the uncertainty of competitive markets through customer responsiveness, fast-paced innovation, empowering personnel, and most importantly, learning to work within an environment of change. He asserts that we live in a world turned upside down, and survival depends on embracing revolution. This means that business strategies should be just in time, supported by more investment in general knowledge, a large skill repertoire and application of relevant knowledge to gain competitive advantage (Peters, 1987).

The dynamic capability approach focuses attention on the firm's ability to renew its resources in line with changes in its environment. These means that firms with greater dynamic capabilities will outperform firms with smaller dynamic capabilities. Dynamic capabilities help to understand how firms can create and sustain a

competitive advantage over other firms by responding to and creating environmental changes (Teece, 2007). According to Helfat et al. (2007), a dynamic capability is “the capacity of an organization to purposefully create, extend, and modify its resource base” (p. 4).

Dynamic capabilities can be distinguished from operational capabilities, which pertain to the current operations of an organization. Dynamic capabilities, by contrast, refer to “the capacity of an organization to purposefully create, extend, or modify its resource base” (Helfat et al., 2007). The basic assumption of the dynamic capabilities framework is that core competencies should be used to modify short-term competitive positions that can be used to build longer-term competitive advantage.

Three dynamic capabilities are necessary in order to meet new challenges. Organizations and their employees need the capability to learn quickly and to build strategic assets. New strategic assets such as capability, technology, and customer feedback have to be integrated within the company. Existing strategic assets have to be transformed or reconfigured. Teece’s concept of dynamic capabilities essentially says that what matters for business is corporate agility: the capacity to; (1) sense and shape opportunities and threats, (2) seize opportunities, and (3) maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise’s intangible and tangible assets. Learning requires common codes of communication and coordinated search procedures (Teece, 2007).

The organizational knowledge generated resides in new patterns of activity, in “routines,” or a new logic of organization. Routines are patterns of interactions that represent successful solutions to particular problems. These patterns of interaction are resident in group behavior, and certain sub-routines may be resident in individual

behavior. Collaborations and partnerships can be a source for new organizational learning, which helps firms to recognize dysfunctional routines and prevent strategic blind spots. Similar to learning, building strategic assets is another dynamic capability. For example, alliance and acquisition routines can enable firms to bring new strategic assets into the firm from external sources (Helfat et al., 2007).

Teece observed that in changing environmental conditions, like for example a technological disruption, companies will have to adapt their portfolio of resources. Take the example of Kodak which was clearly the dominant firm in the imaging market when the market was still based on chemical processes rather than digital image processing. With the change to digital photography Kodak was still well equipped with the needed resources to create a competitive advantage when competing on selling film or processing the printing of images on paper. In the digital world however different resources were needed to provide the customer with a superior imaging experience (Teece, 2007).

Most likely the needed resources for the digital world would also have included managerial abilities such as forming and managing alliances with partners that can contribute complementary assets, such as software companies or companies that can play complementary roles in the new value chain. Teece proposes that companies that are in a situation similar to Kodak's need to have the:(non-imitable) capacity to shape, reshape, configure, and reconfigure assets (resources) so as to respond to changing technologies and markets (Teece et al., 2007).

Competitive advantage is seen to be founded on a complex of competences, capabilities, skills and strategic assets possessed by an organization, or in other words from the astute management of physical and intellectual resources which form the core capability of the business. Core capabilities is defined as "a set of differentiated

skills, complementary assets, and routines that provide the basis for a firm's competitive capacities and sustainable advantage in a particular business". Such capabilities or core competences are not built on discrete independent skills but are "the synthesis of a variety of skills, technologies and knowledge streams" (Prahalad and Hamel, 1990).

A competitive advantage is gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. For growers and producers involved in niche marketing, finding and nurturing a competitive advantage can mean increased profit and a venture that is sustainable and successful over the long term. This fact sheet looks at what defines competitive advantage and discusses strategies to consider when building a competitive advantage, as well as ways to assess the competitive advantage of a venture (Porter, 1980).

With the advent of product differentiation and niche and direct marketing, that reality has changed, and now there are niche markets in which both individual and wholesale buyers are looking for products with very specific characteristics or special services. These characteristics often use strategies that don't focus on costs and volumes exclusively; rather the product or service may be of premium quality, be differentiated from other products and services available in the market (such as organic, natural, or humane production), or have a value-added component (i.e. flavored meats, pre-washed salad mixes, etc.). Successful ventures perform a combination of business activities well, including marketing, production, distribution, finance, customer service, and/or other activities important to the enterprise. However, a competitive advantage is often a single key element that gives an edge to a business beyond what the competition has or does (Porter, 1980).

In transaction costs theory, the reason for inter organizational cooperation is found in potential for transaction costs reduction for the firms involved (Frey, 2002). Cost plays a significant role in competitive advantage and can often be the basis upon which larger companies compete, and for larger companies, that often makes sense. Sometimes, a larger company will be able to become the low cost producer in that industry. Although a company might not develop an overall lower cost structure, that company might be able to leverage specific business costs such as distribution cost, labor cost, or lower cost of capital investment (Porter, 1985).

2.2 Concept of Strategy and Strategic Response

A strategy is a long term plan of action designed to achieve particular goal most often “winning” (Thompson et al., 2007). Strategy is a deliberate search for a plan of action that will develop a business’s competitive advantage and compound it. For any company, the search is an iterative process that begins with the cognition of where you are and where you want to be. The overall objective of strategy is to create competitive advantage, so that the company can outperform the competitors and guide the company successfully through all changes in the environment.

Johnson et al. (2005) defines strategy as ‘the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations’. In its determination of the long-term direction of an organization, strategy involves the interplay of three elements: the organization’s external environment, its resources and its objectives (in meeting the expectations of its stakeholders).

“Strategic management is an ongoing process that assesses the which the company is involved; assesses its competitor’s and sets goals and strategies to meet all existing and potential competitors; and then reassess each strategy annually or quarterly to

determine how it has been implemented ” (Lamb, 1984). Strategic Management is the Art and Science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives. The main purpose of strategic management is to exploit and create new and different opportunities for tomorrow (David, 2011). The concept of strategic management is very important in today’s organizations whose aim is to exceed the needs of its customers. It is about attracting and retaining customers and not about gaining 100% market share.

Ansoff and McDonnell (1990) argue that strategic response encompass changes to the firm’s strategic behaviour. The study further notes that strategic responses involve changes to the organization behaviour where such responses may take many forms depending on the environment in which it operates. Companies react differently to economic environment, some come up with new products, diversification, improved customer care, new product innovations, and differentiation. To survive in today’s dynamic business environment, a company’ management team must be able to react to the changes in the internal and external environment (Meyer and Rowan, 1997).

Strategic response to competitive environment is the art and science of formulating, implementing and evaluating cross functional decision that will enable an organization to achieve its objectives amid the competitor’s existence. It is the business of specifying the organizations objectives, developing policies and plans to achieving the organization’s objectives. It is the highest level of managerial actively, usually formulated by the board of directors and performed by the organization’s Chief executive Officer (CEO) and executive team (Aosa, 1998).

2.3 Dynamic Business Environment

Selznick (1948) defined the business environment as flows of information relevant to goal setting and decision-making through managerial perceptions. Duncan (1972) defined business environment as the totality of physical and social factors taken into consideration by a firm for making decisions. The business environment is divided into external and internal categories. The internal environment comprises physical and social factors within the boundaries of a firm or industry; the external environment comprises correlating factors existing outside the boundaries of the firm (Duncan, 1972).

This environment creates opportunities risks or control for the company. The business environment can be considered to be in terms of the following layers; macro environment (remote), industry environment and operating environment (micro).The most general layer of the environment is referred to as microenvironment.

The macro environment consists of broad environmental factors that impact to a greater extent on almost all organizations. The macro environmental influences that might affect organizations can be categorized using PESTEL framework (political, economic, social, technological, environmental and legal). These factors are not independent of each other and when they change they affect the competitive environment (Johnson et al., 2002).

2.4 Strategic Response and Dynamic Business Environment

Strategic response to competitive environment is the art and art of for formulating, implementing and evaluating cross functional decision that will enable an organization to achieve its objectives amid the competitor's existence. It is the business of specifying the organizations objectives, developing policies and plans to achieving the organization's objectives. Gone are the days when companies would

develop 10-year strategic plans and put them on the shelf. Today's businesses need plans and strategies that are more dynamic and that serve as living documents to guide the organization's practices on an ongoing basis for success (Johnson and Scholes, 2003).

