THE EFFECT OF M-PESA TECHNOLOGY STRATEGY ON THE PERFORMANCE OF KENYA COMMERCIAL BANK LTD

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.
DECLARATION

I declare that, this research project is my own original work and has not been presented for award of any degree in any University.

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

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DEDICATION

This research is dedicated to my late mother Joyce Nduku who has always been an inspiration to me and also to my family who had to bear with my busy schedule of class, job and family affairs. Thank you and May God bless you abundantly
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ABSTRACT

The spread of mobile phones across the developing world is one of the most remarkable technology stories of the past decade. Buoyed by prepay cards and inexpensive handsets, hundreds of millions of first-time telephone owners have made voice calls and text messages part of their daily lives. However, many of these same new mobile users live in informal and/or cash economies, without access to financial services that others take for granted. Indeed, across the developing world, there are probably more people with mobile handsets than with bank accounts. Various initiatives have been used mobile phones to provide financial services to “the unbanked.” These services take a variety of forms—including long-distance remittances, micropayments, and informal airtime bartering schemes—and go by various names, including mobile banking, mobile transfers, and mobile payments. Taken together, they are no longer merely pilots; in the Philippines, South Africa, Kenya, and elsewhere, these services are broadly available and increasingly popular. Kenya commercial bank ltd is a leading and dominant Kenyan bank with a strong countrywide presence. The bank remains very strong in key parameters with the largest balance sheet (KShs 251.4billion), capital base (Kshs 39.1billion) and a branch network (218) as at 2010. To better its way of doing business and align to current practices including the statutory requirements, the bank’s structures, processes and systems have continued to change. This research was conducted to establish the effect of the M-pesa technology strategy on the performance of KCB ltd. The researcher used case study design since the research is descriptive in nature. Both the primary and secondary sources of data were used to obtain information for the study. Respondents were three employees in the Money Transfer Services department in Kenya Commercial Bank Ltd.
The interview guides were administered through a face to face interview. The researcher used Content Analysis to analyze the data, because content analysis involves observation and detailed description of objects, or things, and the errors which occur during the study are easily detected and corrected. The introduction of the topic is covered in Chapter one, literature review in chapter two covers the theoretical and empirical materials, chapter three covers the methodology used, while chapter four and five are the research findings and summary of the findings respectively. The research findings show that Kenya commercial bank took a beneficial strategic step to keep up with the dynamic market. What drives a business growth is technological innovation and successful management lies in skilful allocation of resources to bring about the technological change. There has been increasing importance of technological innovation and strategy guiding the acquisition and deployment of technological resources for competitive growth. The bank industry has come up with technological strategy to keep up with the expectations of the customers. However there are various challenges which are associated with M-pesa technology strategy, these being the system being prone to fraudsters, systems upgrades which leaves the customers disappointed and difficulties in reconciliations of the accounts when the transactions are many or when there are system errors.
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Morawczynski and Pickens (2009), argue that Mobile Money Transfer (MMT) is a peer to peer form of mobile payment mechanism which has the best prospects for success amongst other forms of mobile transactions. The money transfer has been in existence since the time the money was invented by man. Man has moved from one place to another in search of work and in many cases, leaving the family behind in his hometown. The families’ back home get support from the money the migrant population sends back home. Forms of money transfer have changed over the years. The most primitive method being either carrying the money themselves when they visit back home or send it through a friend or acquaintance. For the last many years, many people have been dependant on Postal Services to remit money home.

This service was popularly known as money order in many countries including Great Britain. Postal services are known to have branches where even the banks do not offer services. This envious position of postal departments was challenged with emergence of banks, however, these two institutions have been taken over by mobile services as their distribution network starts to outnumber other traditional distribution networks. Today, mobile operators have the largest distribution network in any developing economy and hence are in a better position to remit money from one location to another.

Developing countries are severely constraint by the physical infrastructure of the financial institutions which means that a large part of its population is excluded from the
formal banking system. Kenya has just 840 bank branches and 1,510 ATMs that are certainly not sufficient for the 38 million people. Kenya's rapid adoption of mobile money is occurring with a larger global trend of increased cell phone use. There are now over 4 billion mobile phone subscriptions worldwide, compared to 1 billion in 2002, according to a 2009 report by the International Telecommunications Union, a United Nations agency. Of those subscriptions, about two-thirds are in developing countries.

1.1.1 Concept of the Strategy

There is no universal definition of strategy. It is the direction of and scope of an organization or institution over the long term, which achieves advantage through configuration of its resources within a changing environment, to meet the needs of the market and fulfill stakeholders' expectations. Technology is the making, usage and knowledge of tools, techniques, crafts, systems or methods of organization in order to solve a problem or serve some purpose. A Technology strategy (e.g. as in information technology (IT)) is a particular generation of an organization's overall objective(s), principles and tactics relating to the technologies that the organization uses.

According to Max Weber (1987), a theory is an explanation that tells why or how things are related to each other. Management theory, developed over the past century, describes how companies plan, organize, staff, lead and control their employees. Various Theories have been used to explain the technological strategy, for instance, Game theory was first developed into its mature form by mathematicians such as John Nash after World War II, and quickly found applications in business management, and goal setting as a strategic theory was first developed by Edwin Locke in the 1960s,
motivational theories seek to understand the internal dynamics of a business and how it can best succeed through different strategies of motivation. Notable ideas in this field include drive reduction theory, which emphasizes satisfying certain innate drives of people, such as the need for status.

According to Porter (1986), models are frameworks that are used in order to achieve given objectives. There are a number of mobile banking business models; the bank-focused model emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers, The bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents (or through mobile phone) instead of at bank branches or through bank employees. The non-bank-led model is where a bank has a limited role in the day-to-day account management.

1.1.2 Firm performance

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

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

Pautzke (1989) clearly stated that, careful cultivation of the capacity to learn in the broadest sense to maximize performance of firms. For example; the capacity both to acquire knowledge and develop practical abilities, seems to offer realistic way of tackling the pressing problems of the current times. Ongoing monitoring provides the opportunity to check how well employees are meeting predetermined standards and to make changes to unrealistic or problematic standards.

According to Sorge (1997) and Whittington (1993), by monitoring continually, unacceptable performance can be identified at any time during the appraisal period and assistance provided to address such performance rather than wait until the end of the period when summary rating levels are assigned. Carrying out the processes of performance evaluation provides an excellent opportunity to identify developmental needs.

