RESPONSE BY COMMERCIAL BANKS IN KENYA TO THE INTRODUCTION OF MOBILE MONEY TRANSFER

HELLEN NG'ENDO KARU

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT

OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION (MBA)

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

NOVEMBER, 2011

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.

Signature.................................... Date 07/11/2011.................................

KARU HELLEN NG'ENDO

D61/71245/2008

This research project has been presented for examination with my approval as appointed supervisor.

Signed.................................... Date 7/11/2011.................................

Supervisor:

DR. JACKSON MAALU

Lecturer

School of Business

University of Nairobi

ACKNOWLEDGEMENTS

I thank the God almighty for his grace, sustenance and providence that has seen me through this project and this part of my studies successfully.

My sincere gratitude goes to my immediate family mum, dad, sisters and brother, thank you for your support and encouragement. My deep appreciation goes to cousin Judy Thuo and all my friends especially Nancy, Eunice, Anne Christine, Maureen, Miano, Beatrice and Salome and all others for your enormous support and encouragement during the study period.

I am extremely grateful to my supervisor Dr. Jackson Maalu for his valuable advice, suggestions and encouragement that he gave during the research period. Thank you for your mentorship and tireless guidance that made the completion of this research possible.

My appreciation also goes to my colleagues at National Bank of Kenya Limited-Nyeri Branch for their continued support and encouragement during the research period.

Lastly, I give my appreciation to all the respondents for making time out of your busy schedules to answer my questionnaires, and avail information that went along way to inform this study.

DEDICATION

I dedicate this study to my family and friends for their immense support and encouragement during the entire study period. May God bless you.

ABSTRACT

Over the years banks have been known to provide financial services ranging from receiving deposits or making payments from and to customers respectively and funds transfer, these services are however restricted to account holders only. In the recent past there has been a sudden increase in technological expansion and innovation that has changed the way services in many organizations have previously been offered. One such innovation has been the introduction of mobile money transfers service that allows one to transfer money without necessarily having a bank account. This study therefore sought to establish the response of commercial banks in Kenya to the introduction of mobile money transfer and also to establish the factors influencing the response of the banks in Kenya to the introduction of the mobile money transfer. This was achieved by a research conducted by a research survey which was done using questionnaires. The data was collected and analysed using descriptive statistics. The study found that banks adopted mobile money services to satisfy their customer demands, acquire an extensive network coverage and maintain their market share and profitability and as a response to the market and their competitors The study found that for the banks that embraced the mobile money transfer service did that through either collaboration or agency relation with the respective mobile money services providers due to various reasons such as the need to develop their products, diversify the market, penetrate into the stiff market and also develop the banking market in general. The study also noted that the commercial bank do not consider the mobile money transfer services a threat as maybe deemed as the services provided are few and transactions don't entail large volumes of money hence services offered by the banks cannot be ignored despite the mobile transfer service been simple fast and convenient. The findings of this study provide information on the impact of the mobile money transfer service and also provide insight on the areas they need to work on both at the industry level through the Central Bank and at the governmental level through the Ministry of Communication.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

ACRONYMS AND ABBREVIATIONS

CBK	Central Bank of Kenya
CEO	Chief Executive Officer
EFT	Electronic Funds Transfer
GSMA	Global Service Mobile Association
KBA	Kenya Bankers Association
M-PESA	Mobile Money
PDA	Personal Digital Assistant
PESTEL	Political, Economic, Social, Technological, Environmental and legal factors
RTGS	Real Time Gross Settiement
UBA	United Bank of Africa

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Money transfer entails moving money from one person to another or from one institution to another using an intermediary. Adkins (2010) says "a money transfer or wire transfer is an order placed with a financial institution or wire-transfer service provider such as Western Union to disburse funds a person has provided to another party." Banks and wire-transfer providers have networks of affiliated financial institutions or agents worldwide that complete the requested transfer of funds on a person's behalf, usually for a modest fee. Today the majority of money transfers are carried out by electronic funds transfer (EFT) using Internet.

Money transfer in the past was conducted through telegraphs and has since then evolved. According to Adkins (2010) in 1837, Samuel Morse perfected the first practical telegraph. This new invention made speedy and safe money transfers possible for both businesses and individuals. Terms like "wire transfer" and "telegraphic transfer" quickly became part of the English language. For the first time in human history, transactions could be carried out, sometimes in minutes, across vast distances. In the 21st century, electronic funds transfer by computer has largely replaced the telegraph. Over time changes in technology have resulted in the introduction of mobile money transfers.