A formal annual plan update is common, but a business should continually monitor its plan and plan performance and be able to make informed decisions on the next steps. Dynamic business strategies require businesses to pay close attention to a variety of sources, both from business operations (sales data, for instance) and stakeholders (customers). Monitor your environment and put processes in place to collect, aggregate, analyze and react to information from various sources, both inside and outside your company (Pierce and Robinson, 2003).

2.5 Mobile Money Transfer

Mobile money transfer projects started in 2003 in the Philippines, followed by Kenya and South Africa. These projects are being embraced enthusiastically by regulators and providers in Asia, Africa and Latin America. More than eighty per cent of the world population now has mobile coverage. In 2009, there were more than four billion mobile subscriptions. Eighty per cent of these new subscriptions were in emerging markets and held mostly by lower income consumers (CGAP and DFID, 2009). CGAP and DFID (2009) further assert that the euphoria around mobile money transfers lies in the fact that a large number of the unbanked have mobile phones. Hence they have access to a familiar payment channel. However, surveys of the use of mobile money transfers show that the majority of current customers are coming from the banked group. This does not diminish the fact that some of the people using mobile money transfers do not have a bank account.

At present, mobile money transfers depend on the basic handset, often using SMS to convey the message that money has been transferred. The person wanting to send money goes to a cash-in agent. The agent sends a message to the recipient giving a code number that needs to be taken to a cash-out agent at the receiving end. As such, mobile money transfer services are among the most promising mobile applications in the developing world. They have become a general platform that transforms entire economies, as it is adopted across commerce, health care, agriculture, and other sectors (Mbithi, 2011).

To date, according to Menekse, (2011), at least one hundred and ten money mobile systems have been deployed, with more than forty million users. The most known system, M-PESA, started in Kenya and is now operational in six countries; it has more than twenty million users who transferred \$500 million a month during 2011 as per the Vodafone Annual Report 2011. As an evolving technology, mobile money transfer has modified the ways in which users transmit and exchange money. It focuses on the increasing momentum behind the use of mobile phones as a tool to promote economic growth and, specifically, financial inclusion.

Money transfer services for both domestic and international remittances are shifting from traditional providers to wireless carriers such as mobile operators who are able to compete for consumer market share on the basis of technological ubiquity and lower cost services (Merritt, 2010). According to Rizza (2007), mobile money transfer is the term used for using a cell phone to make payments to others using a cell phone where value can be stored on an “m-wallet” before and after the transaction. Basically, in mobile money transfer transactions, a sender loads money into his m-wallet by going to a registered agent sometimes a financial institution then the sender uses a secure electronic approach to transfer funds to the recipient’s m-wallet.

The recipient can either store the funds in his m-wallet for further mobile money transactions or go to an agent to convert the mobile money to cash. According to Esselaar et al. (2007), mobile money transfer is used to loosely refer to money stored using the subscriber identity module (SIM) as an identifier as opposed to an account number in the conventional banking sense.

A notational equivalent in value is then kept on the SIM within the mobile phone, which is also used to transmit payment instructions. The corresponding cash value is physically held by the mobile network operator, a bank or another third party depending on the business model. As pointed out by Morawczynski (2009), mobile network operators and their agents provide an interface between the two sides through cash-out (issuing cash on demand) or cash-in (convert cash to notational equivalent) functions providing convertibility between mobile money and cash. Western Union has made penetration in the African mobile money transfer services by enabling the service users to make international money transfer with partnerships with mobile phone companies in some African countries.

These agreements have been made with MTN in Uganda, Vodacom in Tanzania, and Inova in Burkina Faso, Safaricom's M-PESA in Kenya, Telmar Madagascar and other such agreements are still in the pipeline. In this collaboration, customers are able to add funds to their accounts, which they can send through Western Union's system. They can receive money via the same system from anywhere in the world. Money transfer has undergone a revolution since evolution of mobile phone services. The spread of the mobile phone services across the world, which was occasioned by production of easily affordable hand held telephone sets, has led to expansion of mobile money transfer (Mutuku, 2010).

It is currently estimated that more than 60 million adults in the world are using mobile money transfers to carry out their daily transactions (World Bank, 2012). According to Lewandowska (2009), the ratio of mobile phone users to bank accounts is 4: 1.5. This means the possibility of mobile money transfer picking up faster in non-banking transactions is high. The use of electronic mobile money transfer system has been on a rising trend since the advent of mobile phone technology. Report done by World Bank (2012) indicates that 36 % of the world population uses mobile money transfer to pay bills, buy goods, save money, lend and borrow. Of the population in sub-Saharan Africa, 16 % use mobile money transfer. This money transfer is of importance to the population in sub-Saharan Africa, three quarters of which were reported to be lacking access to the formal banking services.

The convergence of mobile communications and financial services has enabled a large number of people worldwide to benefit from mobile financial services thus influencing development. According to Ignacio and Radcliffe (2010), nowadays, mobile money services are not only popular for domestic remittances, that is person to person (P2P), but also are used for bill payments e.g. for utilities or school fees, business to business (B2B) and government to business (G2B) payments, and social transfer payments such as government to citizen (G2C). For the latter, mobile money can enable “m-vouchers” where the use of social transfer payments can be restricted to purchasing certain items, such as fertilizer or other inputs. In this way, mobile money has the potential to facilitate faster and more secure flow of money among billions of customers far more than current bank account holders.

2.6 Mobile Money Transfer Strategies

The movement of money (money transfer) in any economy is very essential in development of economies of countries and improvement of livelihoods of their citizens. Money movement enables businesses to pay out for services and to buy the essential commodities needed for production. Likewise, in the consumer economy, the consumers need access to money to pay for essential commodities and services. Access to cash or easy to convert cash sources is therefore an important factor in procuring of any services both in the producer and consumer economy (Fight, 2006).

The success of mobile money transfers rests on their fulfillment of customers' needs and the offer of a better solution than was previously available. According to Merritt (2010), advances in technology have enabled alternative functionalities for mobile handsets beyond the original visions of the designers of handsets or wireless communication architectures to supporting a new and viable channel for mobile financial services, including bill payment and account transfers, domestic and international person to person focusing the mobile money transfer initiatives on the unbanked in emerging markets. Here, the mobile network operator fills the role of drawing the ecosystem together, providing the infrastructure for the payment system and oversight for the agent network.

In the process, mobile operators can recognize incremental revenue for the addition of data transmission to their voice network operating systems, either in cooperation with a bank partner or independently. The mobile carriers own the customer billing relationships and exercise control over the distribution of mobile phones through their relationships with the handset manufacturers. Another strategy used by mobile money operators to ensure success of their operations is incorporating agent networks (Wairimu, 2009).

The mobile network operator acts as an agent, using its own retail distribution network; however, in some countries, airtime resellers have emerged as sub-agents to expand service distribution to more rural locales. The primary role of an agent is to accept and disburse cash, in essence providing cash-in and cash-out services from the consumer's mobile handset. In this role, the agents serve as branches for the mobile network operators and act as the primary touch point for the customer relationship. As the liaison between the mobile network operator and the consumer, the agent bears responsibility for account opening, customer due diligence, and know-your-customer program compliance (Wairimu, 2009).

Retail sales stores and airtime resellers are typical candidates for mobile money transfer agents because they tend to have sufficient liquidity to satisfy consumers' needs to deposit and withdraw cash. This network of local agents expand the mobile operator's reach to rural areas in order to achieve a higher level of penetration in unbanked markets where there is no physical bank presence, essentially enabling a branchless payment system, outside the traditional bank-led business model. Agents typically provide liquidity with funding from other business activities including selling airtime in addition to general merchandise (Bangens and Soderberg, 2008).

In the Kenyan market, Safaricom's M-PESA agent network has evolved into a two-tier structure with master agents who manage liquidity as the liaison between Safaricom and the individual stores, or sub-agents under their management framework. The master agent buys and sells cash from Safaricom, makes it available to the sub-agents, and distributes agent commissions (Bangens and Soderberg, 2008). In return, agents receive commissions for transactions, holding the balances on their own cell phones (Jack and Suri, 2010). These mobile airtime balances and cash on premises are the critical elements of the agents' liquidity management system.

Mobile money operators also utilize the innovation strategy to ensure that they serve their customers well, as well as remain competitive and relevant in the ever challenging, turbulent and dynamic market. According to Merritt (2010), different mobile payments business models have emerged depending on the applicable regulatory climate, consumer culture, and demographics. In the most basic sense, a business model may be bank-centric, mobile-operator led, or partnership led (Boer and de Boer 2010), with technology.

