# CONVERGENCE AS A COMPETITIVE STRATEGY
# (A CASE STUDY OF EQUITY BANK KENYA)

**BY**

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# DECLARATION

I declare that this is my original work and has not been submitted to any other institution other than the University of Nairobi for academic credit.

Signed: …………………………………. Date………………………………………….

Kariuki Daniel Kamau (D61/70277/2009)

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

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# DEDICATION

To my first love, my family;

And to my angel Kate, who had to compete with the laptop for my attention as I did this project.

# ABSTRACT

In today's dynamic business environment, mobile devices have become instrumental particularly in availing of various innovative business solutions. Convergence from the banking perspective is a strategy whereby the bank designs or enhances an existing product by availing it on the platform of a network provider whose core business is unrelated to banking. It is necessitated by the prevailing technological advancement and stiff competition from alternate payment services provided by non-banks. It is thus a means to adapt to changing industry environment.

The aim of this study was to establish ways in which Equity Bank uses convergence with the various mobile solution providers to gain competitive advantage in the banking sector. A case study was used and data collected through personal interviews using a guide. Data was also obtained from the organization's intranet, reports and other documents and analyzed using content analysis. The study established that convergence has been a successful strategy as it has allowed differentiation, grown the revenues and customer base as well as complementing the bank's agency model which is the latest competitive strategy that is being advanced to the market.

In conclusion the objective of the study was achieved and it is evident that convergence provides a sustainable competitive edge for the bank in the highly competitive and changing banking industry in Kenya. It is therefore recommended that this strategy be intensely applied at the Strategic Business Unit level as some of the convergent solutions were not performing as well as others and had various challenges attached to them

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# CHAPTER ONE:  INTRODUCTION

## 1.1Background

The essence of strategy lies in creating tomorrow's competitive advantage faster than competitors can benchmark the current organization's strategy. A competitive strategy encompasses all the approaches that a firm has and is taking to attract buyers, withstand pressure and improve its market position (Thompson and Strickland, 2002). Development in telecommunications have drastically improved and revolutionalized the conventional ways in which business has been done in the past. This technological innovation has improved efficiency, productivity and the cost of business has been reduced according to Boddy and Patron (1998).

Ansoff (1987) notes that the dynamic business environment globally is making organizations to continually adapt their activities in order to succeed within emerging challenges. Firms need to scan this environment and devise proactive strategies that suit their competitiveness, failure to which they will find their products and services redundant in the market. This strategic response is imperative if a given firm is to maintain or improve competitive advantage. Sustainability of competitive advantage is only possible when the right strategic decisions are made within the right time span. Trends affecting banks comprise privatization, regulation and supervision, demographic factors and technological innovations, (MacDonald and Keasey, 2003).

Technological developments fundamentally alter the cost structure, output mix and distribution channels of banks and development in Information Technology (IT) is the most important force for change in the financial sector (White, 1998). Most banks will therefore strive towards achieving an integrated banking business which is operationally efficient with organic revenue growth, improved customer loyalty, improved productivity and growth in both retail and corporate market shares (Pearce, 2004).

### 1.1.1 Convergence

Network convergence or simply convergence are broad terms used to describe emerging technologies and network architecture designs used to migrate previously distinct media such as internet and data into common interfaces on single devices. It is reflected in the product portfolio the operators offer (vertical integration) and in the channels through which their products are sold (horizontal integration).

The historical roots of convergence can be traced especially for most of the 1990s when independent companies began to offer joint services independently with the change in business dynamics due to globalization (TMC net.com). These included internet, voice and data services. Convergence merges new technologies to bring a myriad of media that integrate marketing and customer relationship management for the specific user groups (niches), such as corporate bank clients and clients who are technology savvy.

The integration of multiple services as convergent solutions requires the network operator to examine the interests and the value adding opportunities of extending base products. Due to multiple billing, a unified and enhanced customer support is required in convergence. Technological convergence in the last few years has resulted in devices not only interacting with the media they are primarily designed to handle, but also with a number of other formats. Innovative handsets, easy tariff plans and cheap mobile deals have contributed significantly to widespread use of cell phones in Kenya which had 22 Million mobile phone subscribers and 39,000 agents by September 2010.

Convergent solutions are giving many people access that was not existent before. These days anyone with a mobile phone in Kenya can pay for goods, transfer money, top up credit, donate to charity, pay bills among other facilities through platforms such as M-pesa, Airtel money, Orange Money and Yu Cash. Whereas this is good for the telecommunication companies, traditional financial institutions in the money transfer and saving business such as banks and Micro Finance Institutions are losing customers because even the poor, uneducated rural Kenyans are getting access to formal financial services in their palms.

### 1.1.2 Competitive Strategy

A competitive strategy is the bases on which a business unit might achieve competitive advantage in its market (Johnson and Scholes, 2002). It involves evaluating a company's external environment, crafting the strategy and effectively executing that strategy. A firm's competitive environment is usually determined by the five forces which are; competition among companies, threat of new entrants, substitute products, bargaining power of suppliers and lastly, the bargaining power of the customers. A competitive strategy works to sustain a competitive advantage through moves such as the first mover advantage, sustaining low price advantage, sustaining advantage through differentiation and lock-in.