1.1.3 Mobile Money Transfer

Mobile money transfer refers to provision and availment of banking- and financial services with the help of mobile telecommunication devices. The scope of offered services may include facilities to conduct bank and stock market transactions, to administer accounts and to access customized information. It is a term used for performing balance checks, account transactions, payments, credit applications and other banking transactions through a mobile device such as a mobile phone or Personal Digital Assistant (PDA).
The earliest mobile banking services were offered over short text message. With the introduction of the first primitive smart phones with WAP support enabling the use of the mobile webi in 1999, the first European banks started to offer mobile banking on this platform to their customers. Herrera (2007), points that, the advent of the technology has enabled new ways in money transfer business, resulting in the creation of new institutions, such as online banks, online brokers and wealth managers. Such institutions still account for a tiny percentage of the industry. Kenya's Safaricom (part of the Vodafone group) has the M-Pesa Service, which is mainly used to transfer limited amounts of money, but increasingly used to pay utility bills as well.

FSDK (2009) conducted a survey in 2008 survey of 3000 M-Pesa users; this survey of M-Pesa demonstrates some interesting facts that are important for regulators to consider. For example: 90% of customers believe their money is safe with M-Pesa- Market confidence is critical to maintaining stability so this high level of confidence is reassuring when determining whether M-Pesa products are designed appropriately. Blend of users- 20% of customers use M-Pesa to store value. M-Pesa is a payment product, not a savings product. However this demonstrates that there is latent demand for a mobile product that can deliver safe savings to the customer. This must be taken into account when designing regulations that could potentially expand the functionality of mobile payments products.
70% of users are already banked- Is M-Pesa really reaching the unbanked? It should be understood why this number is so high and if this represents the initial stages of development where, with targeted regulations, the industry can begin to offer products that provide greater access to those who are truly unbanked.

M-pesa growth

![M-pesa Growth Chart]

Fig 1: Source: FSDT presentation 2009 at Kenya commercial bank
This graph shows that the extraordinary and explosive growth of M-Pesa. There is little doubt that it has changed the financial services landscape and the expectations of what is possible. As yet formally M-Pesa is only a money transfer service. Its potential is for much broader services but this is dependant establishing the appropriate regulatory guideline.

**Throughput across payment system in Kenya**

![Graph showing throughput across payment systems in Kenya](image)

Figure 2 Source: FSDT presentation 2009

While the growth of M-Pesa has been explosive its total value is very small in comparison with other payment system flows. This does not take away from the potential of M-Pesa but it is important to keep in context the risk that M-Pesa poses to the financial system as a whole.
A changing institutional Landscape

Figure 3 FSDT (2009) “The state of service delivery in Kenya today”

Here we see that the institutional landscape is changing quite rapidly over the course of 3 years. Banks have increased dramatically, from 14% penetration to 21% and they appear to be replacing the SACCO segment. MFIs are starting to become a force by broadening their reach and insurance showing increase though not dramatic. M-PESA is the new phenomenon that has grown explosively by providing basic payment services to the population.

While this change in institutional landscape is dramatic there is this still a large informal population that is largely unchanged. It could be determined that this shift in influence amongst the institutions is beginning to set the stage to access the significant number of potential customers who have not traditionally had access to formal financial services.
The challenge lies in developing a regulatory framework that can provide guidance and clarity to the financial services industry as a whole. The ecosystem of payment services and other financial products should be regulated without bias to the channel or institution, focusing squarely on the risk to the stability of the system and the safety of the customer’s funds.

1.1.4 Mobile Money transfer (Mpesa) and Performance

M-PESA is a small-value electronic payment and store of value system that is accessible from ordinary mobile phones. It has seen exceptional growth since its introduction by mobile phone operator Safaricom in Kenya in March 2007: it has already been adopted by over 9 million customers (corresponding to 40% of Kenya’s adult population) and processes more transactions domestically than Western Union does globally. The M-PESA service was developed by mobile phone operator Vodafone and launched commercially by its Kenyan affiliate Safaricom.

According to KCB (2010), it has continuously embraced technology; where it introduced a mobile telephone banking facility for its customers in 2009. The product commonly as KCB connect that has changed the lives and financial lifestyles of mobile subscribers in Kenya estimated at 17 million. The mobile banking service provides full banking services on the telephone handset at the touch of a button, including enquiries, banking instructions, funds Critical to the success of M-Pesa is an understanding of the customer profile. This is also critical to the establishment of regulations that meet the needs of the customer.

FSDT (2009b) noted that getting cash into the hands of people who can use it is limited on the supply-side rather than demand-side; more than the shortage of funds, it’s the ability to
move money from the sender to the receiver that is the stumbling block. Since the creation of money, the ability to move it from A to B—the so-called “velocity of money”—has been a fundamental cornerstone of economic activity. But the issue is exactly how money transfer is made to happen in an emerging market where the infrastructure is poorly developed and where very few people have or even want bank accounts. Mobile Money Transfer platform is instrumental in substituting the banking infrastructure as in most of the emerging markets, the mobile phone penetration far out numbers the bank account penetration (by a ratio of 3:1, i.e. for every one bank account holder, there are three mobile phone owners).

M-PESA has been instrumental in driving growth and development in Kenya. The World Bank estimates that reducing remittance commission charges by 2-5% could increase the flow of formal remittances by 50-70%, boosting local economies. Reducing the cost of each individual remittance would enable the delivery of lower value remittances than today’s average transfer value of US$200. M-PESA has resulted in higher remittance and hence higher economic activity leading to faster growth. CGAP in its survey has found that the incomes of rural recipients increased by 5-30% since they started using M-PESA.

Developing countries are severely constraint by the physical infrastructure of the financial institutions which means that a large part of its population is excluded from the formal banking system. M-PESA with its 15000 agents is much more accessible to an ordinary Kenyan. M-PESA helped banks in their geographical locations and other the Micro Finance Institutions (MFIs) to go deeper into the remote areas very quickly without substantial increase in the cost.
M-PESA provides unbanked mobile phone users with a secure platform which uses simple, tailored menus on their phone to send fully encrypted and PIN locked messages to a thoroughly audited financial accounting system. It was observed by CGAP that M-PESA not only increased the MFI activity but is also used as a medium of storage of money. Informal saving channels are much less secure than formal saving facilities. Those who can afford it least suffer the highest risk. Both the banked as well as unbanked customers of M-PESA are using it as storage medium as it is easily accessible.

Many people in emerging economies have to travel far from home to find work and need to be able to send money back to their families so they can pay bills. Traditionally, this has meant high fees, risky unregulated services, or long expensive trips carrying cash in an unsafe and unpredictable environment. It has been observed that M-PESA users needed to make fewer trips back home to deliver money and the transaction size also came down with frequent transfers. Unlike bank, the M-PESA service is accessible 24X7 and money can be sent anytime, anywhere. However there are key challenges in adopting the M-PESA strategy:-Security of financial transactions, being executed from some remote location and transmission of financial information over the air, are the most complicated challenges that need to be addressed jointly by mobile application developers, wireless network service providers and the bank’s IT departments.