2.7 Significance of Mobile Money Strategies

The global system for mobile communications Association (GSMA) reported more than billion mobile phone subscriptions globally, with 80 percent of new connections in emerging markets and mostly by lower income consumers. By contrast, only 2.2 billion of the world's population has a bank account (or access to financial services) (Montez and Goldstein, 2010). M-banking and mobile money transfer (MMT) have emerged as promising new approaches to accelerate financial inclusion and increase access to financial services. Although most m-banking applications provide a new delivery channel to existing bank clients, transformative models can integrate unbanked populations into the formal financial sector. According to the GSMA, as of March 2010, there were approximately 60 live m-money deployments and more than 87 planned deployments (Montez and Goldstein, 2010).

One of the reasons mobile money has attracted considerable attention is the expectation that it can provide affordable financial services to previously excluded populations (Ivatury, 2006). A considerable literature on financial inclusion emphasizes that "banking the unbanked" can lead to better decision-making, more efficient markets, and various other development goals (Collins et al., 2009).

Throughout the developing world, mobile phones have emerged as one of the most widely diffused technologies; in Kenya, mobile subscriptions in 2009 were 48.65 percent of the population, up from a paltry 0.41 percent. This is a scale unimaginable for traditional brick and mortar infrastructure, such as bank branches. M-payments intersect with microfinance because the technology can be used to increase outreach to clients, particularly in rural areas, and deepen financial inclusion. With the increasingly large number of mobile phones being used in developing countries including microfinance clients, m-payments and m-banking, there are excellent options in microfinance's arsenal (Chemonics International, 2010).

Implementing m-payment and m-banking for microfinance has, in most cases, proven challenging and should be studied carefully before being integrated into a microfinance activity. Some of the issues that arose in the past initiatives were: lack of IT infrastructure and human resources capacity within microfinance institutions (MFIs) and vague regulatory environments governing microfinance, electronic money, and payment systems (Chemonics International, 2010). Ivatury (2006) assessed 62 banks and microfinance institutions (MFIs) using ICT to deliver financial services to poor people. Of these, only ten were using mobile phones, as opposed to ATMs or point-of-sale terminals.

Providers were motivated to use ICT by a desire to improve customer convenience, lower processing costs and increase coverage, revenue and holdings. However, a paucity of data made it difficult to ascertain if poor and remote populations were benefiting and, if so, to what degree. Importantly, Ivatury (2006) linked mobile money explicitly to a significant and well-established literature on the impact of financial inclusion.

2.8 Research Gaps

The above studies suggest a set of hypotheses that may be tested empirically. Several strategic responses studies have operationalized way of responding to the dynamic business environment by measuring subjects' responses to changes in the environment and ways of maintaining sustainability. Ansoff and Mc Donell (1990) note that strategic responses involve changes to the organization behaviour such responses may take many forms depending on the environment in which it operates.

Mulwa (2009) found that part of the underlying strategy for M-PESA was effective execution of branding and positioning of the product as a convenient innovation to the market that lacked affordable banking services. Companies introducing new products should study the customer need and understand the consumer's cost to satisfy the want or need. The product price may be only one part of the consumer's cost structure. It is important to consider the convenience of the buying experience and a suitable delivery mechanism.

Deviesh (2013) notes that the virtual convergence of the telecoms and banking industry sparked a new era of opportunities and competition. The mobile money is regulated by the Communications Authority of Kenya (CA), the Central Bank of Kenya and the Competition Authority through a number of Acts of Parliament such as the Information and Broadcasting Act and the Banking Act. The CBK determines the players of the industry as well as having an oversight role as prescribed in the National Payments Bill.

There is need for further research on the evolving and often fierce competition between telcos and banks in Kenya in their bid to attract and retain low end customers through their mobile money offerings. Sande (2014) notes that although some telcos such as Airtel and Safaricom have been successful in responding to competition with

each other, there is need to engage on strategic responses that ensure sustainable growth in the face of changing dynamics in the mobile money sector. The study found that company policy, technological change and strategic initiatives are increasingly influencing the development of strategy in the sector.

2.9 Chapter Summary

In summary, the model of strategic responses presented here offers a deeper understanding of the study through detailed analysis of Safaricom's M-PESA service. It is not only unique in terms of the context but also in time perspective. Different changes occur in the business environment in different time frames and this calls for different tactics by the organizations in order to ensure sustainable growth (Mintzberg, 1987).

This chapter also discusses both the conceptual and theoretical framework of the study besides addressing the empirical evidence of previous studies on the subject of strategic responses for organizations to the dynamic business environment. The chapter looks at how the environment creates opportunities, risks or control of the company and how much research work has been done to the existing knowledge body.

The studies reviewed a set of hypotheses that may be tested empirically. Additionally several strategic responses studies have operationalized ways of responding to the dynamic business environment by measuring subjects' responses to changes in the environment and ways of maintaining sustainability and growth in. The existing research gaps in the subject of discussion is well explored and the need for sustainable growth of mobile money services as an avenue of increasing financial inclusion in the unbanked Kenyan population.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology entails a documented process for management of projects that contains procedures, definitions and explanations of techniques used to collect, store, analyze and present information as part of a research process. It also describes the method used by the researcher in data collection.

3.2 Research Design

A research design is a framework specifying the relationships among the study variables. The researcher used a case study design which is suitable in situations where questions such as how, why and what are investigated on a certain phenomenon to give facts of the situation as it is, without interference with by the researcher.

This design is where background, development, current conditions and environmental interactions of one or more individuals, groups, communities, businesses or institutions is observed, recorded and analyzed for stages of patterns in relation to internal and external influences. This design is appropriate since only Safaricom Company Limited will be used to show the strategic response for sustainable growth of the M-PESA product in a rapidly changing environment. It will also be appropriate because a detailed and analytical inquiry will be conducted to have in-depth description of the subject under study.

3.3 Data Collection

Primary data sources were used for data collection. An interview guide containing open ended questions was also used. The interview contained three sections; A, B and C. Section A addressed the general information about the respondents and the company, Section B 1 addressed the economic factors, while Section C 1 addressed

the main issues in order to seek responses to the research questions. The target respondents for the study were six and included: the General Manager, M-PESA services, and the Departmental Heads of Safaricom Limited who include; Head of Strategy and Innovation, Head of Network Operations, Head of Product Development, Head of M-PESA Operations and Head of Human Resources.

The study targeted these top management employees since they are involved in strategy development and execution. The five respondents used in the study were all stationed in Safaricom Headquarters building. The interview guide was administered by face to face interview. The researcher visited the interviewees in their work stations.

3.4 Data Analysis

The qualitative data that was collected was analyzed using the content analysis technique. According to Mugenda and Mugenda (2003) the main purpose of content analysis is to study the existing information in order to determine the factors that determine a specific phenomenon. Content analysis uses a set of categorization for making valid and replicable inferences from the data to their context.

Before processing the data, the interview guide was checked for completeness and consistency. The responses from the various respondents were compared and summarized according to the objectives of the study. The researcher analyzed the content which fitted the study themes as given by the respondents. The study method afforded the researcher the ability to deal with a wide range of evidence from the respondents. Content analysis is the best method for analysing the open ended questions because of it's a flexibility and will allow for objective, systematic, and quantitative description of the content of communication (Cooper and Schindler, 2006).

3.5 Chapter Summary

This chapter summarizes the research methodology followed in the study. It details the documented process for management of the project and the procedures, definitions and explanations of techniques used to collect, store, analyze and present information as part of a research process. The researcher used a case study design which is suitable in situations where questions such as how, why and what are investigated on a certain phenomenon. This design was appropriate since only Safaricom Company Limited was used to show the evolution of the strategic response for sustainable growth of the M-PESA product in a rapidly changing environment.

The summary of the data collection methods used is shown very clearly in this chapter. Primary data sources were used for data collection. A detailed interview guide containing open ended questions was used to interview 6 senior management staff for Safaricom Limited in order to collect data for the research. The qualitative data that was collected was analyzed using the content analysis technique as captured in the chapter as well as the reasons why content analysis was the most preferred method for analysis for the research.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and discussions of the study as set out in the research methodology. The study objective was to establish the strategic response to changing business environment by Safaricom limited to ensure sustainable growth of the M-PESA product in the Kenyan market. Primary data was collected through in-depth interviews of 6 senior managers at Safaricom Limited from the following departments; Financial services, Strategy and Innovation, Network Operations, Product Development, M-PESA Operations and Human Resources. The data was thereafter analyzed based on the objective of the study.