Rumelt (1980) explains that it is an attempt to look beyond the obvious facts regarding short term health of a business and appraise instead the more fundamental factors and trends that govern success to a chosen field. Competitive strategy according to Pearce (1991) is meant to focus on SBUs with emphasis on the market and the products that are offered by the firm. It is the level whereby execution of strategy starts and implementation occurs. The evaluation of a strategy is also done here as this is the level where strategy loopholes can be detected and corrected.

Aaker (1989) emphasizes that a competitive strategy involves three main components for it to be effective. Firstly is the way you compete. In brief, this is what you do in terms of your product strategy, positioning strategy, pricing strategy and distribution strategy. He suggests that an SBU’s strategy has its strength in its marketing capabilities because at this level a brand faces stiff competition. Secondly, it is important where you compete, for a good strategy must focus also on selection of a competitive arena, markets and competitors. A competitive strategy clearly defines the location of the business and its viability in reference to the market. Under this component, business managers for example determine whether to focus on the specific niche or the mass market. The firm also defines the competitors they have to face for example the formidable ones or emerging ones. Thirdly, a competitive strategy involves the assets and skills of the business. Pearce (1991) emphasizes the assets and skills of an organization as the foundation of sustainable competitive advantage. Aaker (1989) adds that these resources – both human and non human lead to long term performance of the business.

To identify a company's competitive strategy, Thompson (2006) enumerates the actions that we can look for. They include actions to gain sales and market share; such actions include low prices, customer service and a wider product selection- the firm strives to market itself as excellent in pricing to attract volumes of sales using the various products it offers. There are also actions to respond to a changing market and external factors- firms become dynamic and sensitive to changes in their local and global environments. Strategic alliances with firms in their domicile industry and other unrelated industries are examples. There are also actions to enter new geographic and product markets- firms strive to capture emerging markets opportunities and defend against external threats. The strategy therefore dwells on shielding against loss of any dominance a firm has had in the market.

### 1.1.3 Equity Bank

Equity Bank Limited is a Kenyan bank, registered under the companies Act 486 and licensed under the Banking Act Cap 488 laws of Kenya and is listed in both the Nairobi and Uganda Stock Exchanges. The bank has presence in all regions of the country and has commenced business in Uganda and Southern Sudan. The plans to roll out in Rwanda and Tanzania are at a conclusive stage. By the end of the first half of year 2011 the bank had the largest customer base with 6.3 million bank accounts which represents a 28% increase within six months. This is largely due to its business model that targets the mass market, rural areas and other unbanked sectors. The Bank's technology strategy is guided by its Critical Success Factors (CSFs) 3 and 5 which are: Quality, effective and effective operations and robust, effective and efficient systems and process. According to the Bank's CEO, the bank is driven by prudent risk management practices, increased innovation on the delivery channels, products and services.

The Bank has an IT platform that is supported by the world's leading firms such as Microsoft, Oracle, HP and Infosys. Locally, it enjoys the robust fiber optic services from Telkom Kenya, Safaricom, and KDN among others. This makes it possible for the state of art technology to support high volumes of transactions. Currently, the banks system has a processing speed of 300,000 transactions per minute – multi currency, multi country with a capacity of 35 million accounts. In its technological strategic positioning, Equity Bank has entered into alliances with three of the four mobile phone companies in Kenya except Airtel Kenya. The forms of convergence that have been executed are discussed below;

The Equity Bank – Yu Cash solution includes a linked bank account and cardless ATM withdrawal services. This allows Equity Bank and mobile phone subscribers signed on to the Yu Cash to link their SIM cards to their Equity account through their mobile phones. Orange Money is the second form of convergence and is powered by Equity Bank's mobile banking platform. This convergence allows customers to do interbank transfers and loan origination as well as send money to any mobile network. Orange money customers can also transact from Equity Bank agents outlets while the Bank's customers can transact from any Orange shop and agents conveniently. Another from convergence is the M-Kesho which is a bank account introduced by both Equity Bank and Safaricom. It includes Micro-credit facilities (M-Kopo) as well as a personal accident cover which converts to a full cover after one year. M-Kesho targets the niche of customers looking for the convenience of bank account that uses the M-Pesa as a tool to deposit and withdraw money thus reaching out to many unbanked Kenyans which is in line with the country's vision of deepening financial inclusion. All the three platforms of convergence above were launched by the Equity Bank in 2010 and have basic simple transaction features that include funds transfers, balance enquiries, mini statements, bill payments and account alerts. However, each has distinct features as outlined and is offered in several formats that customers may choose from which are; WAP- based, Sim Tool Kits (STK), SMS and Java downloads.

## 1.2 Statement of the Problem

Convergence in business sense encompasses a wide range of mobile services that interlinks elements of fixed and mobile communications infrastructure to complement other core business services. In most cases the services allow the user of the network to take advantage of higher speed, cheaper access for high volume transactions. This way, both the infrastructure providers and users enhance their competitive edge. In this context convergence is viewed as a strategic partnership whereby the bank uses the service providers to further its business opportunities in regard to mobile financial services. The advantage could also be extended in other frontiers such as agency banking which has become the new flagship venture for several banks in Kenya. Convergence is a voluntary arrangement between firms involving exchanging, sharing or co-development of products, technologies or services. The collaboration enables those individual firms to overcome individual disadvantages.

