

**MOBILE BANKING AS A STRATEGIC RESPONSE BY EQUITY BANK KENYA  
LIMITED TO THE CHALLENGES IN THE EXTERNAL ENVIRONMENT**

**BY:**

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**A MANAGEMENT PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
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## DECLARATION

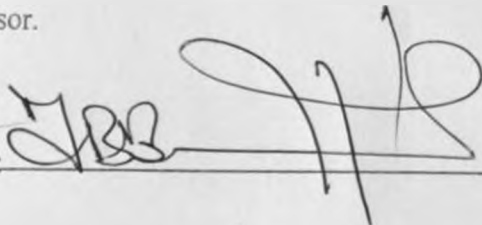
I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit. :

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## DEDICATION

This project is particularly dedicated to my family for their overwhelming support in encouraging me to complete this programme.

## ACKNOWLEDGEMENT

The successful completion of the MBA course and this study is as a result of various individuals that I must acknowledge. My thanks first go to my parents who gave me the moral and financial support to join and complete the MBA programme.

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## ABSTRACT

The study focused on how Equity Bank Limited utilizes mobile banking as a strategic response to the changes in the external environment. Equity Bank is one of the leading commercial banks that started operating after being legally registered in 1984; the bank has progressed from a building society to a Microfinance Institution. It boasts of a large client base and has won many awards in the past few years for its excellent performance in the banking industry. The banks focuses on embracing the latest technology in carrying out their operations efficiently and effectively and also creating products using this up to date technology that are far much superior than those of its competitors. The research intended to bridge a gap in Knowledge, by determining the corporate strategy of mobile banking that Equity Bank will adopt to respond to the challenges in the external environment making it a more successful enterprise than at present in its respective industry. The study will be beneficial to various stakeholders; first, the management at Equity Bank, secondly entrepreneurs willing to venture in the mobile banking industry and thirdly scholars wishing to carry out further research in the industry could find it useful in guiding of the strategies to adapt to the constant changing business environment. The concept of strategic management is thoroughly defined and explained in the literature review of this study. The research also tries to show the formulae of how a business can formulate strategies and strategic responses in order to meet the needs of the constant changing business environment so that the firm can have a competitive edge over its competitors. Additionally it shows business environment and how the various aspects in the environment interact and relate to one another. The research design used in this research was that of a case study. The method of primary data collection that was used is that of an interview guide administered through personal interviews. Due to the interpretive nature of this research, the case study was qualitative in nature since the data collected is qualitative. Content analysis was used in analyzing ,the in- depth qualitative data collected. For a firm to have a competitive advantage over its competitors it's should coin a strategic response that will adapt to the constant changing environment. The findings this study focused on the mobile banking responses and marketing responses on the external environment and show how they were used to solve the challenges found in the business environment based on the forces found in the external environment namely; political, economic, legal and regulatory, social and demographic and information technology. In conclusion that can

be determined that the mobile banking industry is placed in a very dynamic environment due to the stiff competition from rival companies and the constantly changing Information Technology aspects context and contents therein. The marketing strategies to be used to maximize revenue for the firm should be in tune with the constant changing external environment. The firm should strive to have a niche in the market in offering a service that is unique from its rivals to be the market leader in the industry.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

In order for firms to have a competitive edge over their competitors they have to constantly redesign their strategies. This is due to the competitive environment surrounding their respective industries. Failure in management to steer the organization to effectively adjust to its environment according to Ansoff and McDonnell (1990), results to a strategic problem. Such a problem will be apparent by a mismatch between what the organization can offer and what the market demands.

Since all business organizations are open systems they influence and are influenced by external conditions which are largely out of their control (Pearce and Robinson, 1997). Thus a firm to successfully position itself in its industrial environment the strategic managers should look beyond its operations. They are obliged to constantly monitor the actions of the relevant stakeholders like competitors, customers, suppliers, creditors, government labour and also try to deduce their next course of action. Strickland (1998) states that managers have the ever-present responsibility for detecting when new developments require strategic response and when they do not. They should continuously monitor progress, spot problems early and track the winds of market and customer change and initiative adjustments.

Johnson and Scholes (2002) state that the business environment summarizes many influences and the difficulty is making the sense of diversity. He goes on to further say that the pace of technological change and the speed of global communication are of paramount importance currently than ever before. A firm uses resources as inputs which it converts to outputs, and then exports the outputs to the environment. Daft (1986) goes to stipulate that open systems can be enormously complex in that internal efficiency is just one issue and is sometimes a minor issue. The firm must research and obtain the required resources, deduce and act in regard to the environment changes, dispose of the outputs, control and coordinate internal activities in the face of environmental disturbances and uncertainty if it is to achieve its strategically set objectives or efficiency.

### 1.1.1 Strategic Response

According to Pearce and Robinson (1997) strategic response is a set of decisions and actions that results in the creation and implementation of plans intended to achieve an organization's objectives. When the firm's respective business environment changes it should revise their strategies to match the turbulence level (Ansoff and McDonnel, 1990). Failure to adapt the organization to its environment leads to a strategic problem thus failure of the firm in meeting its objectives. The organizations external environment consists of all the conditions and forces that affect its strategic options and define its competitive situation (Pearce and Robinson, 1997).

Thompson (1997) defines strategic adaptation as gradual changes overtime to the strategies and goals of an organization. These changes as said earlier can be either gradual or evolutionary. Responses to such may take varied forms depending on the organizations capability and its surrounding industry environment. Mature and targeted strategic responses are formidable weapons for a firm in attaining and sustaining a competitive edge over its rivals.

Luftman (1996) argues that the way a firm views its businesses, customers and competition is vital to effectively aligning its business and Information Technology (IT) strategy. IT is used to automate processes and to augment the skills of the organization's staff. Rayport and Sviokla (1995) stipulate that competition is defined along two scopes: The physical world of resources and the virtual world of information. Information supports and improves each activity in a firm making it a source of added value and hence, competitive advantage, provided firms are able to draw that value. Gilbert (1995) notes that strategically successful firms obtain market feedback quickly and constantly and adapt the feedback ahead of their rivals in their respective industry. They exploit the potential of strategic as well as competitive and operating information systems. Specific information technology variables can influence a firm's response to competition include the usage of real-time systems, extent of interconnectivity of distribution channels and the effectiveness of telecommunication systems. To effectively restructure a firm one can carry out business process reengineering. According to Hammer (1996), "Companies can dramatically improve their efficiency and quality by focusing on customers and the processes that create value for them".