Another challenge for the bank is to scale-up the mobile banking infrastructure to handle exponential growth of the customer base. With mobile banking, the customer may be sitting in any part of the world (true anytime, anywhere banking) and hence banks need to ensure that the systems are up and running in a true 24 x 7 fashion. As customers will find
mobile banking more and more useful, their expectations from the solution will increase. Banks unable to meet the performance and reliability expectations may lose customer confidence. There are systems such as Mobile Transaction Platform which allow quick and secure mobile enabling of various banking services.

Due to the nature of the connectivity between bank and its customers, it would be impractical to expect customers to regularly visit banks or connect to a web site for regular upgrade of their mobile banking application. It will be expected that the mobile application itself check the upgrades and updates and download necessary patches (so called "Over the Air" updates). However, there could be many issues to implement this approach such as upgrade / synchronization of other dependent components.

1.1.5 Banking Sector in Kenya

Central Bank of Kenya notes that the banking sector in Kenya comprises of 45 institutions, 41 of which are commercial banks, 3 mortgage finance companies, one non-bank financial institutions and one building society as at December 2006, according to CBK annual reports. However, Gulf African banks Ltd commenced banking business in November 2007 which increased them to 46 institutions by December 2007. Out of the 45 institutions, 34 were locally owned. The foreign Banks comprised of 6 locally incorporated and 5 branches of foreign incorporate institutions. As depicted from the CBK reports, local banks dominates the Kenyan banking sector in terms of numbers, but only account for 48.2% of the sector’s total assets, closely followed by the foreign owned banks with 43% of the sectors assets. The Kenyan banking sector has continued to record impressive growth in the last few years. For example is the period ended December 2007, the overall profitability
rose by 30 percent while the asset portfolio expanded by 26.1 percent over the previous year. The banking sector performance indicators improved with a decline in the stock of non-performing loans and enhancement of capital adequacy ratios attributed mainly to fresh capital injections and retention of profits over the period.

According to CBK, (2009), Kenyan banks have exponentially embraced the use of information and communication technologies in their service provision. They have invested huge amounts of money in implementing the self and virtual banking services with the objective of improving the quality of customer service. Some of the ICT-based products and services include the introduction of SMS banking, ATMs, Anywhere banking software’s, Core banking solution, Electronic clearing systems and direct debit among others. In mid 2005, Kenya’s banking Industry moved a milestone by introducing Real Time Gross and Settlement system (RTGS) which was renamed Kenya Electronic Payment and Settlement system (KEPSS). This will facilitate the inter-bank financial data transfer. The adoption of technology and development of e-banking services is expected to decongest banking halls and reduce the incidences of long queues in banking halls. Digital-based financial services have made a significant contribution in covering the cost of offering financial services.

The banking industry has also over years continued to introduce a wide range of new products, prompted by increased competition, embracing ICT and enhanced customer needs. As a marketing strategy, the new products offered in this segment of market, continue to assume local development brand names to suit the domestic environment and targeting the larger segment of local customer base. Among the products, include Islamic banking which was introduced in 2005, tailored in line with “Shariah” principles.
Currently, Barclays Bank of Kenya, Kenya commercial Bank, K-Rep-Bank and Dubai Bank have so far introduced Islamic banking products in the market. All the above clearly indicate that, Kenya’s banking Industry has great developments like any other banking market in the world.

1.1.6 The Kenya Commercial Bank Ltd

The history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda. The next major change in the Bank’s history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya.

National and Grindlays Bank was renamed Kenya Commercial Bank. KCB is a fully fledged commercial bank offering savings and lending services to individuals, entrepreneurs and companies of all sizes. It has the largest branch network in East Africa and enjoys dominance as the Bank with largest balance sheet and capital base, respectively, in the region. It is a publicly quoted company with its shares trading at the Nairobi Stock Exchange (NSE), Uganda Securities Exchange, Dare-Es-Salaam Stock Exchange and Rwanda Over the Counter Market. The bank has impressed the use of technology in its services. Some this technology include electronic banking and Mobile Money transfer.
KCB has continuously embraced technology; where it introduced a mobile telephone banking facility for its customers in 2009. The product commonly as KCB connect that has changed the lives and financial lifestyles of mobile subscribers in Kenya estimated at 17 million. The mobile banking service provides full banking services on the telephone handset at the touch of a button, including enquiries, banking instructions, funds transfers and utility bill payments. A key differentiator between KCB connect and other offering in the market is the ability of all mobile telephone subscribers to open accounts on their phones that will enable them to transact with KCB. Working with one of Kenya’s major mobile telecommunications service provider, the Bank has put in place the necessary infrastructure to enable customers to transfer funds from one KCB account to another, from KCB to the revolutionary and trend setting M-pesa service and vice versa and from any KCB account to any phone account of the customer’s choice.

1.2 Research Problem

Porter and Miller (1985) urged that technology adoption is strategic to the extent that it supports or enables the firms, business strategy. The advantage of technology is the ability to link on activity with the other and make real time data widely available through such tools as electronic data interface, internet, and enterprise resource planning and customer relationship management. This has created a very strong perception that performance can be enhanced by advanced technology and a workable strategy.

Concept of Mpesa technology strategy dates back to March 2007, following a donor-funded pilot project, Safaricom launched a new mobile phone-based payment and money
transfer service, known as M-pesa. The services allows users to deposit money into accounts linked to their cell phones, to send balances using SMS technology to other users (including sellers of goods and services), and to redeem deposits for regular money. Charges, deducted from users’ accounts, are levied when e-money is sent and cash is withdrawn. By August 2009, 7.7 million M-PESA accounts had been registered; this means 38% of adult population of Kenya had gained access to M-PESA in just two years. Although M-PESA has been adopted by both the banked and unbanked in roughly equal proportions, registered M-PESA users can make deposits and withdrawals of cash with agents, who receive a commission on a sliding scale for both deposits and withdrawals, however, withdrawals can only be effected if the agent has sufficient funds. But symmetrically, cash deposits can only be made if the gent has sufficient e-money balances on his/her phone. Agents face a nontrivial inventory management problem, having to predict the time profile of net-e-money needs. Despite being touted as a financial inclusion service, M-Pesa user households are twice more likely to have a bank account than non-user households. It is young, male, urban migrants who are driving the uptake of services – customer adoption. Hence, the adoption is not uniform across social strata.