With a competitive market, mobile phone network operators in Kenya have moved from being mere infrastructure and connectivity providers to financial services providers and intermediaries. It is expected that cell phones will continue to dominate and alter business in other sectors as competition in the voice market minimizes revenues. Banks are therefore under siege and are looking for ways to tap into this market through innovative strategies with these firms and thus convergence. Equity Bank Limited is one of the major financial services industry players who have embraced convergence in Kenya so as to maintain competitive edge in the banking sector. With its large customer base the bank relies on the mass market which has been the signature of its business model since establishment. The rationale is that many of the customers that mobile phone companies possess have accounts with the bank and can thus enjoy the access to their bank accounts conveniently using their mobile handsets. This is an inclusive competitive strategy that complements its already existing mobile and internet banking.

Several studies have been conducted regarding competitive strategies that commercial banks in Kenya have put in place under changing business environment such as Murage (2001) and Omondi (2006). Wanjohi (2008) also discusses competitive strategies and positioning among Micro Finance Institutions (MFIs) in Kenya. Among the media houses, a study on market strategies and financial performance has been done by Kaburu

(2008) while Murgor (2008) focuses on the sugar companies in Kenya. Mungai (2008) has also studied the choice of strategy at Equity Bank. All these studies above have not mentioned or discussed convergence probably due to the fact that it is a relatively new and emerging concept. Thus to the knowledge of this researcher, no prior study has been done regarding the topic in any of the industries in Kenya. This research is motivated by the prevailing situation as discussed above and aims to close the information gap by seeking response to the following question; “Is convergence making an impact on Equity Bank’s competitive strategy?”

## 1.3 Objective of the study

To establish ways in which Equity Bank uses convergence to gain competitive advantage.

## 1.4 Value of the Study

This study is important to the banking industry as it will shed light on the impact of convergence both to the institutions and their clients, thus improved product and services as well as competitive advantage.

Equity Bank will benefit from the research as opinions and data collected and analyzed will directly relate to the institution. The managers will thus redirect their skills on elements of convergence that improve the firm’s bottom line.

Finally, it will contribute to the existing body of knowledge with regard to competitive strategies in the changing business environment globally, and inspire future researchers to carry out related studies whether in the banking sector or other industries.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Strategy as a concept

Strategy is a theory to simplify and explain the world and thereby facilitate action, (Ducker, 1974). According to Rumelt (1979), the function of strategy is not to solve a problem but to structure a situation that the emergent problems are solvable. Glueck (1980) elaborates strategy as a unified, comprehensive and integrated plan, designed to ensure that the basic objectives of the enterprise are achieved. This definition concurs with that of Quinn (2002) that describes strategy as a pattern or plan that integrates an organizations major goal, policies and actions into a cohesive whole. Strategies are means to ends. They are the things that businesses do, paths they follow and decisions they take to reach certain points of success (Thompson, 2006). It is management's action plan for running and conducting operations and is all about "how". It is about how to grow the business, how to build a loyal clientele, how to outcompete business rivals and also how performance will be boosted. Strategies are partly proactive and partly reactive, that is to preempt and also to counter eventualities in the business environment.

Quinn (2002) further observes that for the strategy to be in order, the firm has to marshal resources based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent competitors. Firms are obliged to establish a fit such that all their resources are utilized in tandem to coordination. This fit of resources is unique for particular firms and thus can be aligned to give a unique competitive edge against rival firms. According to Andrews (1980) the strategy must have the stakeholders in mind as they are the real beneficiaries. He describes strategy as a pattern of decisions in a company that determines goals, produces plans and defines the range of business to pursue based on economic contribution intended to its stakeholders.

In crafting a strategy there are five basic stages to consider according to Mintzberg (1987). Reading the organizations mind is the first step. As one would observe another in order to come up with a way to communicate, so does a manager to a business unit. The resources available determine an organizations mind. Secondly there is strategic learning. Thompson (1992) agrees that a purely deliberate strategy precludes learning. Once the strategy is formulated, emergent strategy fosters it. People take actions one by one respond to them, so that patterns eventually form. The third factor is grassroots strategy making. Strategy is not a top level management's job but a collective task thus entire organization has to be involved in the process and execution of a strategy. Quantum leap is the fourth stage and involves consideration of environment changes and the likely impact it may have on the firm, both positive and negative. Finally, firms consider the cycles of change. This stage involves influencing a paradigm shift in the conventional minds of the stakeholders. Ad hoc analyses are fed into strategy making so that others in the organization who are not in the management are stimulated to think strategically.

The value of strategy to organizations according to Mintzberg (1987) is to set directions for themselves and to outsmart competitors or at least enable firms to maneuver through threatening environments. Strategies are also needed to focus effort and promote coordination of activity because ultimately it has to end up as a collective action in the firm. A strategy therefore defines an organization by providing people with a shorthand way to understand it and differentiate it from others.

Pearce (1991) discusses three levels of strategy as corporate level, business level and functional levels. The corporate level strategy is the highest in any given firm and incorporates the board of directors, chief executive officers, administrative officers who are responsible for the firm's financial performance and other non-financial goals such as enhancing a firm's image and fulfilling its social responsibilities. They develop the long term plans of the organization (Mintzberg, 2003). Business level strategy involves business and corporate managers. These people determine how the firm will compete in the selected product and market arena. The managers' main role at this level is to translate statements of directors into concrete objectives and strategies for the SBUs. Functional level strategies involve managers of products, geographic and functional areas. These are in charge of specific departments in the specific SBUs. Functional level strategies are mostly concerned with the operations, Research and development (R&D), marketing and Human Resources (HR). Thompson and Strickland (2007) observe that firms strengthen their market standing by acquiring or merging with other companies. This is geared towards strengthening competitiveness via strategic alliance and collaborative partnerships. The actions used in managing R&D, sales and markets are meant to correct competitive weaknesses so as to diversify revenue and earnings by entering into new businesses.