Wilson and Rosenfeld (1990) show organization structure as a well formulated pattern of relationships between component parts of a firm outlining communication control and authority patterns. Thus structure differentiates the parts of the organization and explains the relationships between them.

### **1.1.2 Mobile Banking**

The integration of information communication technology (ICT) into various business functions is slowly gaining momentum. Due to the premise of the of a rapidly growing landscape the traditional banking practices are being taken to new frontiers due to the emergence of ICT. We are moving from the banking halls to the use of bandwidth. The mobile phone based system of money transfer has many capabilities that include the ultimate capacity to resolve complex money storage transmission and transactional issues.

However, no matter what business model, if mobile banking is being used to attract low-income populations in often rural locations, the business model will depend on banking agents i.e., retail or postal outlets that process financial transactions on behalf telcos or banks. The banking agent is an important part of the mobile banking business model since customer care, service quality, and cash management will depend on them. Many telcos will work through their local airtime resellers. However, banks in Colombia, Brazil, Peru, and other markets use pharmacies, bakeries, and so on.

These models differ primarily on the question that who will establish the relationship (account opening, deposit taking, lending and the like.) to the end customer, the Bank or the Non-Bank/Telecommunication Company (Telco). Another difference lies in the nature of agency agreement between bank and the Non-Bank. Models of branchless banking can be classified into three broad categories - Bank Based and Nonbank Based.

Services provided through both the Mobile (SMS) and Internet banking include a) checking account details; b) retrieving account balance and statement; c) check transactions - ordering check books and stopping issued checks; d) transfer funds - transferring funds from one account to another. Services that are available through the Internet but not Mobile banking include submitting requests and applications for Letters of Credit (LC) and Bank draft. Flash pay - make payments to individuals that do not have accounts with the bank; and mobile phone units/credit

recharge are additional services available to SMS but not Internet banking clients. There are currently 86 (3% of total clientele) and 115 (4% of total clientele) clients registered and using SMS banking and Internet banking respectively.

### 1.1.3 Equity Bank Kenya Limited

Equity Bank started operating after being legally registered in 1984; the bank has progressed from a building society to a Microfinance Institution. Currently is publicly listed as a commercial bank in the Nairobi stock exchange (Equity Bank, 2009).

The bank boasts of holding 48% of all the banks in Kenya with more than 2.8 million accounts currently being held by their customers. The strength of the bank is justified by its large shareholder fund base that is over Kshs. 17 billion accompanied by a supplementary fund of Kshs. & billion of subordinated tier two capital which makes the bank the most capitalized bank in the region. Equity bank has obtained both local and international recognition for its distinct and revolutionary financial model. Further, the bank is ascribed for taking banking services to the people through its accessible affordable and flexible service provision. The bank enjoys an exemplary Credit rating from the Global Credit Rating Agency. It also provides financial services through its over 90 licensed and continuously growing branch network which is constantly sustained by Alternative Delivery Channels which include 350 Visa branded ATM's, 2500 points of sale (POS), Cash back services in all leading supermarkets as well as the internet and mobile banking channels. Finally, the bank runs on a Global Robust Information Technology System supported by Infosys, HP, Oracle and Microsoft.

**Mobile Banking In Equity Bank:** From the competition provided by Safaricom and Zain on mobile phone banking, Equity bank launched a Mobile-banking service known as *Eazzy24/7*, taking its branches to the mobile handset devices and increasing its customer base by reducing the transaction costs and greatly improving the national payment system. The service is cost effective and adaptable, and is expected to bring in more people into the formal banking system that currently has 4.5 million accounts countrywide. Most banks charge an average of between Sh150 and Sh200 and *Eazzy 24/7* charges Sh50 to transact within its bank. While such a transaction will only take minutes, transferring funds to another bank will follow the normal interbank process and duration. Two Equity account holders with Safaricom lines can now credit

and transfer cash into each other's account using their mobile phones in real time, subject to the availability of funds. Equity bank clients will also be able to pay their utility bills, purchase airtime, request their bank statements and perform 13 other crucial banking enquiries. Equity mobile banking technology is similar to Safaricom's popular money transfer service, M-Pesa which has had a successful launch transferring about Sh36 billion since its launch (Equity Bank, 2009).

## 1.2 Statement of the Problem

A wide spectrum of Mobile banking models is evolving. However, no matter what business model, if mobile banking is being used to attract low-income populations in often rural locations, the business model will depend on banking agents (retail or postal outlets that process financial transactions on behalf banks). The banking agent is an important part of the mobile banking business model since customer care, service quality, and cash management will depend on them. Many banks work through their local airtime resellers. The bank-focused model emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. Examples range from use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to banks' customers. This model is additive in nature and may be seen as a modest extension of conventional branch-based banking.

There have been previous studies done on strategic responses. Wairegi (2004) focused on the strategic responses by life insurance companies in Kenya and the changes in their environment. He wholly analyzed how the insurance industry in Kenya responded to the external environmental changes through such initiatives as new product development, development of new distribution channels, diversification, organizational restructuring, investment in human resources, customer service improvements, and adaptation of information technology and lobbying of the government through the association of Kenya Insurer (AKI). Chepwony (2001) emphasized on the strategic response of petroleum firm in Kenya to the challenges of increased competition in the industry. He realized that the liberalization of the Kenya Oil industry has observed great competition among the major players. To remain competitive the Oil companies responded by making substantial adjustments in their respective market, prioritization of the organizational goals and redesigning their organizational structure with a view of making them

flatter and efficient. Mugambi (2003) focused his study on strategic response of tourist hotels in Nairobi and the changes in the environment he ascertained that as a consequence of the economy's progressive decline and liberalization tourist hotels in Nairobi have responded by restructuring their marketing activities, cost management and outsourcing of non-core tasks related to the firms.

What makes this study unique from the rest is the fact that none has used mobile banking to respond to the challenges in the external environment in the banking business making an enterprise have a competitive advantage over its rivals. The research intends to bridge this gap in Knowledge, by determining the corporate strategy of mobile banking that Equity Bank will adopt making it a more successful enterprise than at present in its respective industry. Being one of the fast growing and innovating banks who target the majority low and middle class people in Kenya how will Equity Bank use mobile banking to respond to the challenges in the external environment?