While efforts have been made to survey the various relevant empirical studies, it was discovered that two studies (Nyangosi, et.al, 2009 and Barako and Gatere, 2008) attempted to study Technology in Kenyan Banks. Banks in Kenya, have adapted different technologies through which e-banking services are provided. In the two studies, customers were asked to indicate the various technologies their banks have adopted. This was enquired to know if the customers are aware of the technologies provided by their banks. Seven common technologies were selected to present the variables which include ATM,
Internet banking, Tele-banking, SMS banking, PC banking, Debit cards and Credit cards. The variables were labeled and results revealed that Kenyan customers are seen to favor ATM banking at 92.0%, followed by debit cards at 58.4% and credit cards at 53.6%. Cards banking in general dominate e-banking adoption in Kenya. The least favored were mobile/SMS banking at 46% and PC banking at 20.8%/ The least favor on the PC banking may be attributed to the fact that computer penetration in Kenya is very low and hence many banks have utilized the technologies other than PC and SMS banking, it may be due to infrastructural problems.

The third study by Safaricom Telecommunication Company (January 2007), respondents indicated that they support the usefulness of SMS banking, but could not access these services, especially in the rural areas in Kenya. These findings led to the introduction of M-pesa as means of capping the menace of shortage of financial intermediaries in the rural areas. The results further showed that customers use bank websites to know the products, use internet banking to check balances, know after sales services and buy products. This is a show that internet banking is gaining popularity and becoming vital in financial transaction events. However, the overall look indicates that the IT state in Kenyan Banks is at initial stages.

According to two studies by Central Bank of Kenya (January 2008 and May 2009), entry of M-Pesa in financial transaction has enhanced technological advancement of banking industry. It has seen exceptional growth since its introduction by mobile phone operator Safari com in Kenya in March 2007: it had already been adopted by over 9 million customers (corresponding to 40% of Kenya’s adult population) in December 2008, and
processes more transactions domestically than Western Union does globally. The M-pesa service was developed by mobile phone operator Vodafone and launched commercially by its Kenyan affiliate Safaricom. All transactions are authorized and recorded in real time using secure SMS, and are capped at $500. Generally, M-pesa service of sending and receiving money via Safaricom subscribed clients is coupled with a number of challenges that include excess electronic float or liquid cash. This occurs when there are too much transactions of the same type without offsetting transactions on the other side. For incidence, M-pesa agents gets many deposits without offsetting withdrawals, leading to situation where they cant take any more deposits because there e-float is diminished.

From the above studies, it shows that no adopted technology has been overly dominant in the banking industry, due to the ever changing technological innovation, the change in consumer preference and many customers remain unreachered. The project will clarify the impact of M-PESA technology in the banking industry. Therefore the study seeks to answer the following: What is the effect of M-PESA Strategy adoption by KCB, in its performance as a financial service provider?

1.3 Research Objectives

To assess the effect of M-pesa technology on performance of KCB.

1.4 Value of the study

The M-Pesa technology has greatly changed the performance in the banking sector. A number of studies have been made on practice related to delivery of services. According to Nyangosi, et.al (2009), effectiveness and efficiency has been realized in the banking sector;
M-pesa has removed repetitive, time consuming tasks, reduced human error and extended access to banking related facilities. Telephone traction allows non-cash transactions to be carried out, which would have required a visit to a branch earlier. Cost Reduction: this feature has been realized and well understood by the banking industry KCB and the banking industry in general. M-Pesa has enhanced the blossoming and adoption of the electronic banking and Internet has seen banks realize enormous cost savings by moving a myriad of services online. From customer service centers, to online tracking of packages and to online brokerages.

Safaricom (2010) notes in the assessment report that M-Pesa has created financial inclusion to an ordinary Kenyan; it has helped KCB and other banking institutions in their geographical locations to go deeper into rural areas without substantial increase on the cost of expansion. Two studies by Central Bank of Kenya (2010), notes that M-Pesa has enhanced the commercial banks’ innovation of services. Mobile phone service provider Safaricom signed a deal with Kenya Commercial Bank (KCB) for Agent to Agent transactions that has helped improve availability of M-PESA in the market. With the signing of the deal, authorized M-PESA agents instantly access M-PESA when they make cash deposits at the bank.

With the introduction of the KCB partnership, M-PESA Agents have an alternative and quicker process to access M-PESA or cash at a nominal commission to the bank. To use the service, agent outlets register their authorized personnel with KCB. Pilot testing for Agent to Agent transactions began in February 2009 with Safaricom testing the service with 20 agent outlets and 16 KCB branches in different parts of the country.
Following the successful pilot, the service is now available at all 145 KCB branches and has been introduced to over 9,000 M-PESA agents around the country. M-Pesa created the opportunity for the innovative service by KCB. The purpose of this research will be to generate more information on M-PESA for strategic service delivery of KCB, focusing on the opportunities created by M-PESA, challenges, existing gaps with intention of filling the gaps and improvement of service delivery. The study shall be important to the management of KCB In regard to strategic planning.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature related to the subject matter that is Mobile money transfer technology strategy and performance of Kenya Commercial Bank. Secondary data from minutes and periodic reports, text books, journals published and unpublished materials will be explored. Information will be recorded in thematic approach that comprise of concept of strategy, technology and strategy; mobile banking concept, performance indicators, mobile banking and performance.

2.2 Concept of the Strategy

According to Mintzberg et al, (1998), Strategy as a long term plan of action to achieve a particular goal is important in achieving competitive advantage over others, this can be through technology strategy as a particular generation of an organization's overall objective(s), principles and tactics relating to the technologies that the organization uses. Such strategies primarily focus on the technologies themselves and in some cases the people who directly manage those technologies.

Management theory has become a well developed discipline, with many theories that seek to predict the best strategy in a given set of situations. Many successful managers have found applications for these theories in the real business world. Having a good working knowledge of some of the more prominent strategic theories will provide you with tools to process information better, both in the short-term and the long-term. Furthermore, the best of theories will provide new perspectives.
According to Porter (1986), models are frameworks that are used in order to achieve given objectives. There are a number of mobile banking business models, 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 of banks or non-banking service provider. 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.

These models differ primarily on the question that who will establish the relationship (account opening, deposit taking, lending etc.) to the end customer, the Bank or the Non-Bank Company like Safaricom. Another difference lies in the nature of agency agreement between bank and the Non-Bank.

Tiwari, Rajnish and Buse, Stephan (2007) noted the models of branchless banking can be classified into three broad categories - Bank Focused, Bank-Led and Nonbank-Led. 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.

The bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents (or through mobile phone) instead of at bank branches or through bank employees. This model
promises the potential to substantially increase the financial services outreach by using a
different delivery channel (retailers/ mobile phones), a different trade partner having
experience and target market distinct from traditional banks, and may be significantly
cheaper than the bank-based alternatives. The bank-led model may be implemented by
either using correspondent arrangements. In this model customer account relationship rests
with the bank.