## 2.2 Competitive Strategies

A competitive strategy concerns the specifics of management's game plan for competing successfully and securing a competitive advantage over rivals (Thompson et al, 2007). It is about being different which means deliberately choosing a different set of activities to deliver a unique mix of value. Value addition to customers is an essential element of sustainable competitive advantage. A firm hence needs to implement strategies that improve efficiency and effectiveness by meeting the needs of the customer. The inability of competitors to duplicate resource endowments results in competitive advantage (Mintzberg, 2002). Competitive strategy according to Pearce (1991) is meant to focus on SBUs with emphasis on the market and the products that are offered by the firm.

Porter (1980) refers to business strategy as 'competitive strategy' and outlines the five generic competitive strategies which SBUs need to adopt in order to have sustainable advantage over their competitors. The first strategy is having a low- cost prov3ider strategy. This entails appealing to a broad spectrum of customers by under pricing in order to appeal to this market. A broad differentiation strategy is the second strategy as firms basically provide similar goods and services. Product attributes and delivery of services could be differentiated to make a lasting impression on the customer. Thirdly, the best-cost provider strategy entails attaching more value for customers' money by incorporating excellent attributes to products as customers are willing to pay a premium where they perceive a greater value to a product. The fourth strategy is a focused (niche) strategy that is based on low cost. An organization using this strategy develops its products or services with a given target market in mind, based on factors such as gender, age ,religion, geographic region, and so forth. Firms that minimize costs for example in production are able to focus more on marketing strategies as the products are availed to customers at a lower price compared to their competitors. The last strategy is focused (niche) differentiation.  Firms have to understand the distinctive nature of their clients even within a specific market or niche. The products are tailor made to meet the preferences and tastes of the market but variations are made to the products or services appropriately to cater for each available category.

Muli (2008) emphasizes that examining a competitive strategy identifies the best financial course of action and provides competitive advantage through lower costs and flexible ability to raise capital. A good competitive strategy leads to competitive advantage. Barney (1991) adds to this by elaborating that sustainable competitive advantage (SCA) is when a firm implements a value creating strategy not being used by current competitors. The strategy must be one that competitors are unable to duplicate.

## 2.3 Technology as a Competitive Strategy

Burgelman (2009) explains that a technology strategy is a potentially powerful tool for pursuing each of the generic strategies of Porter though each requires a somewhat different approach. He concludes that a technology strategy can serve the purpose of both differentiation and cost leadership especially process related technology aids in product performance hence differentiation. Many companies have multiple business portfolios each utilizing various technologies to enhance corporate strategy. An analysis of the two offers the possibility to eliminate mismatch between business competitive position and technology.

Technology broadly encompasses all activities that constitute a firms value chain. Any of these technologies as Porter (1986) notes can affect the industry or firm's competitive advantage. This is the reason why managers should track the evolution of all technologies that affect a firm's value activities. A technology strategy requires the firm to make two crucial decisions viz; (a) how each technology can be used for competitive advantage and (b) whether a given technology could be developed or procured. Integrating technology and strategy should be a dynamic process and it requires the firm to understand the life cycle of the various technologies it employs.

In a nutshell, Burgelman (2009) observes that at the business level, an innovative technology strategy will be influenced by resources available, the technological environment, the strategic management capacity, structural and cultural context and lastly, the competitors' innovative strategies and industry evolution. The foregoing arguments attest that firms must embrace technology so as to create value to their customers. This must be executed whilst keeping check of the business environment so as to create a competitive advantage. A technology strategy well executed will give a firm competitive advantage by creating value to the customer which is reciprocated in terms of growing revenue, loyalty and returns to the investors of the given firm (Chowdary, 2004)

## 2.4 Convergence

Convergence is a form of a technological partnership whereby two or several firms share resources and activities to pursue a strategy. The firms enter into alliances for three main reasons as outlined below. The first reason according to Johnson (1995) is to gain economies of scale either in production or marketing. Secondly the firms are enabled to fill gaps that exist in their individual technical expertise where entry barriers exist. Convergence with telecoms for banks enables the banks to share the IT platform created by telecommunication firms so as to simply access to accounts held by the banks which is thus a source of revenue. The telecoms on the other hand are able to grow their subscriber base and retain existing clients.

According to Trethowan and Scullion (1997), 85% of firms are not fully satisfied with their IT systems and lack of investment in this area damages a firm's ability to compete effectively. Bemaddette (2008) emphasizes that firms identify the area of technology deficiency that currently exists and which may affect their productivity in the future following which they approach other firms with the technological capacity to fill the void. For a bank, money is described as information in motion (Sophia, 2008) and thus it makes good objective that such information be relayed through a convergence strategy with the expert firms that are in the field of communication.

Bennet (1997) explains that the determination of a technology strategy is one of the most important management functions. This is due to the ever-increasing complexity of modern business and the enormous effective improvements that IT can create. The banks are able to execute the strategy in the main activities such as core banking, agency and mobile banking solutions. The strategy thus mentioned above allows the rival firms to gain competitive advantage and also link the firms to their customers efficiently. Capon (2008) also notes that as organizations become more sophisticated, so too must the techniques and procedures. Judicious use of these leads to high productivity. Porter (1980) supports the argument above by portraying the liaison as capacity expansion. This he says is a strategic decision that requires the commitment of capital by firms as it involves lead times that are based far into the future.