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

The study sought to determine how Equity Bank utilizes mobile banking to respond to the challenges in the external environment

### **1.4 Significance of the Study**

The study will be beneficial to various stakeholders; First, the management at Equity Bank which will be able to utilize mobile banking to respond to the challenges in the external environment from the findings of this study .Secondly entrepreneurs willing to venture in the mobile banking industry while find the study useful in understanding the dynamics of the mobile banking business environment. Thirdly, Scholars wishing to carry out further research in the industry could find it useful in guiding of the strategies to adapt to the constant changing business environment.



# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter reviews the literature on strategic management concepts, strategic Diagnosis of firm in a business environment how the firm relates to its external environment what strategic response is and highlighting the various studies done on strategic responses.

## 2.2 Strategic Management Concepts

Johnson and Scholes (2002) identify strategy as the direction and scope of a firm over the long term, which achieves competitive advantage for the firm through its configuration of resources on the dynamic environment to fulfill the stake holder's expectations. To attain a strategic fit one must match the resources and activities of a firm thus achieving its respective strategic objectives. Strategic fit is creating a strategy by identifying opportunities in the business environment adjusting the available resources and competences to take advantage of the opportunities identified earlier. The development of the concept of strategy as an explicit is fairly recent in both management theory and practice. Its beginnings can be traced back to the post world war II period (Hofer, 1979). Many of the US based companies diversified after the World War II into other industries as well as going global. Diversification brought about further difficulty thus the evolution of the multi - dimensional structure. There was difficulty in managing these US based companies due to competitive pressure and increased change to the business environment. In order to integrate the firm's diverse functional area policies the concept of corporate strategy was realized.

Potter (1980) states that strategy is wholly about competition and the ways by which a firm tries to gain competitive advantage. He argues that a competitive strategy is a broad formula for how a business is going to compete, it defines its goals and the policies to implement these goals.. Ohmae (1983) states that the major purpose of strategic planning is to empower the organization to efficiently gain a competitive advantage over its rivals in its industry.

According to Ansoff (1990) strategy is a collection of decision making rules for guidance of a firm's behavior. The first being a benchmark by which the firm's present and future performance

will be measured against. The value of these benchmarks is generally known as objectives and the desired quantity goals for the organization to achieve success. Secondly rules for developing the firm's relationship with the external environment are established. It expounds on the technology the firm will develop or adopt, the product it will embrace, where and whom the products will be sold to and how the organization will gain and edge over its rivals. The rule established here is the business or the product – market strategy.

Thompson (1997) stipulates that strategies are means to ends and these ends concern the purpose and objectives of the firm. They are the actions that organizations take they rout they follow in implementing these actions together with the decisions they make in order to meet the organizational goals to success. According to Thompson and Strickland (1992) A firms strategy encompasses the approaches coined by management to produce effective and efficient organization performance. Strategy is the game plan to for a firm achieve success over its competitors.

Mintzberg and Water (1985) argue that strategy is a pattern. In reality a pattern in a continuous set of actions. This definition explains strategy as a consistency in behavior intended or not. Strategy is a position in locating an organization in a business environment. It becomes the arbitrating force between the firm and the environment or rather the firm's internal and external context. Strategy is a perspective, its content comprises of not only its position in the environment but of an established way of looking at the business world specifically. Thus this definition concludes that strategy is a concept paramount to organization success.

Strategic management entails creating awareness of how flourishing a firm's strategies are and how the relevant situations are constantly changing. Competition always threatens successful product and services thus the relevant formulated strategies proving irrelevant. As this goes on new opportunities which require new formulated strategies are coming up and can be captured by any attentive firm in the industry. New strategies are always being created (Thompson, 1997).

The new strategies can cause changes to the firm at a competitive level or at a portfolio level. The strategic ideas can be created from formal planning processes or when managers in the firm try out new ideas in the case of functional and competitive strategies. Effective implementation and the creation of new strategies concerning the firm's process are entailed in designing and

implementing any changes that are needed to achieve organizational success. These changes must be closely monitored and controlled to give the desired result. Since existing and new strategies must be implemented (Thompson, 1997).

According to Thompson and Strickland (1992) there are five tasks of strategic management which comprise of creating a concept of the business and visualizing the direction of the firm thus instilling a sense of purpose. It also involves setting up an organization mission and giving the long term direction the firm will take. The second task comprises of altering the mission into specific performance objectives. The firm needs to create strategy to achieve these objectives efficiently and effectively. Fourthly the chosen strategy should be implemented and executed as dim fit. Lastly there should be constant evaluation, monitoring of performance , reviewing the situation and initiating corrective adjustments on the mission , vision ,goals, strategy or implementation to suite the changing conditions ideas and new opportunities.

### **2.3 External Environment and the Organization**

The firm's external factors influence the actions and direction the organization will take to achieve its objectives its internal processes and ultimately its organization structure. These factors that comprise of the firm's external environment are divided into three categories; factors in the remote environment, factors in the industry environment, and factors in the operating environment (Pearce and Robinson, 2002).The remote environment consists of factors that originate beyond and usually individual of any single organization operating situation. It includes the political, economic, social and technological factors. Firms with widely available opportunities threats and constraints lie in the remote environment but hardly ever does a single firm exert any meaningful reciprocal influence (Pearce and Robinson 2002).