The non-bank-led model is where a bank has a limited role in the day-to-day account
management. Typically its role in this model is limited to safe-keeping of funds. Account
management functions are conducted by a non-bank who has direct contact with individual
customers.

2.3 Technology and strategy

Adelman (2000) noted that a particular generation of an organization's overall objective(s),
principles and tactics relating to the technologies that the organization uses. Such strategies
primarily focus on the technologies themselves and in some cases the people who directly
manage those technologies. Technological strategy can be achieved through Theories and
Models. Schipke (2004) notes that, a theory is an explanation that tells why or how things
are related to each other. Management theory, developed over the past century, describes
how companies plan, organize, staff, lead and control their employees. Effective managers
get people to accomplish goals and use materials wisely to achieve profitability and
maintain a competitive advantage.
Advances in technology have enabled standardization, automation and globalization at a rate that early management theorists probably never thought possible. In businesses large and small, all departments, including marketing, sales, finance and manufacturing, now typically depend on the company's IT infrastructure to manage the operations and functions necessary to complete business processes. Management theory has become a well developed discipline, with many theories that seek to predict the best strategy in a given set of situations. Many successful managers have found applications for these theories in the real business world. Having a good working knowledge of some of the more prominent strategic theories will provide you with tools to process information better, both in the short-term and the long-term. Furthermore, the best of theories will provide new perspectives.

Potts in Fuition (novel) conveys through the book's characters that an IT strategy needs to be focused on creating and measuring business value from the business investment in IT, and not as traditionally done which is starting with IT and figuring out how to deliver business value. Other generations of technology-related strategies primarily focus on: the efficiency of the company's spending on technology; how people, for example the organization's customers and employees, exploit technologies in ways that create value for the organization; on the full integration of technology-related decisions with the company's strategies and operating plans.

According to Porter (1986), models are frameworks that are used in order to achieve given objectives. There are a number of mobile banking business models, 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 of banks or non-banking service provider. The banking agent is an important part of the mobile banking business model since customer care, service quality, and cash.

2.4 Mobile banking concept

Mobile banking is used in many parts of the world with little or no infrastructure, especially remote and rural areas. This aspect of mobile commerce is also popular in countries where most of their population is unbanked. In most of these places, banks can only be found in big cities, and customers have to travel hundreds of miles to the nearest bank. Yankee Group (2009), Mobile banking is used in many parts of the world with little or no infrastructure, especially remote and rural areas. This aspect of mobile commerce is also popular in countries where most of their population is unbanked. In most of these places, banks can only be found in big cities, and customers have to travel hundreds of miles to the nearest bank.

Wallace, Neil (2005), notes that, In Iran, banks such as Parsian, Tejarat, Mellat, Saderat, Sepah, Edbi, and Bankmelli offer the service. Banco Industrial provides the service in Guatemala. Citizens of Mexico can access mobile banking with Omnilife, Bancomer and MPower Venture. Kenya's Safaricom (part of the Vodafone Group) has the M-Pesa Service, which is mainly used to transfer limited amounts of money, but increasingly used to pay utility bills as well. In 2009, Zain launched their own mobile money transfer business, known as ZAP, in Kenya and other African countries.
Telenor Pakistan has also launched a mobile banking solution, in coordination with Taameer Bank, under the label Easy Paisa, which was begun in Q4 2009. Eko India Financial Services, the business correspondent of State Bank of India (SBI) and ICICI Bank, provides bank accounts, deposit, withdrawal and remittance services, micro-insurance, and micro-finance facilities to its customers (nearly 80% of whom are migrants or the unbanked section of the population) through mobile banking. In a year of 2010, mobile banking users soared over 100 percent in Kenya, China, Brazil and USA with 200 percent, 150 percent, 110 percent and 100 percent respectively.

According to Jack and Suri (2009), a bank with a footprint of 100 branches and 250 ATMs and an average daily deposit/withdrawal volume of 165 branch transactions and 65 ATM transactions, could expect to save about $5 million annually if the bank were able to convert 20 percent of those branch and ATM transactions to its mobile channel. Features such as remote check deposit or P2P will enable those transactions to take place through the mobile channel — and reduce dependency on branches or ATMs.

IMF (2006), In countries as diverse as China, Brazil and Kenya the number of new users of Mobile Banking soared over 100% in 12 months, as banks leapfrogged traditional service models and moved directly to mobile. The increases were not restricted to emerging markets alone though: take-up rates also surged in the UK, USA, Singapore, South Korea and Sweden where banks offered customers new services via their mobile handset. Analyzing the findings, James Fergusson, Global Technology Sector Head at TNS, said:"Mobile finance technologies have the tremendous capacity to be transformational in rapid growth markets, empowering consumers by giving them greater access to financial services."
"The necessity, marked interest and the blossoming mobile finance infrastructure means that countries such as Brazil and China have the right ingredients to drive mobile finance growth, not just in their own markets, but globally as well." The research has been released as part of TNS Mobile Life, an annual report on mobile consumer usage, and reveals a wealth of opportunities for banks, retailers and mobile service providers to develop for existing and potential customers.

In the UK the proportion of people using mobile banking increased from 9.7% in 2010 to 20.4% in 2011, while in the USA the rates from 11.4% to 21.9%. In Sweden it was greater still: 8.1% to 20%. And while adoption rates increased, desire for mobile banking in areas where it is not widespread is strong, peaking in sub-Saharan Africa, where almost two-thirds (63%) of mobile owners expressed an interest in mobile banking.

Bob Neuhaus, Global Finance Sector Head at TNS, said: "A significant proportion of the world's population does not have access to banking services. Making mobile banking easy to access in these markets will not only help create a more sophisticated consumer marketplace and drive development of the banking sector, but also provides a huge opportunity for the mobile industry."

"Our insights from the Mobile Life study demonstrate that in more mature markets, mobile banking is simply a matter of convenience, and largely an extension of the PC online experience - allowing the same online convenience, while mobile; however in developing markets mobile may provide an entry point to banking for millions of 'unbanked' people, in countries where banking infrastructure is poor, and banking restrictions create barriers".
2.5 Operational performance

According to Jack and Suri (2009), profit efficiency is one of the indicators of firm performance. For incidence, frontier efficiency computed using a profit function – is a more appropriate measure. It controls for the effects of local market prices and other exogenous factors and because it provides a reasonable benchmark for each individual firm’s performance. Profit efficiency accounts for how well firms raise revenues as well as control costs for value maximization. Standard profit efficiency measures how close a firm is to earning the predicted profit that a best practice firm would earn facing the same exogenous conditions.

Wilson, Watson and Summers (1995), points out that, revenue growth is another aspect of performance indicator. Monetizing the value of customer analytics, delivering greater real-time access to products and services; expanding distribution and coverage models. Mobile money transfer performance can be measured in the potential to expand beyond the geographical footprint as well as ability to cross sell and up-sell products to existing customers.