4.1 Changes in Business Environment affecting Mobile Money Market in Kenya

4.2 Changes Affecting the Business Environment in the Mobile Money Market in Kenya

The changes influencing Mobile Money may be classified in 4 main categories; the Economic Changes, Technology Evolution, Regulatory framework, Infrastructure and the Risk Factor. In developed markets, the service is at the initial stage and is seen as a convenience that does not generate high revenues, but one on which to build value-added applications. In emerging markets such as the Kenya Market, the large rural populations provide a perfect base to tap the unbanked group with no bank account but a mobile phone. Lack of formal banking services, was cited as one of the factors greatly influencing the mobile money industry in the Kenyan market. About 60% of the country's population did not have formal banking services which means there exists a potential market for the providers of mobile money services which in essence have substituted the formal banking services.

Evolution of technology is another major change affecting the mobile money industry in Kenya. Recent advances in handset functionality, chip and mobile network technologies, and upgrades to point-of-sale infrastructure have dramatically improved the environment for mobile money solutions, bringing together different industry groups, such as banks and operators. New integrations have facilitated the path to strategic partnerships between banks and telecommunication firms where mobile banking products have been rolled out. The payments business is also been integrated into the mobile money platforms with products for merchants businesses such as 'LIPA NA M-PESA' growing at an exponential rate due to the high adoption. It's worth noting that the increasing competition has seen new opportunities for growth and product uptake thus the increased level of marketing and product innovation.

The need for sustainable strategic growth has pushed the mobile money operators to constantly review the pricing models as well as the need for improved customer service which has seen new agents' recruitment across the country in a bid to increase the service provider's geographical outreach. As a matter of observation, the new innovations in the mobile industry have become change agents, especially because the innovative products offered in the agents employ new approaches to courting customers and increasing the customers' satisfaction levels. Mobile money is evolving towards a lifestyle and convenience proposition, with applications commonly developed around transportation, retail, banks and mobile commerce.

The regulatory framework in Kenya has been fairly supportive and has seen a number of policies and legislations that have facilitated the outward growth of the mobile money products. The rise of supportive role from public Authorities such as the Kenya's Central Bank, Communications' Authority and the emergence of new regulatory concepts that allow free and a liberal market open to new products with as

few inhibitors as possible. The risk factor has also facilitated the growth of M-PESA since customers are not willing to carry cash to due to risk of loss or even theft. This has enabled mobile money to be more of a collaborative model to share risks for customers and this has been a factor influencing the growth of mobile money market and the business environment.

The study found out that the 3 licensed telcom operators companies do operate Mobile Money Products and are competing for a limited market with some banks that are also doing mobile money. The prevalence of mobile phones has generated consumer convenience as well as access to financial services for the unserved. This opens up many opportunities for stakeholders to set foot in the rural and emerging economies. Mobile money services could potentially increase ARPU (Average Revenue Per User) for mobile operators by increasing data traffic.

This is particularly important as operators are expanding into developing markets where ARPU is traditionally low. One reason for mobile operators to promote mobile money services is the potential to increase the share of wallet of the customer. Telecom companies may broaden their reach to a new segment of customers by offering new non-telco services. Increased market share from the new customer group would also open up opportunities to cross-sell telecom services, thereby spurring revenue growth. The Banks are able to reach more customer segments using the Mobile Money Products.

The study found out that the respondents strongly agreed that there are several legislative and taxation changes made in recent years that have had an impact on the Kenyan Mobile Money industry. The benefits for mobile money for telcom operators include; new revenue channel (e.g. share of fees), and increased customer acquisition, increase in revenue as well as the need to meet corporate social responsibility agenda.

In the Banking Sector, Mobile Money products assist in Extended banking penetration and reach into untapped market, Increased number of transactions, Low acquisition costs, Reduced operational cost, and the Opportunity to up-sell other banking products (e.g. mortgage, loans, insurance) to customers. In the rapidly changing environment, Mobile Money providers' operators are facing the challenges of growth, operational efficiency, convergence, technology and increasing regulatory pressures.

4.3 Strategic Responses to Change in Dynamic Business Environment

The business environment in the Mobile Money Industry in Kenya has changed continuously and the researcher wanted to know the changes in the dynamic environment affecting Safaricom Limited and the strategic responses that Safaricom Limited has adopted to ensure sustainable growth of the M-PESA product. The respondents gave a number of changes to the business environment and the strategic responses to these changes that assure sustainable growth of the M-PESA product. Among the changes that featured prominently was Technology Evolution in the sector. There are also strategic partnerships between mobile money operators and banks and other services providers particularly payments and banking services.

One of the key strategic responses was the continuous roll-out of innovative products and the improvement of products characteristics and the service offering within M-PESA. Mobile money is evolving towards a lifestyle and convenience proposition, with applications commonly developed around transportation, retail, banks and mobile commerce. From the respondents feedback a number of innovative and strategic partnerships with banks have been rolled to ensure increase in revenue as well gain foothold in the market. All the major banks in the Kenyan market have what is commonly referred as the bank to customer connection(s) which enable the

bank customers to transfer funds directly from their banks to M-PESA account. The B2C accounts is actually a strategic product as it provides M-PESA with leverage to get funds from various banks from which customers are able to transact.

Another key strategic response by Safaricom to the sustainable growth of the M-PESA product is the LIPA NA M-PESA flagship product. This includes payment of merchant services via the M-PESA option, where the service provider is provided with a paybill number on which their funds are mapped to. The merchant services that use M-PESA include fuel stations, supermarkets, small businesses and even small service providers. The LNM product has added to the brand visibility besides driving growth for the M-PESA product in general.

Processing of key bulk payments via M-PESA is one of the strategic initiatives providing market share leverage for M-PESA. It provides an easy to use, cost effective, and secure system as it eliminates the need to carry cash to the areas of disbursement. The service offering has been deployed in sectors such as promotional payments, field staff disbursements, salary disbursements and even dividend payments. The wide geographical outreach of the M-PESA agency network has been a key determinant in the adoption of this service as subscribers are able to withdraw money from any locality in the country.

Respondents' feedback also indicates that Safaricom limited has recently initiated key global partnerships with global players such as Western Union, and other payment providers such as MasterCard. This option provides a mechanism for doing remittances from global markets to the Kenyan market via M-PESA. The fact that one in every 5 Kenyan does own a phone that has M-PESA services has provided leverage to the global players targeting the Kenyan market.

There has also been work on business processes to improve operational efficiencies and reduce costs significantly. The M-PESA mini-statement and the M-ledger product is a classic example of how Safaricom has utilized technology to reduce costs and offer fast and convenient service to the customer. This has helped to reduce calls to the Safaricom call center and even customer visits to the shops. Another strategic response has been the introduction of self reversal options that is available to the M-PESA agents. In case a subscriber makes an error while doing money transfer they are able to reverse the money by sending the amount and the number to a short code i.e. 2530. The money is reversed after verification by the reversal system.

The use of social innovation is one of the key strategic pillars for Safaricom Limited. The mantra is to transform lives by providing solutions that connect insights, people and aspirations. Through innovative products such as Okoa Stima, M-Shwari and KCB M-PESA the company is able to ensure that subscribers can do their daily undertakings without challenges by providing emergency loan services. These products provide a platform to get emergency loans through which customers can grow and invest in their own businesses. The cheap and easy to get loans are also designed to further the sustainable growth of the M-PESA product since the funds are disbursed via M-PESA system.

The use of online shops and self web care is another strategic response by Safaricom to ensure to ensure adoption quality service delivery to the customer. The online system provides an avenue to reach to tech-savvy customer especially the youth who form a critical component on the product customer base. The customers are able to pull the M-PESA usage statement online as well as other details such as handsets. Dealers and agents are also able to utilize the online portal system to get services.

Sustainability is at the core of Safaricom vision, where there is always a deliberate effort to align the short-term position with the long term position or strategy. The human resources strategy response ensure that business performance is enhanced by productive, motivated staff and being committed to providing attractive remuneration, flexible working schedules, training and developments and a safe and supportive working environment.

The company also ensures that the products, processes and operations are safe for the environment and targets to reduce energy usage and related greenhouse gas emissions, conservation of water, reduction of waste and exploration of opportunities for reuse and recycling. The upholding of ethics and values that promote integrity and highest ethical business practices are promoted and encouraged within the Safaricom staff. This strategic response promote sustainable practices within the business ecosystem especially within then the distribution channel that is directly response for providing retail M-PESA services.