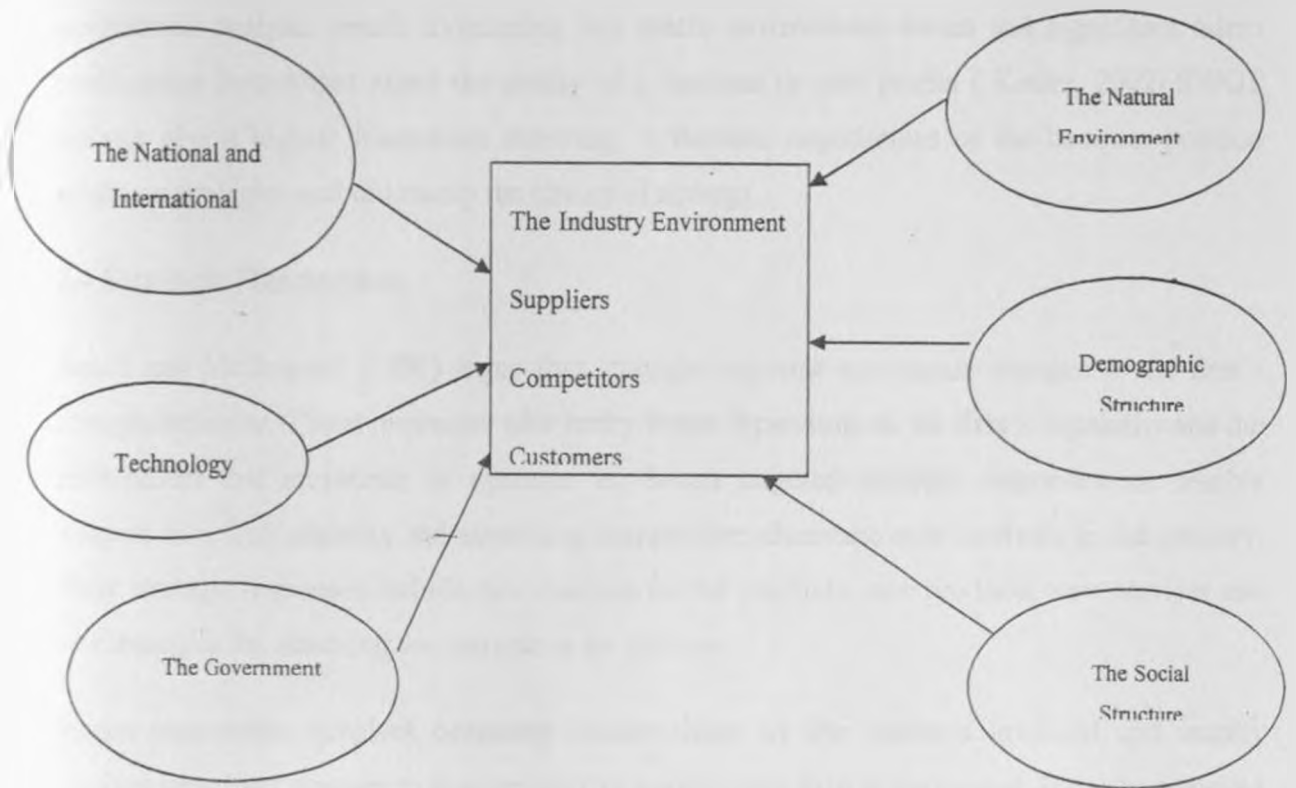
Lynch (1997) used the term environment to illustrate everything and everyone outside the firm. This includes the competitors, customers, suppliers, distributors' social institution and the government. Since the elements of the environment change dynamically there is need to adjust the corporate strategy accordingly. The business environment is being subjected to rapid extent of change .Managers typically feel the effect of this technological change and the speed of global communication mean more and faster change now than ever before (Johnson and Scholes, 2002).

The five forces model designed by Michael Porter helps point out the sources of competition in an industry or sector. These forces are namely; the threat of new entry; threat of substitute products or services, competitive rivalry, bargaining power of consumers and bargaining power of suppliers. Threat of new entry will be influenced by the extent to which barriers to entry in a market (Johnson and Scholes, 2002). These factors need to be defeated by new entrants if they are to compete effectively with their rivals. Substitution reduces demand for a particular "class" of products since the customers toggle to products that give them similar satisfaction to what you currently have in the market. This will depend on whether an alternative or substitute gives a higher alleged value to the consumer.

Competition from existing rivals in the market takes the form of fighting for positions using strategies like price competition, product introduction and advertising. Competitive rivals are organizations with similar products and services whose goal is to target the same customer group (Johnson and Scholes, 2002). Suppliers can use bargaining power on industry members of an industry by raising prices or reducing the quality of the purchased goods and services. Influential suppliers can control in reducing the profitability of an industry unable to recover cost increases in its own prices (Pearce and Robinson, 2002). Powerful buyers can force down prices demand higher quality or more services and play competitors off against each other just to attain the optimum industry profits.

Figure 1 below shows the business environment and how the various aspects in the environment interact and relate to one another.

**Figure 1: The Business Environment**



Source: Grant (1998)

Andrew (1971) argues that the formulation of an appropriate strategy for a firm starts in identifying the opportunities and risks in its business environment. The environment of any business is the pattern of all the external conditions and influences that affects its life and development (Andrews 1971). The strategic decision that a company follows its business community, its city, its country and the world is highly dependable on its business environment. They are technological, social, economic and political in nature. The one that experiences rapid change constantly is technology. Dynamic change in the environment prompts the business to monitor and evaluate its definition before it becomes irrelevant to the industry

SWOT analysis an analysis tool used in strategic planning is used to analyze the internal and external factors related to a firm. SWOT stipulates that an effective strategy maximizes a business strengths ad opportunities and at the same time minimizes the weaknesses and threats. This assumption if implemented appropriately has dominant consequences for successfully

selecting and designing an effective strategy. (Pearce and Robinson, 2002). External environment analysis entails monitoring key macro environment forces and significant micro environment factors that affect the ability of a business to earn profits (Kotler, 2002) SWOT analysis give a logical framework directing systematic negotiations of the business position substitute strategies and ultimately the choice of strategy.

## 2.4 Strategic Responses

Ansoff and McDonnell (1990) argue that strategic response encompass changes to the firm's strategic behavior. These responses take many forms depending on the firm's capability and the environment that surrounds or operates in. Sound targeted strategic responses are terrible weapons in a firm attaining and sustaining competitive advantage over its rivals in the industry. These strategic responses include new markets for the products, new products, new services and new strategies for attacking the markets in its industry.

Market penetration involves obtaining market share for the business involved and usually involves important changes to the competitive position of a firm in the market. It can be achieved through differentiation or cost leadership. Porter (1985) argues that differentiation is achievable by either becoming more unique in performing the firm's tasks or by reconfiguring the firm's value chain in such a way that it promotes individuality. The firm should control this cost on differentiation so as to attain high profits.

Market development entails the firm utilizing existing products or services in new markets. This means that the firm will keep the safety of its abilities in the penetration and expansion of the new markets. This will lead to new products resulting from technical developments adaptation or improvements of existing products or services. This is paramount if the firm is to survive in its respective industry. The two forms of diversification are related and unrelated. Diversification depicts that the firm will develop into areas beyond the current products or markets. Related diversification moves the firm from existing markets and products as it remains in the same industry and embracing vertical and horizontal integration into unique industries.