The elaboration by Porter (1980) is that two expectations are crucial. One is future demand and the other is competitors' behavior. This means that firms have to simulate and forecast demand while at the same time anticipating moves expected from competitors based on the prevailing business environment. This is meant to further the business strategy of a firm – technology, competitive and structural. White and Burton (2007) suggested that firms may choose to form alliances and bring about external innovation; if a product line is falling behind that of competitors, if a new competitor enters the market, if a firm discovers that its processes are not as effective/efficient as those of competitors, and if a firm believes its current products are not going to be successful in future. External innovation is the formation of informal alliances (simple understandings) to gain desired new technology or learn new capabilities of producing it.

## 2.5 Convergence and Competitive Advantage

Walker (2004) observes that competitive advantage is facilitated by certain factors which he refers to as drivers of competitive advantage. These are quality; comprising durability and reliability; delivery, for instance just-in-time; service, to solve unexpected problems and technology, products that are superior in design, features and functionality. Convergence is a radical innovation, concerned with exploration of new technology. This is fundamentally different from incremental innovation that is concerned with the exploration of existing technology. Corporations around the world are facing greater complexity in their strategic direction in the key facets of technology, competition, and business portfolio thus the pressure on the internal capacity to learn and to develop (Chowdary, 2004). Convergent solutions are products, processes or services with either unprecedented performance features or familiar features that offer potential for significant improvements in performance and cost, that they transform existing markets, industries, or create new ones. The key elements in convergence are thus speed, reliability, cost and security.

These developments and positive shift in perception can be traced back to mainly the following factors (Tiwari, 2006): the penetration of the society by mobile phones is at an all time high, the integration of world economies is leading to more mobility so that availment of mobile services is no more a luxury but a necessity for many, the younger generations of the society seem to be fascinated by modern data and telecommunication services and also mobile devices have become more powerful with the launch of new data transmission standards. The increased demand for convergent solutions has alerted banks and technology providers alike who sense not only business opportunities in developing and offering such services to their respective customers but also perceive a risk of being left behind in this new, innovative segment (Tiwari and Buse,2006).

In its annual report 2005, Deutsche Postbank notes that convergence was central in driving their sales forward which is important to their strategy- customer satisfaction that generates customer goodwill, curiosity and trust and asserting quality leadership. The bank primarily employs it as a means of differentiation vis-à-vis rivals to attract young and technology savvy new customers. The intention is thereby to reinforce exit barriers by offering low or no costs innovative services as and when enabled by latest technologies. Other objectives pursued by the innovative strategies include responding to customer needs, attracting new financially affluent customers, creation of an additional distribution channel and shaping standards through technology leadership. A secondary goal is to reduce distribution costs. Comdirect (2006) views convergence as a tool to cater to customer needs in line with their vision of providing products and services that are unique in terms of the combination of quality, individuality and pricing offered. The aim is thereby to build and maintain long term, valuable relationships with customers. The bank follows a “fit for the future” strategy by anticipating market trends. For this purpose the bank wants its customers to experience the latest one-to-one online technologies and reap the early mover advantages in the industry. Vipera (2006) outlines that in addition to revenues and other financial motives, the firm seeks to generate competitive advantage in the form of an innovative image and differentiation for their niche product. The primary objective of this business strategy is the image effect seen in its success.

Banks are institutions that lay great weight on security and user friendliness of a technology and thus a successful convergence strategy has a “signaling effect” also for other customers in other segments. This invariably leads to a positive reputation and hopefully to new business contracts. The strategy leads to differentiation, new channels of revenue and gaining new customers. Finally, it seeks to actively shape standards in the given niche which has the advantage that they are based on one’s own strengths thus providing the long run competitive advantage (Tiwari et al, 2007). As far as convergence is concerned, we may conclude that it may help to changing customer needs, positively influence a firm’s public image in shaping standards of emerging technologies, enable a positive differentiation vis-à-vis rivals, attract prospective customers while at the same time raising exit barriers for existing ones. Finally, new distribution channels are opened up to enforce the multi-channel strategy as technology providers also open a new channel of revenue.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

A case study was used in this research. Kothari (2002) states that a case study involves a complete investigation of an institution or group and embraces depth rather than breath of a study. This design is appropriate as it is used to organize a wide range of information about an entity, analyze and seek patterns in data collected. A case is an in depth investigation of an individual, group, institution or phenomenon (Mugenda, 2003)

## 3.2 Data collection

An interview guide was used to collect primary data. Face to face interviews were used for this study; however, where the respondents were unavailable for such interviews or where clarification was necessary, telephone interviews were sought. The interview guide had two sections. The first section captured information on the respondent and the organization while the second section sought information that linked convergence with the firm's competitive strategy.

The target respondents were drawn from individuals considered to be playing a significant role in the bank's convergence as well as those in charge of the overall bank's strategy and product development. Two directors and one general manager were interviewed. These were the director of Operations and director of Strategy as well as the manager in charge of Electronic Commerce and Mobile Banking.

## 3.3 Data Analysis

Data and general findings from the interviews was analyzed using content analysis. This is a set of procedures for collecting and organizing non structured information into a standardized format so as to make inferences about the research objectives and use such to relate trends. Data from the respondents was compared to the aspect of competitive strategy cited in the literature review of this study to establish ways in which Equity Bank has used convergence to gain competitive advantage.