Mobile phone growth in Kenya, as in most of Africa, has been remarkable, even among the rural poor. In June 1999, Kenya had 15,000 mobile subscribers. It now has over 16 million out of a population of 35 million. With this growth and a large portion of the population remaining unbanked. The biggest mobile phone company Safaricom, introduced M-PESA a service allowing you to transfer money using a mobile phone. Kenya is the first country in the world to use this service and its runaway success has seen the system being replicated by local competitors, and internationally.

Innovation in the Kenyan mobile money scene has progressed so fast that it is such a long while since March 2007 when Vodafone, the world's leading mobile services provider which owns 40per cent of Safaricom, picked its subsidiary to pilot what has essentially become the preferred medium of person-to-person transfers, creating new means to settle utility bills and enlisting commercial enterprises (over75 to date)keen to avoid the security pitfalls of handling cash and the risk of bouncing cheques (Glodstuck, 2011).

1.1.1 Organization and Environment

Organisations do not operate in a vacuum they are surrounded by a host of forces both internally and externally. Managers have the ability to influence the internal forces while the external forces are beyond their control. Managers manipulate the internal forces to minimize the effect of the external forces. According to Pearce II and Robinson (1991) the external environment constitutes three interrelated subcategories: remote, industry and operating environments. The remote environment comprises factors that originate beyond, and usually irrespective of, any single firm's operating situation-economic, social, political, technological, and ecological factors. This environment presents firms with opportunities, threats, and constraints but rarely does a single firm exert any meaningful reciprocal influence.

Organizations exist in a complex commercial, economic, political, cultural and social environment. This environment is not static but is under constant change which invariably affects the organisations that operate within it. These environmental changes are more complex to some organisations than others. For survival, an organisation must maintain a strategic fit with the environment. The environment is important and an organisation has to respond to its dynamism, heterogeneity, instability and uncertainty Thompson (1967). In addition, the competitive environment has been and continues to be driven by technological innovation, globalization, competition, and extreme emphasis on price, quality and customer satisfaction. As a result, organisations must continuously create and innovate in order to stay relevant and be successful. A sustainable competitive advantage is achieved when there is a strategic fit between the external and internal environment (Njoroge, 2006).

1.1.2 Mobile Money Transfer

Mobile Money Transfer is the exchange of funds from one party to another through a brokered service provider Moorthy (2009). He further adds a Mobile Money Transfer is the use of a mobile handset device to either initiate and/or complete the transaction. Mobile Money Transfers can take place domestically or across borders (international remittance) and they can be from person-to-person, business-to-business or any combination of these.

The difference between Money Transfer and Micro Payments is that there is no purchase transaction taking place, goods are not being exchanged for money, instead money is simply being transferred from one owner to another. Money transfers can also be between bank accounts or between individuals without a formal banking arrangement – known as "the unbanked". This latter group makes up a large percentage of the target market in the developing world. This is ratified by the interesting statistic that there are currently almost four billion mobile phone subscribers worldwide, whilst there are only one billion bank account holders. Across Sub-Saharan Africa only 20% of households have accounts with financial institutions (World Bank).

Mobile money transfer in Kenya gained prominence in 2007 when Safaricom introduced M-PESA mobile transfer. According to Jack and Suri (2010) In March 2007, the leading cell phone company in Kenya, Safaricom, formalized this procedure with the launch of M-PESA, an SMS-based money transfer system that allows individuals to deposit, send, and withdraw funds using their cell phone. M-PESA has grown rapidly, currently reaching approximately 38 percent of Kenya's adult population, and is widely viewed as a success story to be emulated across the developing world. The GSM Association, which represents more than 700 mobile operators worldwide, believes this could quadruple by 2012 if transfers by SMS become the norm. Vodafone has entered a partnership with Citigroup that would soon allow Kenyans in the UK to send money home via text message. The charge for sending £50 is expected to be about £3, less than a third of what some traditional services charge.