Presence in social media like Twitter and Facebook is also among the strategic responses by Safaricom Limited to changes in dynamic business environment. This has enabled Safaricom Limited create an effective online profile which is used to connect with the communities and existing and potential clients. The M-PESA brand is consistent in social media participation which is absolutely necessary for success and takes time to build a loyal fan base and reputation. Safaricom's strong, professional and engagements in social media presence adds to its credibility. Its reach has expanded beyond the number of fans, followers and connections it has as they share the company's content, products and services within their circles particularly the M-PESA product base.

There have been many brand campaigns in line with the company's strategy to improve on its brand image across the country. The most recent campaign is the campaign dubbed the LIPA NA M-PESA promotion and the loyalty scheme for M-PESA whose aim is to increase Mobile payments awareness to Kenyans. These campaigns have been rolled out through television shows, radios and road shows to create awareness of M-PESA products and services, as well as informing customers the gains of mobile money products uptake.

The respondents further indicated that there has been employment of more customer service staff to ensure more accessibility to customer service by the customers. Safaricom Limited understands excellent customer service requires training that constantly reinforces the message that customers always come first and hence they constantly train their staff customer service skills. They start with the little things, such as a standard way of politely greeting people on the phone or online. Another strategy is staying in touch with its customers through SMS, newsletters, social media and phone calls which are all effective ways to deliver news about products and special promotions.

4.4 Discussion

In Kenya today, the various mobile money transfer service providers have continuously adopted strategic business initiatives aimed at growing their respective market share percentages. The Mobile network operators and banking institutions have devised various services to meet the customer needs and increase customer satisfaction levels. Bourreau and Verdier (2010) observed that one of the reasons why mobile money transfer firms have become successful in the financial industry is because they utilize the strategy of predominately focusing on the mobile money transfer initiatives for the unbanked in emerging markets.

4.4.1 Comparison with the Theory

The extent to which the mobile payment usage would impact on performance depends largely on whether there is an enabling environment (Porteous, 2006). Of particular interest are the environments in which widespread access is likely. The results indicate that M-PESA was as a result of technology evolution and this is consistent with Davis (1989) who indicated that users are presented with a new technology that is easy to use. This also fits with the strategic pillar for Safaricom which anchors simplicity and ease of use of its products.

Cost leadership strategy is usually developed around organization-wide efficiency and this has enabled Safaricom to secure a relatively large market share by being the low cost service providers of the mobile money service in the industry. The transaction costs of sending money through the mobile payment technology are lower than those of banks and other money transfer companies. The cost of a payment transaction has a direct effect on consumer adoption if the cost is passed on to customers. Transaction costs should be low to make the total cost of the transaction competitive (Mallat 2007).

4.4.2 Comparison with other Empirical Studies

Several studies have been done on the subject of strategic response for mobile money and most agree that organization need to come up with superior strategies in order to ensure sustainable growth for their technology based products such as mobile money. Most of the studies have however needed to highlight more specifically how to execute a sustainable mobile money strategy, and the need to have more research on how to address the various social, technological, environmental, and economic factors affecting business growth and sustainability of mobile money.

The cost of the mobile payments should be affordable to most of the micro business operators and far below what the banks normally charge for their bank transactions. The entry of Equitel is expected to further drive the costs of product and Safaricom may need to review the cost differentiation strategic response (Wairimu, 2009).

The study established that due to the large number of the unbanked persons in Kenya and the fact that M-PESA ensures that money is transferred safely, cheaply and efficiently, the implementation of the service was successful and in fact has enjoyed an exponential growth. The number of M-PESA agents who are responsible for carrying out the different transactions with the customers have also grown steadily since inception making the service widely accessible to a large number of individuals. Since though the product was launched as an innovation targeting the unbanked and small businesses, it has been adopted by a large cross section of Kenyans from different economic, demographic and educational backgrounds (Wairimu, 2009).

The study established that Safaricom has adopted product differentiation strategy employed to gain a competitive edge over other similar products offered by competitors. This involves having more features in the platform, advertising and partnership with other organizations. It should be noted that Safaricom has partnered with 6 other Kenyan banks apart from Equity bank 'M-Kesho'. However the service is a paybill account in which case, customers who already have bank accounts are eligible to sign up for an 'M-PESA paybill' service from which they can access the funds in their bank accounts (Wairimu, 2009).

The availability of several features in the platform has resulted to several consumers using the network. Consumer decision to adopt a payment system is therefore significantly affected by the amount of other consumers and traders using it (Kimani, 2008). Failure to create a critical mass has contributed to discontinuance of several

previous payment systems, including several smart card systems (Szmigin and Bourne, 1999). It is therefore a critical success factor for the M-PESA mobile payment provider to reach a wide enough base.

The sustainability of Safaricom the products, processes and operations is one of the key discussion items identified in other studies. Safaricom has implemented a health safety policy and ensure that its activities are not harmful to the environment and targets to reduce energy usage and related greenhouse gas emissions, conservation of water, reduction of waste and exploration of opportunities for reuse and recycling. (Wairimu, 2009). The upholding of ethics and values that promote integrity and highest ethical business practices are promoted and encouraged within the Safaricom staff. This strategy promotes sustainable practices within the business ecosystem.

The focus and determination were built up after a long and rigorous trial run. During the trial process, Safaricom's basic beliefs about the usefulness of the M-PESA product were shaken dramatically. The feedback not only helped test the design of the service, it actually helped redefine its basic purpose and the strategy. The crucial role played by these test customers perhaps set the tone for a listening process that has served the strategic response adopted by Safaricom (Mas and Morawczynski, 2009).

Other studies indicate that Safaricom's market dominance also has played a significant role in the success of M-PESA. Safaricom has a 67.1 percent market share in voice telephony, with a customer base of 22.1 million subscribers. It has a strong brand presence, which plays on nationalistic sentiments in its marketing campaigns. The company is also associated with people's concept of a modern Kenya, and it has made efforts to negatively portray nepotism, inefficiency, and corruption (Oga, 2009).

4.5 Chapter Summary

Chapter four presents presents data analysis and discussions of the study as set out in the research methodology. The objective of the research was to establish the strategic response to changing business environment by Safaricom limited in ensuring sustainable growth of the M-PESA product in the Kenyan market. The changes affecting the mobile money market are looked in detail and for purposes of the research classified in 4 main categories; the Economic Changes, Technology Evolution, Regulatory framework, Infrastructure and the Risk Factor.

The key strategic responses used by Safaricom to drive M-PESA growth is also explored. One of the responses include the continuous roll-out of innovative products and the improvement of products characteristics as well as product offering within M-PESA. Other strategies used by the company to ensure sustainability include the use of social innovation projects as well local and global partnerships that enabled the product to operate with different players. The chapter also addresses the wider scope of the startegy used for sustainable growth of the MPESA product.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In summary, the study shows that the respondents are aware of the strategic responses by Safaricom Limited to ensure sustainable growth of the M-PESA product. The operations and strategies of the company was exhibited by the internal respondents by virtue of all of them having worked in the institution for more than five years and due to the fact that all of the respondents were engaged in the day-to-day management and operations of the strategic process of the company. In addition, the respondents were found to be well versed with the subject matter of the study and all had solid academic background having attained a first degree and other qualifications. As a result of the above, the researcher felt that the results obtained from the respondents reflects the true position of the strategic response by the company to ensure growth for the product.

5.2 Summary

All organizations need to strategically analyze and respond to changes in the business environment in order to survive and Safaricom Limited is not an exception. In line with this, this study sought to determine the strategic responses by Safaricom Limited to the dynamic business environment. The researcher interviewed five functional heads and the M-PESA General Manager in Safaricom Limited in order to achieve the objective of the study. The interviewees were both male and female and all of them had worked in the company for more than 5 years.

The study sought to answer the following question; what are the strategic responses to changes in business environment to ensure sustainable growth of the M-PESA product? The objective of the study was to determine the strategic responses by Safaricom Limited to the dynamic business environment. Content analysis was done

for qualitative data and then results were presented in narrative format. From the findings, the researcher confirmed that the mobile money industry is numerously affected by technological, socio-economic, environmental and political changes in the business environment. The study further confirmed that Safaricom Limited had implemented strategic responses in order to cope with the changes in the business environment and ensure sustainable growth of the M-PESA product.