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

The objective of this study was to establish ways in which Equity Bank uses convergence as a strategy to gain competitive advantage. This chapter presents the results of the analysis of data collected during the interviews. It presents information about a summary of the respondents' general information as well as linking the objective outlined in chapter one to the concept of convergence discussed in chapter two under competitive strategy. A total of four interviews were conducted and four completed interview guides were obtained. Those interviewed were; the director of Strategy, the director of Operations, the manager in charge of Mobile Banking and head of operations in Agency. The response rate was 100% although one of the intended four respondents was personally unavailable but delegated the role to a junior staff.

## 4.2 General Information of the Respondents

Under this section the information acquired related to department respondents were currently working at, positions held, duration in those positions and their experience in banking whether at Equity Bank or any other bank. The four respondents were drawn from the following departments; Operations, Strategy, Agency and Mobile Banking. The director of Operations and the company Secretary, who doubles as director of Strategy, were interviewed in addition to one manager in mobile banking and the head of agency operations. This was the right target of this study given that both directors worked closely in the formulation and implementation the various strategies of the bank and convergence is one of them. The other two respondents oversaw the execution of convergence at the

Strategic Business Unit level. The respondents have held the respective positions for between one and six years, which gives an average of 3.5years among them. Three of them have held other positions in other banks while one has not worked in any other bank and their experience in banking is only in the current position. Given the expertise, the four respondents are suitable authorities with adequate experience to provide information that is needed for this study.

## 4.3 Convergence and Strategy

This section is comprised of two parts; part one outlines the convergence strategy at Equity Bank by analyzing information relating to the bank's business model, the motivation behind convergence, the impact of this strategy to other existing mobile solutions of the bank and the perceived future of this strategy. Part two presents an analysis of the convergence strategy in relation to the competitive advantage of Equity Bank in the banking industry in Kenya. The interview questions covered a wide spectrum of the bank's strategy, such as the present status of the various solutions within the general strategy of the bank and the role of convergence in the medium to long run business strategy.

Internal presentations, market trend analyses and annual reports were some of the documents availed by respondents during these interviews. The case study was supplemented with parallel research to broaden the information given. Other sources included available information on the company's intranet, references to relevant departmental mails and bank literature, and informal discussions with branch insiders.

Various aspects of the gathered information were later consolidated to ensure comparability within the strategy framework. Furthermore, the data was structured in a way to ensure that the business logic becomes apparent as the convergence was found to be motivated by factors such as competitive environment, customer preferences, and cost factors and so on.

### 4.3.1 Convergence Strategy at Equity Bank

Equity Bank's business model targets mainly the mass market, rural population and the so called 'unbankable' niches such as the uneducated and those in informal employment who had been neglected in the traditional model of banking in Kenya that focused on the formally employed persons and well-to-do business people. The model relies heavily on the high volume of transactions with a minimal charge per transaction. Convergent solutions offered by the bank such as the M-Kesho, Orange Money and YuCash are meant to promote this status such that more people are encouraged to save without worrying about costs levied as ledger charges on their savings as the bank does not charge any ledger fees on any account. Convergence is a strategy where products and services of the bank (accounts) operate on the mobile platforms of the various network providers in Kenya to avail banking services customized to the respective network prefixes Equity Bank customers have subscribed to.

The M-Kesho is an Equity Bank account that operates on the Safaricom (Kenya's largest mobile phone network provider) mobile phone platform. Orange Money is a mapping of existing Equity Bank account(s) onto existing Orange mobile phone numbers to enable subscribers of the Telkom Orange network with accounts at Equity Bank to transact on their accounts without the need to visit a bank branch. These customers can do their transactions using their mobile phones on their own. Alternatively, they are able to access all banking services from all Equity Bank agents, Telkom Orange agents and Orange Shops across the country. The YuCash is banking solution where subscribers of the Yu Mobile, one of the four mobile phone network providers in Kenya and the latest entrant in the industry, with accounts at Equity Bank to link the accounts on the Obopay Platform that powers the service. Such customers not only use their Yu mobile devices to manage and operate their accounts but also access the accounts online while they are not in the country. These convergent solutions are an addition to the banks mobile banking platform known as Eazzy 247 which can be accessed using any mobile phone number regardless of the network a customer has subscribed to. All the applications discussed above except the YuCash have been incorporated into the bank's branchless banking or agency and have enabled communities which do not have the access of an Equity Bank branch to access banking services such as opening and linking accounts, deposit and withdraw cash, activate dormant accounts, transfer funds and originate loan applications from places such as local kiosks, hardware shops, salons and pharmacies within their localities.

M-Kesho deposits to the bank are free of charge to encourage those customers with funds in their M-Pesa which is Safaricom's virtual mobile wallet, to transfer money to a real bank account. So is the case with the other two convergent solutions. The bank recognizes that mobile phone network operators in Kenya pose a great threat to the bank through their money transfer services that have gained wide usage and are threatening traditional banking models due to the convenience, flexibility and affordability such mobile payments offer. This is the reason the bank approached the mobile phone operators in a bid to incorporate these services alongside its mobile banking platform (Eazzy 247) so as to have a symbiotic collaboration in the prevailing competitive environment. The bank has brought on board three convergent solutions which are M-Kesho, Orange Money and YuCash that complement its mobile banking platform. There is no conclusive reason availed as to why no similar arrangements have been forged between the bank and Airtel Kenya though the bank also has account holders on this network. One respondent noted that the constant changes in the company's ownership and brand identity from Kencell – Celtel – Zain – Airtel has posed its own challenges. A different interviewee noted that Airtel Money has a formal and binding agreement with the Standard Chartered Bank, one of their major competitors in the market

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The respondents observe that convergence has the potential to bring many Kenyans into formal banking by offering the opportunity to open and operate a bank account, save, withdraw, access loans and micro financing and other services with as little as sh. 100 and no operating cost. Users are also guaranteed security of their money in each of the convergent solutions. The year 2010 is said to be Equity Banks year of 'take off' implying that the years before had only been used for preparation of the infrastructure and this is given as the reason why the convergence strategy was implemented during the same year as it is considered by the bank as one of the key means to reach as many customers to drive the young bank to greater heights.