Chepwony (2001) realized that the liberation of the Kenya Oil industry has observed great competition among the major players. To remain competitive the Oil companies responded by making substantial adjustments in their respective market, prioritization of the organizational

goals and redesigning their organizational structure with a view of making them flatter and efficient

Mugambi (2003) ascertained that as a consequence. Of the economy's progressive decline and liberalization tourist hotels in Nairobi have responded by restructuring their marketing activities, cost management and outsourcing of non-core tasks related to the firms.

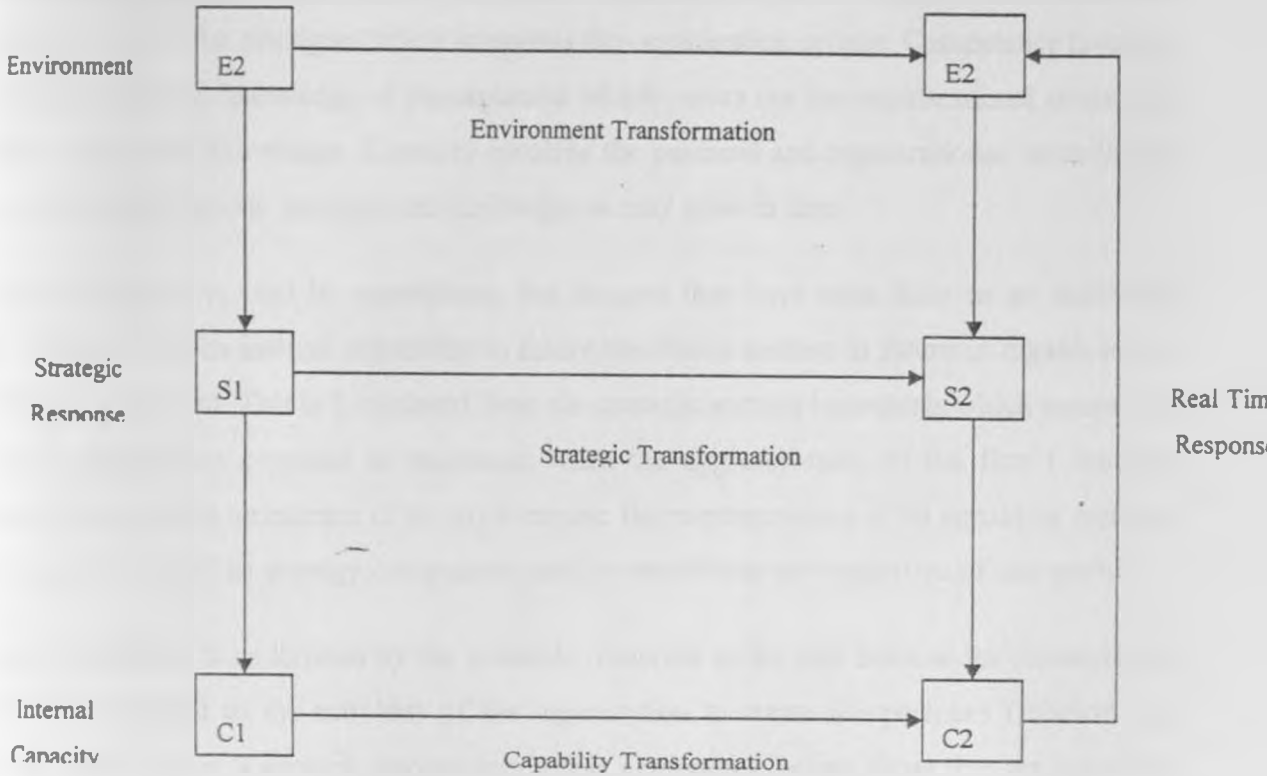
According to Wairegi (2004) the insurance industry responded to the external environmental changes through such initiatives as new product development, development of new distribution channels, diversification, organizational restructuring, investment in human resources, customer service improvements, and adaptation of information technology and lobbying of the government through the association of Kenya Insurer (AKI).

## 2.5 Strategic Responses and External Environment

Ansoff and McDonnell (1990) affirms that the first step in strategic management is to perform a strategic diagnosis which points out the unstable, type of aggressiveness and organizational responsiveness a specific firm needs to formulate in order to meet the future challenges in its environment Strategic diagnosis recognizes whether a firm requires to change its strategic behavior to attain success in its business environment.

Figure 2 shows the environmental dependence to the firm. Where there is an environmental shift from E1 to E2, the organizations' strategy has to change respectively from S1 to S2 in order to adapt to the changing environment circumstances. If the strategy is not changed there will exist a strategy gap. This is only possible when the firms capability is changed from C1 to C2. According to Johnson and Scholes (2000) there is need to know whether the organizations' strategies continue to fit or adjust with the dynamic environment it operates on as well as its opportunities and threats present in the environment. He further argues that many of the issues of strategy development are concerned with the changing strategic ability better to adapt to a continuously shifting environment.

**Figure 2: Managing the Firms Adaptation to the Environment**



**Key**

E1	Current Environment	F2	Future Environment
S1	Current Strategy	S2	Future Strategy
C1	Current Capability	C2	Future internal Capability

Source: Ansoff and McDonnel (1990)

The Environment Turbulence is portrayed by the differences between present and future critical success factors (SBA). Strategic aggressiveness is deliberated by the match between the characteristics of the firm's competitive strategy and the critical success factors. The assessment of responsiveness is derived from the match between the vital capability success factors and the competence profile of the firm. Responsiveness can be explained by three capability attributes



which include climate, competence and capacity. The climate setting entails the mentality and power positions of the managers which stipulates the organization culture. Competence involves the talents skills and knowledge of management which points out the organizational structures, systems and shared knowledge. Capacity involves the personal and organizational capability to accommodate the various management challenges as may arise in time.

Strategic diagnosis is vital in ascertaining the changes that have been done to an individual firm's strategy and its internal capability to assure the firm's success in future in regards to the business environment. This is formulated from the strategic success hypothesis which argues that a firm's performance potential at maximum when the aggressiveness of the firm's strategic behavior matches the turbulence of its environment; the responsiveness of its capability matches the aggressiveness of its strategy components and its capabilities are supportive of one another.