Thompson (2001) argues that, firms that harness these additional mobile financial services capabilities can see a profound impact on the nature of the money transfer relationship. This puts banks in a specific position to develop a new line of business focused on bundling data analytics for retailers and other entities vying for customer intelligence — while maintaining the privacy of individual customers’ information. Merchants could employ such aggregated information to target customers more effectively than they might through other means.
In addition, banks could use this knowledge of their core customers to strengthen their own abilities to acquire new customers, cross-sell existing customers, improve decision making capabilities and provide better customer service — resulting in significant value streams for banks.

2.6 Mobile banking and performance

Morawcznksy (2004) notes that, mobile banking is on the cusp of transformation from a niche service for the technologically elite to a mass-market service demanded by all customer segments. As banks develop their strategies for giving customers access to their accounts through cell phones and other mobile devices, they should also regard this emerging platform as a potential catalyst for generating operational efficiencies and as a vehicle for new revenue sources. The advance of mobile money transfer is transforming the economics of banking, creating additional incentives for banks to serve customers in a better, yet more efficient, manner. Additionally, these new and convenient products and services provide banking institutions with a way to reconnect with their customer base and regain some of the trust that was lost as a result of the financial crisis.

At the same time, banks defend their performance and franchises against threats from not only other financial institutions, but also mobile carriers, credit card processors, and other nonbank competitors that want to help consumers conduct financial transactions wherever they — and their mobile devices — are. Bankers have been talking about using cell phones as a channel for consumer banking almost as long as energy companies have been trying to make solar power affordable, but it has taken a confluence of factors to make mobile banking a reality:
Pandey (2003) argues that, over the past several years, consumers have made mobile phones their preferred mobile devices. Mobile phones allow users to make calls send and receive e-mail and text messages, browse the Web, and perform many other tasks by downloading free or low-cost software applications. Like automated teller machines "ATMs" and online banking services, mobile phones are giving consumers more options. By being able to access account information and perform transactions without requiring access to bank branches, ATMs, or computers, consumers are able to "bank" wherever and whenever they want — and they are learning to expect such convenience.

According to the Central Bank of Kenya (2009), most large banks have made substantial investments in mobile banking capabilities, and smaller financial institutions are not far behind. In addition, mobile network carriers, credit card processors, and online personal finance services that allow consumers to aggregate their accounts on a single Web site are among the many nonbanks jockeying for position in this fast-growing space. The mobile channel allows banks to offer customers features they cannot find online, such as remote check deposit, person-to-person payments, and real-time fraud notification. Such features make mobile banking a richer experience and will drive adoption over the next few years.
CHAPTER THREE: METHODOLOGY

3.1 Introduction

The researcher used case study design since the research is descriptive in nature. This is because case study investigation was able to make a detailed examination of the subjects.

3.2 Research design

Both Descriptive and explorative research design were used in this case study. This is because the study acquires a lot of information through description and exploratory. The research design sought to establish the effects of M-Pesa technology strategy in the KCB banking industry and the relationship between M-Pesa technology and KCB performance.

3.3 Data collection

Both the primary and secondary sources of data were used to obtain information for the study. The secondary data used included circulars of KCB ltd, KCB annual report 2010 and publications. Respondents were three employees in the Money Transfer Services department at the Kenya commercial bank. The respondents were the head of Money Transfer services, Manager and Section Head Reconciliation, Mpesa and KCBconnect. The researcher picked three respondents because the data to be collected will be similar.

3.4 Data analysis

Data collected was first coded and tabulated. The researcher used Content Analysis to analyze the data, because content analysis involves observation and detailed description of objects, or things, and the errors which occur during the study are easily detected and corrected.
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

Data was collected from Kenya Commercial Bank Ltd, Money transfer services department. The researcher used an interview guide to conduct face to face interviews with three correspondents who included; the head of money transfer services department, Manager M-pesa and KCBconnect manager, and M-pesa and KCBconnect reconciliation Section Head. The researcher also used secondary sources of data which included KCB’s annual report, circulars and publications.

4.2 Mobile Banking

Mobile banking is the use of mobile phone to access banking services. The services include bill payments, transfer between accounts, cheque ordering, cheque stopping and transfer between accounts and M-Pesa. KCB has a mobile money transfer service called KCBconnect which was revived in 2009 after it had failed previously. Bill payments offered include payment of school fees through the Lipa Karo account, Payments to KPLC, payments of Hospital bills e.g. Tenwek hospital and payments to credit and debit cards. KCB offers Business to Customer service (B2C) which is transfer from account to Mpesa and Customer to Business (C2B) service which is transfer from Mpesa to account. Purchase of airtime is also available which this service and account to account transfer, but only for accounts held by the bank.
The rise of the mobile telephony as a delivery channel for financial services is beginning to present strategic threats and opportunities that the banking sector cannot ignore anymore. Mobile banking is offering opportunities for money transfers (MTS), utility and salary payments, and banking for the un-banked. In Kenya, Mpesa has revolutionized banking in a dramatic and irrevocable manner. For instance, within a span of one year, the service has recruited over 4 M customers transferring over Kshs 3.5 billion a month in the year 2009.

4.3 M-pesa Technology strategy

M-PESA is an innovative mobile money transfer solution that enables customers to transfer money. It is aimed at mobile customers who do not have a bank account, either by choice, because they do not have access to a bank or because they do not have sufficient income to justify a bank account. Kenya is the 1st country in the world to launch M-PESA, which was done as a partnership between Safaricom & Vodafone. Based upon our success in Kenya, M-PESA is being considered for a number of countries across the globe.

KCB sought to use Mpesa because Safaricom owns the infra-structure and posses massive resources to sustain a marketing blitz, any frontal attack may be vigorously resisted as elucidated by the price wars with airtel. KCB was better placed to collaborate with Safaricom, and through its own money transfer, offer account to account services and transfers above Kshs 35,000 which Mpesa has no mandate to engage in.

Further, despite the popular belief that Mpesa customers are bottom of the pyramid transfer payment recipients, the transfers are originated by those with surplus funds who send transfer payments to their relatives, majority of whom are account holders with the banks including KCB. The service was launched to compete with the proposed KCB’s MTS,
Western Union, MoneyGram, Posta Pay, Equity Bank’s Benki yangu Mkononi and all other money transfer services. Mpesa uses the latest tool kit and sim replacement technology which is only available to network service providers. The sms banking technology is now obsolete and is slowly being replaced by USSD. This means by partnering with Safaricom, KCB enjoys the latest technology.