5.2.1 Changes in the Business Environment

Business environment is very dynamic and as such it changes at a very high rate. These changes pose both opportunities and threats for organizations and thus there is need to constantly analyse what is happening then formulate and implements strategic responses to mitigate the threats and take advantage of the opportunities. New entrants was a major threat due to liberalization of the sector and Government regulation. These has led the organization constantly review its pricing model to remain competitive and retain market share in the mobile money market in Kenya. The charges for money transfer have fallen significantly for the last 4 years and are expected to even fall further.

Safaricom M-PESA product is currently the market leader with a market share of 85.1% of the Kenyan market share. The respondents pointed out that this level of acceptance by the users is due to its marketing strategy and the fast, reliable and convenient, good network access and the widespread agent network.

Other respondents attributed the same to the excellent and more reliable services that the provider has put in place. Unlike other competing services, M-PESA has widespread agency network that facilitates the use of the service in all locations in the country.

Respondents agree that there has been a lot of innovation around the M-PESA ecosystem which is as a result of technological evolution. The product has grown through roll out of innovative products around it. It is not sufficient for operators to build a business case simply by offering the plain mobile money functionalities i.e money transfer in a mobile phone, it is vital to create new value by combining the functionalities of both mobile phones and other banking and payment based systems. They should leverage the mobile network to provide added value to the consumers, such as personalized advertisements.

Respondents also agreed that when the economy is not growing progressively, fewer small businesses and individuals have extra money to send. This means the demand for the mobile money services is low and providers have to compete more with one another for fewer customers. The Kenyan economy has grown at a rate of about 5% for the last 3 years. As a result there has been an increase in the number of mobile money transactions with indications of hitting a record high of 1.3 trillion as of April 2015. This explosive growth has been due to adoption of mobile money in the market by new subscribers and the strategic partnerships with other players.

The creation of jobs through the distribution network has also helped in the creation of a rich and wide agency and dealer network for the M-PESA product. The distribution network is vital to the penetration of the mobile money service. This is especially the case in rural emerging markets where it is not cost-effective to maintain costly branches. As more partners are coming onboard onto into the M-PESA ecosystem their purpose is to leverage the mobile network to provide added value to the consumers such as withdrawal of money at convenient locations.

Local agents can play a role in reducing the costs of service distribution while effectively controlling the risks. These are flexible, scalable retail channels which people can conveniently pay into or take cash out from their transactional accounts.

Another change cited by respondents was changes in regulation. Mobile money regulatory functions can be financial, telcoms or competition regulation. The need for regulatory compliance has caused many non-financial service providers to stay away from the service. In the Kenyan market a number of legislations focusing on banking and telecommunications have been enacted recently. However there has been concerns on the lack of technical capacity which sometimes results in poor policy guidelines for the sector. However it's worth noting that the regulators were correct in allowing the innovations and subsequent growth of the mobile money products alongside banking products.

Respondents agreed that regulatory agencies such as Central Bank of Kenya, Competition Authority and Communications Authority need to adopt a more collaborative approach with all stakeholders to ensure success in the regulatory matters in the mobile money sector especially in competition matters. Banks and mobile operators have been competitive in the mobile money space, primarily due to the stricter security requirements and tough local financial regulations. Both of them hope to control the market. This gives rise to a need for converged regulation, which is slowly coming to the attention of regulators around the world.

Respondents agreed that the mobile money in Kenya has been a positive contributor to the economy besides creating numerous positive contributions to the society, and that Safaricom Limited has been globally acclaimed in driving the financial inclusion agenda for low income groups and the unbanked population. This is a strategic initiative that makes the corporate to be seen operating in a more socially responsible

way. The feedback from responded was that the image of the Safaricom Limited has been enhanced by the M-PESA product. However there are also issues around fraud and loss of customer funds which the company needs to address in a sustainable manner.

Political and social instability was also identified as a major challenge as there were entry of only one entrant. Kenya has been rated among African countries with the average inflow of direct investments. The sector has a growing number of startup community ready to engage with investors to create new technology solutions around the Mobile money products particularly the M-PESA system. Key factor issue identified was changes in the political environment and lack of clear policy to attract investors and encourage research and growth in the sector. These issues mean that investors coming to Kenya must take additional measures to shield themselves against abnormal risks resulting from corruption, political instability and terrorist attacks to protect their businesses.

5.2.2 Strategic Responses by Safaricom Limited

The market positioning of the product, marketing and appropriate capitalization of the Kenyan culture came out as one of the contributing factor to the success of the M-PESA product. The positioning of the product to capture the unbanked segment of the population especially in the lower income level bracket by providing a product that can easily and conveniently be accessed has made the M-PESA become popular among the low income earners customers.

Hence target marketing necessitated the firm to start the M-PESA service which aimed at availing the capacity to bank and transfer funds from one corner of the country and other countries globally.

Several strategic responses have been employed by Safaricom to grow the M-PESA product in a sustainable manner. Adoption of technology in the product development has given it an edge over the other players. This has come about due to the increased investment in innovation and that employee's use modern technology in their processes. The level of technology is indeed a factor that influences the availability and affordability of the service. The low cost strategy model also came out as yet another strategy that is used by Safaricom and from this, the current pricing of the service is lower than that of the inter-bank transfer, Western Union and other mobile fund transfer services offered by the competing firms in the region.

The Japanese concept of continuous improvement of a product or Kaizen, is one other strategy the Safaricom has employed in gaining competitiveness of the product. The improvement in the product has been due to the increased budget that the company has put on adding value within the mobile money transfer platform and introducing innovations on such activities as agency networking, and aggressive marketing of M-PESA.

Product differentiation also came out as another strategy employed on M-PESA products by Safaricom to gain a competitive edge over other similar products offered by competitors. This therefore allows the organizations to charge a premium price to capture market share. In the case of Safaricom, the differentiation strategy involves offering M-PESA product with unique or superior value to the customer through product quality, features, or after-sale support.

By being the first company to start the money transfer services, it also was found that Safaricom product was able to be accepted by the Kenyan market and also establish a business relationship with many agents. This also enabled strategic positioning of the product in locations that can easily be accessed by many customers.

The use of strategic partnerships with banks and other services providers has also been a useful strategic response that has seen the product grow. As a matter of observation the drivers for growing the M-PESA business internationally included the need to expand the market for the service since the service was technology based. There are a number of flagship products in the M-PESA ecosystem such as M-SHWARI, KCB M-PESA which are used in providing emergency credit to customer. The M-PESA system is virtually integrated to almost all banks operating in the market via the B2C (business to customer) interface which enable the banking customers to transfer funds from their bank accounts to the M-PESA.

Since the Commercial Bank of Africa (CBA) and Safaricom launched M-Shwari in late 2012, a mobile phone based savings and loan product, there has been a lot of buzz about how it has helped to scale formal financial inclusion, scoring Kenya another first at the global stage. M-Shwari has received a lot of attention, locally and internationally. Now, the first trivial product, the KCB M-PESA account the dynamics of M-PESA changed. The KCB M-PESA account has more features than M-Shwari. In addition to loading the account through M-PESA, one can still access it through any KCB branch or agent.

It's worth noting that M-Shwari users have lower loan limits. This was addressed by the KCB-M-PESA account, which has set the maximum loan to 1M. The KCB M-PESA account has also upped the maximum repayment term to 6 months, compared with M-Shwari's maximum term of one month, or two if rolled over. M-Shwari customers have reported difficulties in repaying their loans in a month, especially in emergencies when it takes them time to recover financially.

The study revealed that strategic marketing and advertisement of the M-PESA services made the company to increase its transaction services, increasing customer bases improving its return on investment. The findings do not deviate from Omwasa, (2011) findings who revealed that M-PESA earned Kshs 11.78 billion in commissions from transferring Kshs 76 billion, in 2010 and that there were 14 million MPESA clients registering as M-PESA Users at the rate of about 200,000 a month. Safaricom has always come up with different promotions that only the agents participate and also giving them a higher commissions than the competitors offer.

There have been several brand campaigns in line with the company's strategy to improve on the product brand across the country. The most recent campaign is the campaign named the LIPA NA M-PESA promotion and the loyalty scheme for M-PESA whose aim is to increase Mobile payments awareness to Kenyans. These campaigns have been rolled out through television shows, radios and road shows to create awareness of M-PESA products and services, as well as informing customers the gains of mobile money products uptake.