The strategy of convergence was motivated by the need to ease over reliance on conventional bank branches. It seeks to open up branchless banking which links alternative delivery channels available on mobile devices to Equity agent locations where customers may conveniently transact even outside the regular business hours when banks are not open. Many rural areas are set to benefit from this facility which Equity Bank has christened 'Ndiyo Hii Hapa' which means 'Here it is' to emphasize the convenience of agents' proximity. Equity Bank has been working on pursuing financial inclusivity to bring more people into branchless banking though the application of modern technology. The goal is to give as many people as possible the opportunity to save and borrow money without visiting a bank, while being assured that their savings are secure under the deposit protection insurance. Such convergence avails banking services at locations nearer to people such as agent outlets. Customers with M-Kesho and Orange Money can thus transact in these outlets as do those with Eazzy 247.

### 4.3.2 Convergence Strategy and Competitive Advantage

Equity Bank has managed to execute the convergence strategy in a way that no other Kenyan bank has been able to replicate due to the first-mover advantage and also as a result of the huge number of customers that it has which comprises more than half of all the bank accounts in Kenya. By pioneering these formal collaborations, the bank has been at an advantage as the agreements are legally binding. The bank perceives its customers as being subscribers to the different mobile phone companies it has a convergent solution with who deserve tailor-made services that are distinct i.e. differentiated per niche. The respondents were asked to indicate the advantages that are directly attributable to the bank's convergence strategy. The responses were many and varied but generally they may be broadly categorized as; source of revenue, enhancing image effects, catering for customer needs and enforcing exit barriers.

A growing customer deposit base of funds for Equity Bank ensures that it is able to disburse loan facilities without resulting to external borrowing that attracts charges and thus lowers the income earned from such facilities. Interest on loans is the major source of revenue for the bank. Convergence has facilitated the flow of money from mobile money transfers to linked bank accounts which is not charged by the bank and thus growth in customer deposits. In 2009 the deposits were at 69.84 billion and rose significantly to 87.81 billion by end of June 2010. The number of deposit clients increased to 4.96 million from 4.37 within the same period. It is worth noting that since the bank launched all the convergence platforms in 2010, the strategy contributed greatly to this realization. The respondents concurred that the growth was facilitated by such efforts made in bolstering a saving culture through the use of modern technology. The total income for the bank realized was at 46% growth, from 11.27 billion in 2009 to 16.51 billion in September 2010.

Convergence has introduced a convenient way in which customers can perform their transactions without spending much of their time queuing in banking halls. The director of strategy noted that many of the young customers prefer banking solutions that save them time as they are always on the move and are less patient as far as queuing for banking services is concerned. They comprise of college students making enquiries and transfers as well as the middle aged working population who are busy and would hardly get enough time to visit a bank branch. Mobile solutions have enabled the customers to deposit funds, transfer money within accounts and banks, and pay utility bills with the less time dictated by such lifestyles. Alerts are charged sh. 5 and interbank transfers are real time. All these services can be accessed also from the Equity and Orange agents located in scattered convenient venues.

The customer perception of the bank is important in its strategy. This is the reason why there is concerted efforts to bring a myriad of convergent solutions to all customers of the bank regardless of which mobile phone provider they are subscribed to. Customers who prefer Safaricom's M-Pesa have M-Kesho; those on Yu Mobile utilize the YuCash linked accounts while Orange Telkom subscribers have Orange Money mapped accounts. This universal appeal ensures that no Equity Bank customer may be left out in terms of convenient access to banking services as the various platforms have been brought on board through convergence. The aligning of these various platforms to the bank's mobile banking protocols has ensured security against cyber fraud and the user-friendliness of the technology via various channels such as Java and sms. This has invariably led to positive reputation and it has a signaling effect for customers in different segments such as custodial services which are not yet served through convergence. A customer with many accounts may link each to a different number as they may prefer.

The nature of competition among banks in Kenya has made Equity Bank invent products that are innovative and appeal to various segments of its customer base. This way, new delivery channels for products and services have been created. Similar products on offer can thus be differentiated from those of competitors using technology and convergence seeks to raise exit barriers by offering products that lock in customers. The upgrading of M-Kesho to an online solution with real-time updates is one example. Technology leadership has offered customers round-the-clock multi channel access to their accounts which in turn has generated goodwill and trust from actively asserting quality leadership. The study realized that no other bank in the country has such convergence variety as Equity Bank and the model is legal thus may not be replicated by rival firms. This situation is crucial in maintaining a competitive edge. While other banks also have linked accounts on their mobile banking applications, Equity Bank additionally has mapped accounts that are customized in the menus on the mobile phone simcards for Orange Money and M-Kesho for ease of use.