4.4 M-Pesa Technology strategy on the performance of KCB

The banking industry is a very dynamic industry which it’s ever changing technological strategies to cater for its customers need and also be relevant in the industry. KCB adopted the Mpesa technology strategy a way to keep afloat in the industry since most of the banks were also in the same trend. M-pesa technology has been of benefit in the Kenya commercial bank in the following ways as analysed from the study

M-pesa Technological development has enhanced efficiency and effectiveness in KCB service delivery channels, it has removed repetitive, time consuming tasks, reduced human error which would have been caused by the cashiers. M-Pesa technology has fastened some processes which would have taken time. For example; funds transfer. It has to great extent helped to bridge the gap of unreached customers to their relatives, since money transfer is now easy and one does not have to walk to a branch. It’s through this partnership that KCB launched their mobile transfer service that is KCBconnect. Mobile transfers service offer service such as transferring money from account to their M-pesa and from Mpesa to account. M-PESA technology has enabled money transfer and other bank services to be accessible 24X7 and money can be sent anytime, anywhere, making the service convenient.
Due to the deficiency in financial institutions in developing countries this means that a large part of its population is excluded from the formal banking system. M-PESA helped KCB in its geographical locations and other the Micro Finance Institutions (MFIs) to go deeper into the remote areas very quickly without substantial increase in the cost. KCB collaborates with Safaricom, and through its own money transfer, offer account to account services and transfers above Kshs 35,000 which Mpesa has no mandate to engage in.

It has also offered Super agency services to Mpesa agents who would have taken longer to get float from CBA where Safaricom have an account as opposed to KCB where it’s instant. Due to KCBs’ wide branch network, float and funds are available country wide moreso in the remote areas. Financial inclusion has a multiplier impact on the lives of people drawn into the formal financial system which leads to social inclusion. Due to the availability of float and funds in remote area people have been able to send money back and forth with ease, thus improving cash flow management in the rural area better and also providing avenues for saving and performing other services.

Mpesa has enhanced KCB’s monitoring trail of cash through the Mpesa technology where each and every transaction is registered with all the related detailed and stored in the system. In the absence of formal banking system, most of the transactions are cash based giving no audit trail to the regulators. We can say M-PESA brought in the transparency in the money transactions by trailing cash economy and digitizing the transactions thus avoiding money laundering and also reducing money in circulation as M-pesa can be used as a medium of storage of money making it easily available.
Introduction of the M-pesa technology by KCB increased Micro-economic activity. KCB has managed to help in bridging the gap between the bank and the unbanked. The unbaked are usually in the remote areas where banking facilities are unavailable. The bank through the Mpesa technology has made the exchange of money between two parties easily available, even people in the remote areas are able to pay bills through their mobile phone.

Mpesa technology strategy has seen the KCB Ltd save staff cost and other operational cost. The access of money has been made possible by just the touch of a button such that no man power or bank branches are need to perform some banking services e.g. transfer of funds but for amounts of not more than Kshs. 35,000. Marketing costs have also been reduced as cross-selling of other products can be done through sms when performing a transaction via phone or when an M-pesa agent walks into the branch to buy float he/she can be informed of other services offered by the bank.

Introduction of M-pesa in the bank has seen the bank retain its customers, as mobile banking a new trend in town and banks had adapted to the services, which was very enticing. KCB also sought to use it as an added value to the customers. It also used the service as a way of attracting new customers as it provided opportunities for transfers between the bank and the unbanked especially to customer who use M-pesa to send money to the rural areas. It also partnered with Safaricom Ltd to give float to the M-pesa agents who most of the have since opened accounts with the bank.

M-pesa has provided avenue for additional revenue to the bank. Apart from it been an additional service the customers, transaction done through the service accrue commission
at the rate of Kshs. 30 per transaction. The Mpesa agent also buys and withdraw float at the rate of Kshs 100 for transactions of between Kshs 35,000 and Kshs 100,000, and at a 0.1% for amount of more than Kshs. 100,001. The increase in customer base can also be translated into account holders and deposits, which can also be translated into revenue earned through other bank services by the customers.

When M-PESA was introduced in the country at lower cost than the other money transfer services e.g. Moneygram and western union, there was decrease in commission raised locally by other money transfer service offered by the bank because many customers opted to use the M-PESA service. To recover the losses KCB found it necessary to partner with safaricom, M-PESA so as to raise more revenue and provide better platform for new relations with its customers, some of whom are M-PESA agents, However there are key challenges in adopting the M-PESA strategy:- Security of the financial transactions is only protected by the Pin number; in this case the customer does not have to be seen physically for a transaction to take place. Such a situation gives lee ways for fraudsters who are in cahoots with the service provider or even know the customers in formation. KCB lack tools for monitoring the system especially when it is down undergoing system upgrades, these results to transactions hanging in the system inconveniencing the customers leading to lack of confidence in the bank. Also due to the large customer base, when transactions are many there are usually credit and duplicates on the customer’s account or money. If this is not monitored carefully, it may lead losses to the bank and also reconciliation of the related account during such periods it very difficult.
Also it is during such system upgrades that the bank is kept in dark by the services provider. During this upgrades its only safaricom who can access the system. This posses a danger to the bank because the lack of information disclosure may be avenues for frauds can also take place during such periods. After this system upgrade some phone need to be upgraded to be able to enjoy the services this causes inconveniences to customers who cannot access the software.
5.1 Summary

The research findings KCB has taken a strategic step to improve the stability of its core banking system with the increased availability and enhanced efficiency across the business by adapting the Mpesa technology strategy. The KCB has improved its performance as a result of the M-Pesa strategy contribution. During the year under review, the KCB Group performed extremely well, reporting a 56% increase in the pre-tax profit from Ksh 6.3 billion in 2009 to Ksh 9.8 billion.

The performance is anchored on good growth in total operating income amounting to to Ksh 29.6 billion, which is a 29% improvement from Ksh 22.9 billion the year before and better management of the operating expenses at Ksh 18.7 billion, an 18% increase from 2009, on the back of the recent investment in new core banking systems, that include strategic partnership with the Safaricom. Although the provision for bad and doubtful debts increased by 36% to Kshs 2.1 billion (2009-Ksh 1.6 billion). The recovery amounted to Ksh 1 billion, a 20% improvement over 2009 (to Kshs 856 million).

Customers have an ever-increasing array of banks to choose from. In these environment, mere delivery of products and service alone is not adequate to sustain our competitive KCBs' competitive edge, thus the need to provide quality service and positively delight its' customers. According to the research findings, in terms of efficient service delivery service the bank has invested significantly in expanding it service delivery channels to enhance
reach and added convenience to its customers through the use on mobile banking as a service delivery channel. This can be attributed to the 24-7 hour mobile banking system which has made banking services such as account transfers, payments of bills and also ordering of cheques to be accessible even at home and away from the banks.