According to Ratemo (2010) Kenyans can now operate a mobile money account without necessarily owning a mobile phone. This follows the launch of a new mobile money transfer service dubbed "Tangaza" by Mobile Pay Limited. It also enables one to directly buy or sell stocks at the Nairobi Stock Exchange, right from the mobile platform. On officially unveiling the new service, Central Bank of Kenya (CBK) Governor Njuguna Ndung'u said the move will see many more Kenyans access mobile banking services cheaply and conveniently. He further noted that uniquely, the service operates across all the existing mobile phone networks, meaning mobile phone users can register their sim cards for the service irrespective of their network and also noted that the users can also register for accounts without necessarily having a mobile phone. He further noted that they will. however. have to link the account with their simcards to allow accessing the account via the mobile phone. Like other existing money transfer services, the Tangaza Money Transfer lets people send and receive money instantaneously using their mobile phones or a personal digital assistant (PDA) held by an agent. Recipients receive text messages when they are sent money and can collect it from any of its agents spread across the country. However, unlike other existing operators, the new system ensures subscribers register their details, photographs and fingerprints and thereafter are only required to place the finger on a finger print reader without necessarily having to produce an identity card.

Since the introduction of M-PESA in 2007, Latest statistics from the operator indicate that it has so far registered 11.8 million customers and transferred a staggering Sh523.8 billion. Bharti Airtel, the new owners of Zain Kenya, intend to take the fight to Safaricom in the mobile commerce segment with plans to invest Sh350 million on its Zap money transfer service. The investment will go towards increasing its Zap agents from the current 1,700 to 10,000 by the end of the year to give it better visibility among customers (Karanja, 2010).

Essar Telecom Country Manager Atul Chaturvedi says in less than a year, more Than 350,000 customers have already subscribed to the service in more than 900 towns across the country. He further said the company, which has close to 1.7 million subscribers, expects to have more than half of its subscribers signed on to the money transfer service and that "With the ongoing SIM registration they expect this number to go higher by the time it is over. He noted that Yu has 5,000 agents across the country and is currently advertising for more agents to boost its presence (Karanja. 2010). According to Mghendi (2010) for its launch in the Kenyan Market, Ushindi Mobile Money partnered with YU. one of the four mobile operators in Kenya. The service is the brainchild of "Heart for the City", a christian charity organization based in Scotland but whose founder and CEO is Kenyan. This new system runs on the web and requires a java enabled mobile phone with GPRS connectivity, at the very least. Ushindi Mobile Money targets mostly Kenyans living abroad, of course with very good reasons; Kenyans in the diaspora remit more than $600 million to Kenya every year. Any serious investor in the money transfer industry would want to tap into such a market.

As noted from above statistics, Safaricom holds about 70% of the market share in the mobile telecommunication industry. This withholding, for the purposes of this study the researcher will limit herself mainly to Safaricom and her MPESA mobile money transfer which will serve as a representation of the whole industry.

1.1.3 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were forty six banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests (CBK, 2007).

The main challenges facing the Banking sector today include; New regulations; For instance, the Finance Act 2008, which took effect on 1 January 2009 requires banks and mortgage firms to build a minimum core capital of KShs 1 billion by December 2012. This requirement, it's hoped, will help transform small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply. Global financial crisis experienced in late 2008 is expected to affect the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets. Others include declining interest margins.

The Kenyan banking industry has grown over the years with some financial institutions converting to fully fledged banks as a result of the country's economic growth and development. Banks provide various modes of money transfer: Internal funds transfer i.e. transfer of funds within the same bank where both the recipient and sender hold accounts in the same bank, RTGS (Real Time Gross Settlement) where funds are transferred to other banks within the same day, EFT (Electronic Funds Transfer) funds are transferred within 3-4 days working days and even international money transfers such as swift which takes a similar period of 3-4 working days where it has to go through an intermediary bank.

Over the years the banking sector in Kenya has continued to grow as is witnessed there has been entry of banks from the west who have established their branches in Kenya and also the emergence of banks that provide specialized needs. According to the Mara financial services report (2009) Regional integration is taking hold within

Kenya's banking sector. The latest foray into Kenya by Nigeria's United Bank for Africa ("**UBA**") signifies West Africa's increasing appetite to participate in East African markets. UBA is the second bank from West Africa to enter into the Kenyan banking industry. Lome-based Eco bank entered Kenya last year after acquiring the same time as regional integration, institutions from outside the African continent are moving into the Kenyan market. This is no more prevalent than amongst institutions from the Gulf region with a unique product offering: Gulf African Bank and First Community Bank, each an Islamic bank, commenced operations in Kenya in 2008 offering Sharia-compliant banking services. Their combined operations now represent approximately 1 percent of Kenya's gross banking assets.