Strategic capability is underlined by the available resources to the firm because the resources are what are distributed to the activities of the organization to create competences (Johnson and Scholes, 2002). From a strategic perspective a firm's resources include those that are owned by the firm and those that can be accessed to support strategies. Resources are usually grouped into physical resources financial resources, human resources and intellectual capital.

Financial resources include cash, capital, debtors, creditors and suppliers of money (banks and the like) .Intellectual capital comprises of the intangible resources of a firm and is often overlooked. This include the knowledge that is captured in patents, relationships with partners .brands, customer databases, and business systems .In a knowledge based economy intellectual capital is the major asset of many firms and there are pressures to find ways of assessing and accounting for the value of intangibles.

Firms have to change their resource base to stay in business Resources that are unique are those that underpin competitive advantage and sustain the ability to give value to the product making it better than that of its competitors since they are hard to imitate.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter presents the study's selected research and sample design. This chapter also reviews the method of data collection that was used to collect the required information and the data analysis procedures used in the study.

## 3.2 Research Design

The research design used was a case study which sought to determine how Equity Bank utilizes mobile banking to respond to the external environment. A case study is appropriate when detailed analysis of single unit of a study is required. Yin (1984:23) defines a case study as "an empirical enquiry that: investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used". According to Cooper and Schindler (2003), a case study places more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. They provide focused and valuable insights to phenomena that may otherwise be vaguely known or understood. Sound strategic responses to the constant dynamic banking business environment will enable Equity bank to have a competitive advantage than its competitors. One of the strategic responses is mobile banking which will effectively improve performance at the bank in all ways.

## 3.3 Data Collection Method

Primary data was used in this study. The method of primary data collection that was used is that of an interview guide administered through personal interviews. Personal interviews have greater flexibility and provide an opportunity for further probing. The study targeted five Equity Bank Employees. They included five senior managers from marketing, mobile banking, customer service, credit and account opening.

### **3.4 Data Analysis**

Due to the interpretive nature of this research, the case study was qualitative in nature since the data collected is qualitative. Content analysis was used in analyzing the in- depth qualitative data collected. According to Nachmias and Nachmias (1996), content analysis is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends. It will thus involve thematic analysis of data generated through personal interviews alongside cited literature and the researcher's expectations.

# CHAPTER FOUR: DATA ANALYSIS AND INTERPRATIONS

## 4.1 Introduction

This chapter will cover data analysis and findings of the research. As mentioned earlier the basic research approach of this study is qualitative. Content analysis was used and an interview guide was the tool of data collection. The collected data has been analyzed interpreted in line with the aim of the study namely to document mobile banking as a strategic response by Equity Bank Limited to the challenges in the external environment.

This section is approached by first discussing the challenges affecting the environmental forces namely political, economic, legal and regulatory, social and demographic and finally information technology. There after the mobile banking and marketing response to each is given respective of each environmental force.

As such the study employed the use of an inductive form of reasoning in that concepts insights and understanding were developed from patterns in data. The stance in that meaning was derived from the subject's perspective. The study therefore was an ideographic one aiming to understand the meaning respondents' ascribed to mobile banking as a strategic response by Equity Bank Limited to the challenges in the external environment to be superior than its rivals in the banking industry and thus reality is seen in this case as subjective.

## 4.2 Mobile Banking Responses to Environmental Challenges

Equity bank has faced very many challenges from the external environment. The challenges in the environment are divided into political, economic, legal and regulatory, social and demographic and lastly information technology. This section seeks to highlight, the challenges posed in each external environment change and how mobile banking was used to handle the challenges in these external environment forces.

### 4.2.1 Political

It was determined from the respondents that in the past years there were high barriers of entry in the banking industry and the cost of operations was quite high. Later a favorable political

environment in the banking industry came about and most firms could get into the banking industry easily. Information Communication Technology (ICT) was encouraged and implemented specifically in the area of e-commerce. Computer hardware costs were available to almost every Kenyan since their cost decreased tremendously. This low cost of hardware and software has enabled Equity bank to technology in implementing and improving the mobile banking service to suite the customer needs. After the 2007 elections the cost of living shot up tremendously for every Kenyan, the bank's mobile banking service brings the elements of low transaction cost thus making it affordable for every customer who banks with them.

#### **4.2.2 Economic**

The Economic growth reported from 2002 to 2007 translated in significant growth in the mobile banking industry. From the respondent's responses it was found out that Kenyans can acquire mobile phones at a favorable cheap price currently and the bank has used this to their advantage in a big way in creating a service that allows its customers to transact using their mobile phones rather than in the banking halls. The recent hard economic times that have come up mainly from the global crisis have led to inflation, high interest being charged on loans prompting most customers at the bank to embrace mobile banking which has lower transaction costs high convenience and availability to its customers.

#### **4.2.3 Legal and Regulatory**

It was established from the respondents that most of the legal and regulatory changes imposed by the government have not greatly affected mobile operations carried out by the bank. The bureaucratic processes necessary to start and develop mobile banking by firms have been reduced by the government in them promoting technology or e-banking in all sectors of the economy.

#### **4.2.3 Social and Demographic**

Social and demographic changes are seen clearly in the society's behavior moving from a conservative one towards that which embraces modern technology in most aspects of life specifically communication. It was ascertained from the respondents that a large portion of the Kenyan population especially the youth are techno savvy. The product (Eazzy24/7) has easily

been marketed to the Kenyan market due to this major reason, after all almost every Kenyan owns a mobile phone these days. Thus any equity bank customer can subscribe to Eazzy24/7 to check their bank balances, buy air time and the like. Short text messages are also incorporated in the product to make everyone comfortable and assured in the effectiveness in the product/service removing any doubt that customers may have in the bank's assurance of handling their banking transactions via the mobile phone.

#### **4.2.4 Information Technology**

There is a constant dynamic Information Technology environment that has new innovations related to mobile banking frequently and regular competition from rival companies offering mobile banking. From the respondents it was noted that the continuity of the service (Eazzy24/7) has been disrupted due to poor network connections with their provider. The downward trend in the software and hardware costs has enhanced the use of Information technology products and services at Equity Bank improving the network connection thus the availability of the service to the customers on demand. Mobile banking has grown tremendously from just SMS banking to Eazzy24/7 that has tremendous capabilities like bill payments, balance inquiry, air time purchase and money transfers. The arrival of the undersea fiber optic cable is also expected to boost the mobile banking industry in a big way due to increasing the speed of connectivity to the service by customers and internet access.