From the respondents feedback another finding is the simplistic nature of the service. The study established that the service nature of the M-PESA, cost of advertising, availability of advertising channels and the cultural aspects greatly influenced advertising of M-PESA to the market. The study established that the purpose of advertising M-PESA was to influence the customer to use M-PESA, create awareness of M-PESA in the market and its uniqueness for customer to identify and differentiate them. It was evident that advertising strategies adopted by Safaricom was effective as it enable the company in attracting more customers, offering Information to customer on feature of M-PESA Services; create awareness, and influence customer behaviour and attitude on usage of M-PESA services.

5.3 Conclusion

From the research findings, some conclusions can be made about the study: Customer satisfaction is very vital for the success of any company. The study showed that Safaricom does all they can to ensure that customer expectations are met and these include good customer service, strategic location of outlets and interior décor and ensuring that the prices they charge are competitive. The prices charged for the M-PESA services can be considered to be fair and thus enabling majority of the customers to use the service at competitive prices.

The changes in the business environment will affect the performance of the mobile money firms and therefore the need to strategize on how to counter the changes becomes important for a firm. Sustainable competitiveness of a firm is crucial to its business and therefore the use of the various strategic responses by the firm to deal with threats resulting from entry by competitors, power of substitute products, bargaining power of buyers and suppliers and the competition from existing competitors reflects the willingness of a firm to ensure that they protect their business territory and ensure sustainable growth.

It also important for a firm to employ a collaborative approach in the planning and execution of its strategic response. All the stakeholders have an interest in the mobile money market. Providing payment and money transfer services alone is not viable in all cases. A variety of closed systems have been piloted, and all have failed to succeed as each prospective party has aimed to gain the lion's share of revenues and to own the customer. However, there are successful cases where the operator or bank has driven the development of mobile money services. In a broader sense, banks, payment's companies, handset manufacturers and telecom companies can achieve greater success with the right innovative cooperative model.

To promote new entrants into the market, current stakeholders may need to relinquish some of their existing strengths. For example, banks and telecom operators tend to apply very high security standards to mobile banking services, thus preventing others from entering the market. By building balanced collaborative models, banks and mobile operators can both utilize their strengths and create better services for their customers.

5.4 Recommendations

The study findings indicated that due to competition, the company had been forced to cut on its M-PESA rates and constantly review the pricing model due to the pressure posed by competitors. The study recommends to the industry players to widen their strategies while competing. Cut throat competition on low pricing should be checked and replaced with more innovative solutions around the main product. Low cost strategy is just one of the strategies identified by Porter (1980). However, other strategies like differentiation and market segmentation (focus) strategies should be adopted where competition is very stiff. There is a point beyond which the tariffs may not be cut. The company should focus on service delivery and innovative set of products that meet the customer expectations and direct them to the target market.

The findings from the study indicates that the company uses an innovative and collaborative low costs strategy model to market its M-PESA products so as to gain competitive advantage. Although the company has managed to differentiate themselves from other players in the market, differentiation alone without aggressive marketing of the products will not attract sufficient customers and it is recommended therefore, that the company continue to allocate more funds to the advertisement of its M-PESA product especially now that there is a new entrant in the market.

The management should further enhance ways of developing and retaining competent staff to ward-off staff poaching by competitors. The study also recommends that the organization should engage in innovative marketing that harnesses the power of technology to promote their products and services, a strategy that is being employed by Safaricom Limited. This is key since business performance is enhanced by productive, motivated staff and being committed to providing attractive remuneration, flexible working schedules, training and developments and a safe and supportive working environment is factor that determines the success of the strategic response. The need to engage in campaigns to create awareness cannot be over emphasized. This strategy will increase the penetration rate into the markets, both locally and internationally.

The study identified that one of the major challenges within the mobile money industry was poor regulation and lack of prudent governance framework. The study recommends that the regulation within the industry should be improved and a collaborative approach used. There is also need to ensure there is transparency and ethical practices within the sector and the government bodies charged with over-sight authority. This will be useful in driving investor confidence and for the long term sustainable growth of mobile money products and the industry generally.

5.5 Limitations of the Study

This was a case study of one company and the data obtained may differ from that founding other mobile money companies since they use different strategies to respond to the challenges posed by the competitive environment. This is because each company is unique and would therefore employ different strategies to distinguish it from the competitors.

However, the researcher made an effort to construct an effective research instrument that sought to elicit general and specific information on the strategic responses that mobile money companies adopt to match the changing environment.

The researcher faced difficulties while obtaining the data since the information required on the organizations strategies was considered more sensitive and the management were unwilling to share it. The employees were granted permission to respond to the interview questions by focusing on the general view. The limitation was reduced by looking for other sources of data like secondary sources from the internet and related links and comparing the data with the information provided.

The study faced both time and financial limitations. The study was conducted within a short period and hence exhaustive and extremely comprehensive research could not be carried on the company's strategic responses to changing environment. Due to limited finances and time, the study could not be carried on all the Safaricom Limited offices and shops. Never the less, the researcher minimized this by conducting the interview at the company's headquarters since it is where strategies are formulated and rolled out to other branches for implementation.

5.6 Suggestions for Further Research

The study recommends that further studies should be done on the effect of organization culture to strategic responses in the organization. This study should also be done on other companies in the mobile money industry so as to get comprehensive information on how the other players in the industry have responded to the challenges posed by competitive changing environment. In effect a cross sectional study on the money transfer services should be undertaken to compare the various strategies the other mobile money players have in growing their money transfer products.

More studies should be carried out to establish the state of regulation and how it has impacted the mobile money industry. Areas of regulatory policy such as competition, licensing, ethical practices and governance should be researched on. To the policy makers, the study would be important in guiding the development of policies and guidelines governing the licensing and growth of startup companies in the technology sector such mobile money companies. This study recommends that the regulators should create a flexible regulatory environment to enable the mobile services providers respond to dynamic changes in their business environment. This study therefore should guide policy makers in drafting policies that would promote best practice and governance that promotes investor confidence and the sustainable growth of the mobile money industry.

On realizing that the business environment was changing constantly, Safaricom was quick to adjust by forming both short-term and long-term strategic response to deal with the changes. Although the strategic responses by Safaricom have been effective. It should be noted that how it handles the effects of the changes that it has adopted is equally important. Specifically the effects of the collaborative approach with other businesses and the costs saving strategies should not be ignored if the responses are to be successful. The approach should have a buy-in of all the employees since they are critical asset to any company. It is therefore important to constantly review the effects of the strategic responses adopted to ensure that they contribute to the sustainable growth of the M-PESA product.

5.7 Implications of the Study on Policy, Theory, and Practice

Proper Regulation of mobile money can help to secure trust in new mobile money products. At the same time, regulation may constrain the success of a mobile money product by limiting the operator's degrees of freedom in structuring the business

model, service proposition, and distribution channels. In the case of M-PESA, Safaricom had a good working relationship with the Central Bank of Kenya (CBK) and was given regulatory space to design M-PESA in a manner that fit its market. The CBK and Safaricom worked out a model that provided sufficient prudential comfort to the CBK. The CBK insisted that all customer funds be deposited in a regulated financial institution, and reviewed the security features of the technology platform.

The CBK allowed Safaricom to operate M-PESA as a payments system, outside the provisions of the banking law. Safaricom has had to pay a certain price for this arrangement. For instance, interest earned on deposited balances must go to a not-for-profit trust and cannot be appropriated by Safaricom or passed on to customers. There are also limits on transaction sizes (subsequently relaxed) to address anti-money laundering concerns. But, fundamentally, Safaricom was able to design the service as it saw fit, without having to contort its business model to fit within a prescribed regulatory model. The CBK has continued to support M-PESA's development, even in the face of pressure from banks.

In late 2008, after a lobbying attack from the banking industry seeking to shut down the service, the Central Bank did an audit of the M-PESA service at the request of the Ministry of Finance and declared it safe and in line with the country's objectives for financial inclusion. So far, the Central Bank appears justified in its confidence in M-PESA as there have been no major reports of fraud. And system downtime, although frequent, has not been catastrophic and has been addressed by Safaricom's continuous efforts in stabilizing the M-PESA platform including the recently concluded 'bring M-PESA home project'.

There also concerns on lack of proper benchmarking since mobile money is a relatively new technology. There are various government agencies working towards regulating the mobile money industry and are not working within a clear legislative framework and in a collaborative manner. These are the Communications Authority of Kenya, Competition Authority and the Central Bank of Kenya. The Central Bank of Kenya Act was amended in 2003 to give CBK broad oversight mandate over payment systems, but the operational modalities for its regulatory powers over payments systems have not been implemented, pending approval of a new National Payments System Bill which is still in Parliament.