1.2 The Research Problem

Organizations do not operate in vacuums they are surrounded by forces which exist both internally and externally to the organization. The external forces are beyond any organizations control and are characterized as the political, economical, social, technological, environmental and the legal factors. These factors affect each organization differently and how an organization chooses to respond will determine its continued success and survival. The external environment is ever dynamic and with every change comes opportunities, threats and new innovations which create the need to change how an organization operates. Organizations seek the strategy that results into the best fit between their existing internal capabilities and external environment to effectively compete and remain relevant.

Over the years has been a sudden increase in technological expansion and innovation that has changed the way services in many organizations have previously been offered. One such innovation has been the introduction of mobile money transfers service that allows one to transfer money without necessarily having a bank account. Non-financial institutions have taken advantage of the new technological innovations and financial institutions such as banks have found themselves competing with Non-financial institutions for services that were once considered a preserve of the financial institutions alone. Mobile money transfer services have continued to gain more prominence in the country as they are considered convenient; they are fast, paperless, are accessible to all who hold a phone and they are vastly spread across the country even to the remote areas where the banks have not managed to penetrate. Furthermore this service is accessible to all cadres of people: low income, middle and even high income earners and also the literate and illiterate groups of persons without any form of discrimination. Whether this service is posing a threat or not to the banking industry is yet to be established, however the service cannot be ignored or taken for granted by the banking industry.

Several studies conducted in the past include a survey of consumer adoption of mobile phone banking in Kenya by Otunya (2006)revealed that intention influences behavior and thus adoption of a given service or product in his study he found out that most users of the service were young and educated. Otieno (2006) studied an investigation into internet banking technology adoption among commercial banks in Kenya, Mugweru (2008) studied strategic responses of Barclays Bank of Kenya Ltd to challenges in the external environment and Rumba (2008) studied strategic responses by mobile phone companies in Kenya to environmental changes.

Despite these and the numerous studies on strategic responses by organizations none is however known to have specifically focused on mobile money transfer and banks.

Therefore, what responses have commercial banks in Kenya taken to the introduction of mobile money transfers and what factors influence their responses?

1.3 Research Objectives

This study had two objectives.

i. To establish the response of banks in Kenya to the introduction of mobile money transfer.

ii. To establish the factors influencing the response of the banks in Kenya to the introduction of the mobile money transfer.

1.4 Value of the Study

The external environment is continuously changing and affecting all organizations. Technology as an aspect of the environment is continuously changing as a result new innovations are emerging thus changing the operations of the organizations. Banks like all organizations, need to respond to the technological changes taking place in a strategic manner to be able to remain competitive and relevant. This study will inform on the impact of the mobile money transfer service and also provide insight on the areas they need to work on both at the industry level through the Central Bank and at the governmental level through the Ministry of Communication.

To the banking industry through the Central Bank of Kenya it will inform on the technological changes in money transfers and the impact the technology has on existing money transfer services and a basis of follow up to formulate policies and guidelines as to how mobile money transfer should be conducted without going against the existing Banking Act and policies and guidelines. The study will also be of value to the Kenya Bankers Association which serves as a lobby for the banking sector's interests as a basis of follow up on service delivery and effective competition with non-financial institutions.

To the government through the ministry of communication as it will provide a basis of follow up on the irregularities and criminal acts that may arise from competition amongst the existing networks through competition and form a basis of follow up so as to enhance better service delivery. It will also be of value to the government through the ministry of finance as it will indicate on the circulation and flow of funds in the economy through mobile money transfer service within households and a basis of follow up on curbing crime.

The study will also be of value to other scholars as it will add to the existing pool of knowledge, it will form basis for further research that is the research will provide suggestions for further research areas in the area of mobile money transfers and also provide material to build their research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researches that have been carried out in the same field of study. Among the PESTEL factors that form the external environment of an organization, this study focus is on the technological aspect. PESTEL analysis is conducted by managers to provide an insight of the factors surrounding an organization and how they affect an organization hence form informed strategic decisions. This chapter explores strategy and how organizations respond to their environments.