Convergence has made it possible for employers to remit salaries to their employees using the convenience enabled by solutions such as Orange Money. Companies especially small ones no longer need to prepare payrolls and write cheques which may take time before salaries are paid. Convergence has enhanced quality leadership which is meant to enforce exit barriers and also attract new customers to the bank. The response has been satisfactory; for example, M-Kesho registered about 400,000 users within two months of its launch and has a great share in the bank’s mobile banking and overall competitive strategy. This has managed in growing the bank to the largest in terms of customer base in Kenya presently.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter summarizes the findings of the study and makes conclusions based on the objective of the research project which was to establish ways in which Equity Bank uses convergence to gain competitive advantage.

## 5.2 Summary and conclusion

This case study has demonstrated that convergence is employed at the bank to generate and/or strengthen competitive advantage for the firm. Different as the bank's business model might be, it views convergence as a valuable chance to differentiate its products vis-a-vis those of the rivals. The strategic reasons for the convergent offers in the business portfolio range from generating additional revenues directly from the mobile channel transactions to indirectly by growing the customer deposit through transfer of funds to bank accounts from other payment services.

The bank has also employed convergence in strengthening the existing competitive position and in generating goodwill of prospective customers. The customers have a wide range of solutions to choose from within the wide-ranging portfolio of available channels. This phenomenon is consistent with the concept of generic strategies discussed in chapter two of this project. Convergence has also been observed to secure a serious image which is invariably associated with banks. Innovative solutions open up new doors for technology providers to collaborate with banks. The spill-over effects of this serious image are then channeled into gaining and strengthening the bank’s competitive advantage.

Based on the findings of this case study and the subsequent discussion, the following propositions may be advanced about the role of convergence as a competitive strategy; that convergence enables a positive differentiation of products and services. This attracts prospective customers while at the same time raising exit barriers for existing customers. This competitive strategy is a multi-channel that not only benefits the bank but also the service providers as well by opening up a new distribution channel for the collaborating firms. We may also conclude that the positive shift in customer perceptions in the use of convergent solutions that appeal to the mass market has made convergence a useful tool in generating and strengthening the competitive position of the firm.

## 5.3 Limitations of the Study

The numerical base of this case study involving only four respondents is too small to ensure statistical significance even though the uniformity of the findings suggest towards a high probability of this study being on the right trail. The major challenge faced during this study is that the respondents were seemingly holding back so much information and were not as willing to share data, mostly the current and unpublished one. This case study thus relied on mainly information provided in past reports (2009, 2010) and not 2011 as had been intended.

The busy nature of respondents made it difficult to complete a single 20-minute interview without the interruption of staff and office calls. In some cases the respondents cut the interview short to attend to urgent matters. The implication of this discontinuity was many bits of disjointed data that necessitated telephone follow-ups for clarification. There were also numerous postponements and referrals by the busy managers to staff who had not been intended as respondents.

## 5.4 Recommendations

The bank needs to adapt more customer intensive approaches that incorporate fully the model of serving the mass market and convergence at agency outlets by introducing the YuCash solution alongside the Orange Money and M-Kesho. Convergence at the Strategic Business Units (SBU) level requires to be reinvented as it has not fully met the business strategy in some branches of the bank.

## 5.5 Suggestions for Further Research

This study focuses on one bank; nevertheless, it provides a direction to research in this field to examine the validity of these findings in a larger-scale empirical survey. Again, the case study focuses on the bank and not the technology solution providers. The significance of the findings needs to be examined in the larger scale survey of technology providers since the convergence is a multi-channel strategy. There is need also to evaluate the contribution and competitive advantage of convergence to other strategies of the bank such as the agency banking.

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# APPENDIX I: INTERVIEW GUIDE

## SECTION ONE: PERSONAL DETAILS

1. Name (Optional): ____________________________________________

2. Department: ________________________________________________

3. Position: ___________________________________________________

4. Duration in current position: _____________________________________

5. Experience in banking

    a) At Equity Bank ____________________

    b) Other bank ________________________

6. In your current position, are you directly involved in both the formulation and execution of strategy at Equity Bank?

## SECTION TWO:

## PART I. CONVERGENCE STRATEGY AT EQUITY BANK

1. In your opinion, what would you say is Equity Bank's business model based on?

2. What do you think was the motivation behind the convergence strategy?

3. Who would you say is the bank's major competitor as far as mobile money transfers are concerned?

4. What was the main reason that all convergent partnerships were launched in 2010 and why isn’t there a similar agreement with Airtel Kenya yet?

5. Was the bank approached or did it pursue the service providers to come up with the various convergent solutions?

6. Does convergence affect the mainstream mobile banking solution (Eazzy 247) in any manner?

7. Comment on the future of convergence with telecoms as a strategy adopted by the bank in terms of upgrades and improvements.

## PART II. CONVERGENCE AND COMPETITIVE ADVANTAGE

1. What are the value-adding benefits that the bank has realized from converging with local mobile phone operators?

2. How many accounts does the bank currently hold on M-Kesho, Yu Cash and Orange Money?

3. What contribution in revenue does the bank attribute to M-Kesho, Yu Cash and Orange Money in the last financial year?

4. Would you conclude that these solutions have fully met the expectations they were designed to achieve?

5. Are there any plans to integrate all these platforms with the bank's agency model?

6. What is the role of convergence with telecoms in the medium to long-run business strategy of Equity Bank?