#### **4.3 Competitive Forces**

There are five major forces that influence the competitive situation in any industry. They include barriers to entry, rivalry in the industry, threat of substitutes, power of buyers and power of suppliers. On the basis of the responses given by the respondents it shows clearly that the barriers to entry in the mobile banking industry were high which included: conflict of interest between the bank and safaricom, and obtaining of licenses on telecommunication since the bank was moving from its main core business of banking. The bank had to follow Central Bank of Kenya. And Kenya Bankers Association rules to carry out its set operations to achieve the firm's objective. It was also deduced that there was a high rate of rivalry amongst the banks with other banks and Telco companies found in Kenya. The power of suppliers (network providers) and the power of buyers (bank's customers) have generally changed. The buyers determined how the

mobile service will be created and designed to suite the clients needs. The suppliers of the platform of network that the mobile banking service runs on also determine the availability .continuity of the service to Equity banks customer's and the attributes the product has so that it does not outdo it in the market in terms of revenue acquisition.

#### **4.4 Marketing Responses to the External Challenges**

According to the respondents, Equity bank has been experiencing strategic changes in marketing for the over the years in promoting and creating awareness of their products and services (mobile banking) to its customers. This has led to the increase in customer base. Consequently, market segments have been redefined and the marketing function re-organized into retail and corporate divisions. The former targets the mass-market that comprises of individuals as well as small medium sized businesses. The corporate division serves the specialized needs of large business organizations with respective corporate relationship managers being assigned to handle all their banking (mobile banking) requirements.

##### **4.4.1 Political**

The main form of creating awareness to counter act the various changes in the external environment are clearly shown in this context. Tribalism has been a major factor that has affected the political wave in this country. The bank has aimed in promoting political unity in their advertising by showing members of the banks of the various ethnic tribes found in the country (member campaign). The banks has also opened branches in parts of the country that were perceived not to be within its strong hold like western Kenya before during and after the recent post election violence.

##### **4.4.2 Economic**

The mobile banking service provided by Equity bank has proved to help in these hard economic times due to its convenience availability and low transaction costs. The bank has strived to increase its revenue by launching new branches in other new markets like Juba, Uganda. This sells the bank as that one that does not fear taking risks and exploring new markets. They have also opened branches in parts of the country that they did not have strong holds in like the Nyanza region. The bank has diversified in their operations making it a one stop shop. That is

you can get everything under one roof or in one branch. One can buy and sell shares, carry out insurance activities, have all products and services at one branch. The customer does not have to go somewhere else to get what he/ she wants. All revenue is collected maximally and if one department or section has a shortfall it's complimented by another. This sells the bank as a place to do all your business transactions conveniently and a place you get everything you want any time.

#### **4.4.3 Other Environmental Factors**

Awareness to the public on aspects of legal and regulatory, social and demographic and information technology forces to the external environment in relation to mobile banking has been done in the following ways; free training of the customers on using the mobile banking service provided by the bank, face to face communication about the service to the potential and existing customers who visit the bank, the company website which relays all the information there is to know about the bank, the use of posters, radio, media adverts (member campaign), road shows and snapper frames transmitting information on mobile banking provided by Equity Bank. The challenges on these external environmental factors have been discussed previously in this chapter.

The current status of the bank's marketing strategy is to expand a substantial portion of its scarce resources in continuous product/service development through extensive advertising in form of face to face contact with the new and prospective clients, customer training on use of the product, road show campaigns to create awareness of the mobile banking service provided by the bank.



## CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

### 5.1 Introduction

The objective of the study was to determine how Equity Bank utilizes mobile banking to respond to the changes in the external environment.

### 5.2 Summary, Discussions and Conclusions

From the respondents it was ascertained that there are network connection problems at times thus disrupting the continuity of the mobile service operation. Some customers are illiterate hence marketing this mobile banking service poses a challenge in that most do not understand the technological terms used or the rationale behind mobile banking. There is constant innovation on the mobile banking technology from the rival firms prompting the bank to constantly upgrade the attributes and functionality of the mobile banking service.

The following changes on the external factors in the environment were noted. In the past few years, a favorable political environment in the banking industry has come about and most firms can get into the banking industry easily. Information Communication Technology (ICT) was encouraged by the government and implemented easily specifically in the area of e-commerce

The Economic growth reported from 2002 to 2007 translated in significant growth in the mobile banking industry. Kenyans can acquire mobile phones at a favorable cheap price currently. The recent hard economic times that have come up recently has prompted most customers at the bank to embrace mobile banking which has lower transaction costs, availability and high convenience. The economic surge that emerged in 2008 is expected to affect the industry negatively for a short period.

Most of the legal and regulatory changes imposed by the government have not greatly affected mobile operations carried out by the bank. The bureaucratic processes necessary to start and develop mobile banking by firms have been reduced by the government in them promoting technology or e-banking in all sectors of the economy.

Social and demographic changes are seen clearly in the society's behavior moving from a conservative one towards that which embraces modern technology in most aspects of life specifically communication. A large portion of the Kenyan population especially the youth are techno savvy. The product (Eazzy24/7) has easily been marketed to the Kenyan market due to this major reason, after all almost every Kenyan owns a mobile phone these days.

The downward trend in the cost of software and hardware has enhanced the use of Information technology products and services at Equity Bank. Mobile banking in Equity Bank has grown tremendously from just SMS banking to Eazzy24/7 that has tremendous capabilities like bill payments, balance inquiry, air time purchase and money transfers. The arrival of the undersea fiber optic cable is also expected to boost the mobile banking industry in a big way due to the expected drop in cost of internet/network access.

The respondents noted that while making the market changes a number of challenges were encountered. They include some customers not being educated on the advantages and use of mobile banking, a constant dynamic Information Technology environment and regular competition from rival companies offering mobile banking. The major objective was to determine whether the mobile banking services provided at Equity Bank was relevant to the customer needs and whether it adapted to the constant changes in the mobile banking industry. The marketing objective that is to be constantly achieved in regards to the mobile banking industry as per the respondents was to make the mobile banking service (Eazzy24/7) provided by the bank more customer focused, more competitive in the respective target markets and increase bank revenue through higher sales to the customers. Various methods that included posters, radio, media adverts (member campaign), road shows and snapper frames were used in creating awareness on mobile banking to the public.