M-PESA's regulatory treatment as a payments vehicle needs to be formalized so that it can become regulated in the most appropriate way. To this end, the CBK has been trying to get a new payments law enacted by Parliament. The intention is for M-PESA to be covered in future by regulations emanating from this payments law. The CBK issued new agent banking regulations in early 2010 that allowed commercial banks to use retail outlets as a delivery channel for financial services. This gave banks the possibility of replicating the M-PESA service themselves. However, the requirements on both banks and their agents are more onerous than what applies to Safaricom (a non-bank) and its agents. In early 2011, the CBK issued e-money and payment service provider guidelines which incorporate less restrictive agent regulations. By applying for agents under these guidelines rather than as banking agents, banks can now deploy agents on terms similar to Safaricom's thus increasing the competition in the mobile money industry.

The experience of M-PESA demonstrates how to execute a strategy around a technology based innovation. It illustrates how a powerful innovation can be designed into a customer proposition that offers convenience at an affordable cost to the critical mass. It also shows that achieving critical mass requires both a service design that removes as many adoption barriers and strategic response that guarantees sustainable growth. Thus this does prove the transactions theory does work if executed with the correct strategic initiatives.

Yet, while M-PESA has been successful beyond what anyone could have imagined at its launch, the model still has substantial room to develop further. The study wish list for M-PESA is three-fold: (i) the mainstreaming of M-PESA's regulatory treatment; (ii) pricing that opens up a much larger market of micro-transactions; and (iii) building of a much more robust ecosystem around M-PESA that enables customers to access a broader range of financial services.

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APPENDICES

APPENDIX I: INTERVIEW GUIDE

This Interview Guide seeks to identify the social, technological, environmental, and economic factors driving the adoption of mobile money and how Safaricom has leveraged on these factors to execute a strategic response that ensures sustainable growth of the mobile money product.

SECTION A

1. Respondent's Job Title _____
2. Company _____
3. Respondent's Department/Section _____

SECTION B: ECONOMIC ENVIRONMENT

Under each of the following economic factors, please describe the major economic conditions, economic policies and economic legislations factors which in your opinion have affected the strategic operations of Safaricom Company in the Mobile Money industry in Kenya.

- a. Economic conditions
- b. Economic policies
- c. Economic legislations
- d. Other economic factors

SECTION C: STRATEGIC RESPONSES

1. Marketing

(a) New Products

(i) Which new products or new features to the existing M-PESA offering has the Company introduced in the last five years?

(ii) What were the objectives of the introduction of the new products or new features to the product offering?

(b) New Market segment

(i) Which are the new market segments that

Safaricom Company acquired for the Mobile Money Product in the last five years?

(ii) What were the objectives of acquiring the new market segment?

Distribution Channels

(i) Which new distribution channels has Safaricom Limited introduced in the last five years?

(ii) What were the objectives of introduction of the new distribution channels?

2. Customer Service

(i) How has Safaricom responded to the increased demand for better and quality customer services?

3. Technology

(i) Describe how Safaricom has leveraged on Technology in its strategic operations?

(ii) What were the objectives of the Technology based Strategy?

4. Industry Structure

(i) How can you describe the Mobile Money Industry attractiveness in Kenya?

(ii) How is the competition among the Mobile Money Operators in Kenya?

(iii) What kind of barriers are there for the entry of new companies in the Mobile Money Industry in Kenya?

(iv) To what extent has Mobile Banking penetrated in Kenya?

(v) What factors have led to this level of penetration?

5. Human Resources

(a) Briefly describe the human resources management initiatives in response to the present dynamics of human capital at Safaricom Limited. You can summarize your views under the following sub topics

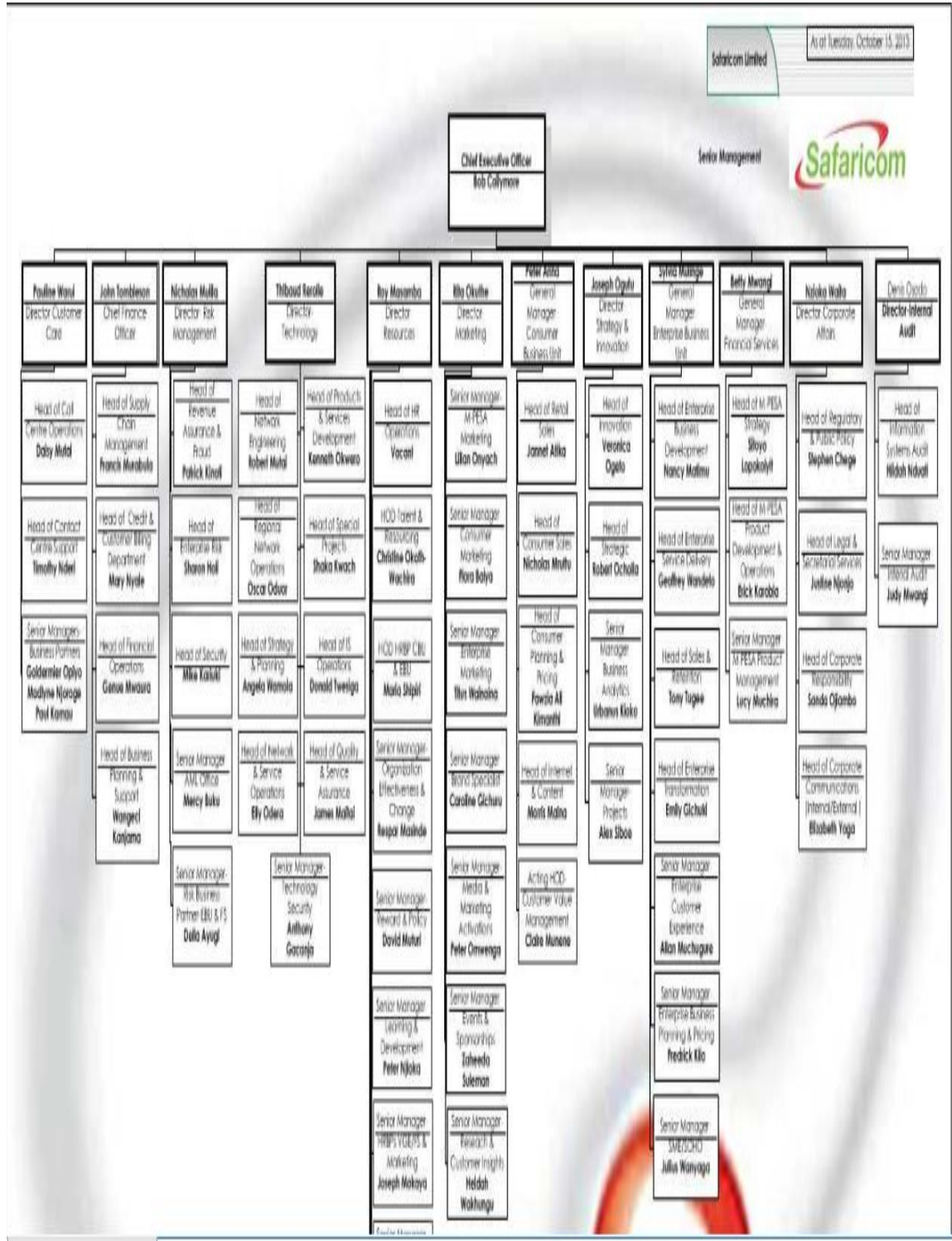
- i. Performance management of employee,
- ii. Staff retention policies,
- iii. Training and development,
- iv. Other human resource initiatives.

6. Other Strategic Responses

(i) What other strategic responses has Safaricom Limited employed in addressing the changing environment and sustainability in the Mobile Industry in Kenya?

Thank you very much for your responses

APPENDIX II: ORGANIZATIONAL CHART



Source: www.safaricom.com 2015.

APPENDIX III: LIST OF COMPANIES IN MOBILE MONEY INDUSTRY

1. Safaricom Limited.
2. Airtel Kenya Limited
3. Orange Kenya Limited.
4. Equity Group Limited.
5. Tangazo Letu Limited.
6. Kenya Commercial Bank Limited.
7. National Bank of Kenya.
8. Cooperative Bank of Kenya.
9. Barclays Bank of Kenya

Source: www.centralbank.go.ke, 2015