5.2 Conclusion

The results contribute to the existing literature in several ways. First, is in relation to effects of M-Pesa technology in the banking industry in general. The effects are shown using factor analysis. The results show that perceived convenience had influence on the intention to use the mobile payment services. Secondly, perceived support from the mobile payment services provider influences the intention to use. Thirdly, perceived support from the mobile services provider had an impact on the perceived convenience. From a practical point of view, this would be consistent because the services become convenient to the user if they are adequately supported by the provider. Previous studies have explored convenience as one of the factors that contributes to the use of mobile payments. Fourthly, perceived ease of accessibility had an impact on the intention to use the mobile payment services.

The study has shown that Mpesa is viable and its success will depend on customer service that sets KCB apart from the rest. While the service is hardly lucrative, it offers KCB intrinsic value to partner with the most profitable company in East Africa, and boosts its corporate image and customer perception. This presents KCB with as a unique financial provider offering innovative banking solutions including loans to agents, account to account transfers.
5.3 Recommendations

KCB should endeavor to continue to invest in essential upgrades that would give the system capacity support to tap its efforts into the opportunities in the market. This is of importance especially during system upgrades by the service provider where it is left in the dark for a period of time. It can should have a meeting with Safaricom M-pesa support team and come up with solution of how it can part of the system upgrades so as to prevent cases of frauds and losses to the bank, the system should also have back ups to avoid a situation where the money transfer service is not offered at one particular time which reduces the customers confidence in the product.

Globalization and technology have been the force behind the dynamic banking industry; the world is now one very large market place where the customers preferences and tastes are also changing to accommodate their new lifestyle. M-pesa technology strategy from the study can only accommodate local customers. KCB should come up with ah technology which will also cater for the international market like internet banking to as to stay afloat in this fast changing environment. For any bank to be successful it will need a large customer base and also capital base, thus the importance of a workable technology which is both efficient and effective both locally and internationally.

5.4 Limitation of the Study

Although the results can be considered statistically significant in most parts, the study has several limitations. To begin with, the study was based on effects of M-Pesa on KCB within Nairobi County. It would be interesting to see how the results would be if the
sample included other urban as well as the rural areas in the country. The research was carried out as a case study in one banking industry and limited in scope to the KCB branches within Nairobi. Thus, the study did not get divergent views from other banks in banking sector. Hence the results were limited in scope.

There were limitation in getting the interviewees to respondent because of the of their busy schedules thus the information given may have been general. The interviewees were also careful not give sensitive information making the interview process a bit difficult and time consuming.

5.5 Implication on Policy, Theory and Practice

To the police makers, there are recommendations to closely monitor the changing mobile banking systems in Kenya, regulatory frameworks in the banking industry and the imminent threat of such technology to the traditional banking institutions

Whilst corporate level strategies area mainly concerned with managing diversified enterprises whose activities span a number of different areas, business level innovations strategies relate to the different ways that an individual business unit can compete in other sub units within the chosen market. The highest numbers of respondents argue that, the rapid spread of the mobile phone usage in Kenya means that the number of mobile users exceeds by far the number of banked people. Mobile phones basically were to offer easy communication, however M-Pesa was introduced as a sub unit. It has greatly reduced the average transaction costs for the consumer.
5.6 Areas of Further Study

The study confined itself to effects of M-Pesa technology on the performance of KCB. This research therefore should be replicated in other institutions, industry players and stakeholders. The results should be compared so as to establish various change management strategies in different companies.

The study also failed to link specific drivers of change management and parameters in KCB that enables it to partner with M-pesa rather than other mobile money transfer service providers like Airtel with corresponding change management strategies. Future studies should seek to establish such parameter.
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APPENDIX I: KEY INFORMANT INTERVIEW GUIDE

The effect of M-Pesa technology strategy and performance of KCB LTD

(a) General information

i. Name of the institution

ii. Department of the institution

iii. Position at the institution

iv. For how long have you worked for the organization

(b) Mobile Money Transfer Services

i. Kindly define what you understand by the term mobile money transfer services.

ii. Are you a user of KCBconnect? If so why?

iii. In your opinion why would KCB prefer Mobile Money transfer as opposed to other Money Transfer Services?
In your opinion, has Mobile Money Transfer been a strategic response by KCB as a way of getting competitive advantage in the banking industry.

Is mobile money transfer in Kenya an emerging rapidly growing service? And why?

(c) Performance in Kenya commercial bank

What are the key performance indicators that would rate KCB as a good performer in the banking industry?
ii. In your opinion did the introduction of MPesa by Safaricom change performance in KCB? And if so how?

(d) M-PESA technology strategy

i. What is your understanding of M-pesa technology strategy?

ii. What is the effect of M-Pesa technology strategy on the performance of KCB in your understanding?

iii. What are opportunities for operational efficiencies in KCB as a result of M-Pesa strategy?
iv. What are opportunities for revenue growth?

v. What are the challenges for the Mpesa technology strategy?

Thank you very much for taking your time in responding to these questions.
God Bless you
APPENDIX II: INTRODUCTION LETTER

University Of Nairobi,
School of Business,
P.O. BOX 30197-00100
NAIROBI

Dear Sir/Madam,

Re: Master of Business Administration (MBA) Research Project

I am a post graduate student at the University of Nairobi studying Master of Business Administration in Strategic Management. I am currently conducting a case study of the Kenya commercial Bank Ltd, in the area of performance and M-PESA technology strategy.

The purpose of this letter is to request for your cooperation in responding to the attached interview guide. The interview guide is unstructured and it is designed to get information on the effectiveness of M-PESA strategy in the performance of Kenya Commercial Bank Ltd.

The information you will be treated in strict confidence and at not one time will your name be referred to directly. The information gathered will be used for academic purposes only

Kindly Cooperate

Yours Sincerely

June Ndebe Mutuku
MBA Student

Dr. Z.B, Awino
Supervisor
APPENDIX III: Data Collection Letter

TO WHOM IT MAY CONCERN

The bearer of this letter...

JUNE NDELE MUTEKU

Registration No. D011701012009

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

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

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

Thank you.

JUSTINE MAGUTU
ASSISTANT REGISTRAR
MBA OFFICE, AMBANK HOUSE
October 14, 2011

To whom it may concern,

Re: Approval for Data collection at Money Transfer Services department

June Ndete Mutuku is a posted graduate Student at the University of Nairobi studying Master of Buisness Administration in Strategic Management. She has been approved to collected data in the area of performance and M-PESA technology in the Money Transfer Services Department.

The information collected should be treated in strict confidence and should only be used for academic purposes.

For

Head, Money transfer Services

Chrispinus Ngeno

MONEY TRANSFER SERVICES