The conclusion that can be derived from the study is that the mobile banking industry is placed in a very dynamic environment due to the stiff competition from rival companies and the constantly changing Information Technology aspects context and contents therein. The marketing strategies to be used to maximize revenue for the firm should be in tune with the constant changing external environment. The firm should strive to have a niche in the market in offering a service that is unique from its rivals to be the market leader in the industry.

### **5.3 Limitations of the Study**

The time frame for carrying out the study was short. Some of the responds were not available and the interview sessions hade to be rescheduled to a later date to get the required information necessary for the study. This highly affected the extent of the data collected or the depth of the research conducted for the study.

Since the study is a case study the research findings cannot be used to make generalizations of the banking industry as a whole. The study looks intensely at how Equity bank utilizes mobile banking specifically to respond to the changes in the external environment. Drawing conclusions only in this context and not any other strategic forms of responses

### **5.4 Recommendations for Further Research**

The study was focused on one strategic response that of how Equity bank utilizes mobile banking to respond to the challenges in the external environment. A study can also be carried out on the strategic responses by other planners in the banking industry .This would show an signal of the responses made by banks and telcos companies found in Kenya in facing the challenges in the external environment especially with the increasing growth of other banks new telcos companies entering in the market.

A cross sectional survey covering the whole banking industry can be undertaken this will allow industry generalization to be made. This will determine the external business has changes over the year and will help a firm a firm to procrastinate the best strategic response to undertake so as to outwit its competitors in the banking industry.

### **5.5 Implications for Policy and Practice**

The environment in which firms operate is dynamic. This implies that a strategic response which is well created and appropriately adopted are powerful tolls for acquiring a sustainable competitive advantage in coping with the challenges in the external environment .Such weapons have to be constantly adopted or even transformed to achieve the desired competitive advantage for a firm.

Equity bank must strive in providing excellent services which are unique from its rivals that cannot be easily copied. If the bank endeavors to be more efficient it should reduce its branches so as to reduce operation expenditure. Restructuring in the bank should be done to reduce costs and be a more customer oriented and focused firm. More rigorous marketing strategies need to be incorporated so as to sell the mobile banking service provided by the bank to Kenyans.

The firm should also should constantly improve and change to new Information Communication technologies concentrating on software and hardware to increase on efficiency and effectiveness in use of the mobile banking technology sold to customers by the bank. This is because the Information Communication Technology environment is changing and one and new innovations are regularly entering the market. One has to have the best hardware and software to be the best that its rivals.

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## APPENDICES

### Appendix 1: Letter of Introduction

GILLIAN MUTUA

P.O BOX 61814 – 00200

CITY SQUARE, NAIROBI.

EQUITY BANK

KENYA LIMITED.

REF: REQUEST FOR A PERSONAL INTERVIEW

Dear respondent,

I am an MBA student at the University of Nairobi doing a study on **“Mobile Banking As A Strategic Response By Equity Bank Kenya Limited To The Challenges In The External Environment”**. This study is a partial fulfillment of the award of a master of business administration degree. I am requesting a scheduled personal interview in order to gather the required information.

This information will be kept confidential and it will only be used for the study’s purposes. This is purely a qualitative research and no names will be present on the said document. A copy of the final document will be available to you on request.

Your cooperation is sincerely appreciated.

Yours Faithfully,

Gillian Mutua



## Appendix 2: Interview Guide

1. What is your current position at Equity bank? .....
2. How many years have you worked at Equity Bank? .....  
.....
3. What are the challenges that have taken place within the last 7 years on the mobile banking business environment that has affected Equity bank?.....  
.....
4. How do you use mobile banking to address these challenges? .....  
.....
5. How has the severity of the following competitive forces affected the mobile banking industry?
  - a. Barriers to entry .....
  - b. Rivalry in the industry .....
  - c. Threat of substitutes.....
  - d. Power of buyers.....
  - e. Power of suppliers.....
6. How have the changes in following external factors favorably or adversely affected the banking industry?
  - a. (i) Political changes.....  
.....

(ii) How did you use mobile banking to address the political challenges? .....

.....

(iii) What were the marketing activities used to deal with the political challenges?

.....

.....

(iv) Were the marketing activities used to deal with the political challenges effective?

.....

.....

(v) To what extent have the marketing activities used to deal with the political challenges been effective?

.....

.....

b. (i) Economic changes.....

.....

(ii) How did you use mobile banking to address the Economic challenges? .....

.....

(iii) What were the marketing activities used to deal with the Economic challenges?

.....

.....

(iv) Were the marketing activities used to deal with the Economic challenges effective?

.....  
.....

(v) To what extent have the marketing activities used to deal with the Economic challenges been effective?

.....  
.....

c. (i) Legal and regulatory changes.....

.....

(ii) How did you use mobile banking to address the Legal and regulatory challenges?

.....  
.....

(iii) What were the marketing activities used to deal with the Legal and regulatory challenges?

.....  
.....

(iv) Were the marketing activities used to deal with the Legal and regulatory challenges effective?

.....  
.....

(v) To what extent have the marketing activities used to deal with the Legal and regulatory challenges been effective?

.....  
.....

d. (i) Social and demographic changes.....

.....

(ii) How did you use mobile banking to address the Social and demographic challenges?

.....  
.....

(iii) What were the marketing activities used to deal with the Social and demographic challenges? .....

.....

(iv) Were the marketing activities used to deal with the Social and demographic challenges effective?

.....  
.....

(v) To what extent have the marketing activities used to deal with the Social and demographic challenges been effective?

.....  
.....

e. (i) Information Technology changes.....

.....

(ii) How did you use mobile banking to address the Information Technology challenges?

.....  
.....

(iii) What were the marketing activities used to deal with the Information Technology challenges?

.....  
.....

(iv) Were the marketing activities used to deal with the Information Technology challenges effective?

.....  
.....

(v) To what extent have the marketing activities used to deal with the Information Technology challenges been effective?

.....  
.....



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DATE... 05-10-09

TO WHOM IT MAY CONCERN

The bearer of this letter Gullian Yuraciel Utao  
Registration No DE 17336/2006

is a Master of Business Administration (MBA) student of the University of Nairobi

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

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

Thank you.

UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
DR. W. N. YAKO  
OFFICE  
CO-ORDINATOR, MBA PROGRAM  
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