2.2 The Concept of Strategy

Ansoff and McDonnell (1990) describe strategic management as the process through which a firm manages relationships with the environment in which it operates. It consists of strategic planning and management of change. Strategic management is therefore a continuous activity that enables strength while minimizing the impact of threats posed by the environment in the light of the organization's weaknesses (Mutugi, 2006).

Strategy is a plan and pattern that integrates the organization's major goals, policies or patterns and helps marshal and allocate resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by the intelligent opponents (Quinn ,1980).

Johnson and Scholes (1999) define strategy as the directions and the scope of an organisation over a long term, which achieves advantage for the organisation through its configuration of the resources within a changing environment, to meet the needs of the markets and fulfill stake holders' expectation. Strategy is described as creating a fit between the external characteristics and internal organisation conditions to solve a strategic problem where a problem occurs when there is a mismatch between internal characteristics of the organisation and the opportunity existing in the external organisation (Mutugi, 2006).

Organisations need strategies to guide how to achieve objectives and how to pursue the organization's mission. Strategy –making is all about how to reach performance targets, how to outcompete rivals, how to seek and maintain competitive advantage, how to strengthen the enterprise's long term business position (Strickland and Thompson, 1993). Strategies are therefore guidelines as to how a business achieves its objectives, these guidelines have to be narrowed down from the top management to the subordinates in form of tasks and duties they perform on a daily basis so as to achieve overall organisational goals and objectives hence driving the organisation towards one direction as it is the small tasks combined together by members of different departments that lead to achieving the desired goal as they each task complements the other.

Strickland and Thompson (1993) further note that in diversified enterprises, strategies are initiated at four distinct organisational levels. There's a strategy for the company and all of its businesses as a whole; Corporate strategy, there is a strategy for each separate business the company has diversified into that is Business strategy, there is a strategy for each specific functional unit within a business; functional strategy and finally there are still narrower strategies for basic operating units within functional areas; Operating strategies. Normally single-business enterprises have three levels of strategy making: business strategy, functional strategy and operational strategy.

Corporate strategy is the goals and objective set by the top management. The top-management is charged with the responsibility of formulating the firm's strategies; these strategies are aimed at defining the direction of the firm as a whole. The strategies are aimed at ensuring the firm is competitive in relation to its competitors and also provide a competitive edge in the market it operates. The strategies are long term in nature and are reviewed continuously to ensure the firm is operating in line with the set strategies. Once the strategies are formulated they are communicated to the middle level managers for execution. This is the overall managerial game plan for a diversified company.

According to Strickland and Thompson (1993) Corporate Strategy is the umbrella over all businesses that a diversified company is in. It consists of the moves made to establish business positions in different industries and the approaches used to manage the company's group of businesses. Corporate strategy is crafted at the highest levels of management. Senior corporate executives normally have lead responsibility for diversifying corporate strategy and for synthesizing whatever recommendations bubble up from lower-level managers. Key business-units may also be influential, especially in strategic decisions affecting the business they head. Major strategic decisions are usually reviewed and approved by the company's board of directors.

2.3 Theoretical Approach of Organizational Response to the Environment.

Different environments exist to different organisations, it is therefore important that any organisation conducts an analysis to establish the environment in which it operates to ensure success and competitiveness. Pun notes that Ansoff suggests that for a firm to optimize its competitiveness and profitability, it has to match its strategy and supporting capability with the environment. He further introduces the concept of environmental turbulence to describe the different environments. He classifies the different environments in which firms operate into five distinct turbulence levels. At one extreme is the stable, placid environment where nothing changes; at the other is the creative environment, characterized by major technological breakthrough, and social political upheavals. These environments are categorized as repetitive environment, expanding or slow incremental environment, changing or fast incremental environment, discontinuous or predictable environment and the surpriseful or unpredictable environment hence organizations need to identify in which environment they are operating so as to identify whether their resources are compatible hence formulate strategies to be competitive and generate profits.

Organisations are environment dependant hence do not operate in vacuums they are surrounded by forces beyond their control. According to Muse (2006), the goal of every organisation is to operate with success and keep its business alive. However, they are faced with enormous challenges and need to align and realign with the turbulent environment. Ansoff and McDonell (1990) argue that successful environment serving organisations are open systems and use strategies that ensure continued organizational survival in the environment. They further state that a major escalation of environmental turbulence means a change from a familiar world of marketing and production to unfamiliar world of new technologies, new competitor's new consumer attitudes, new dimensions of social control and above all unprecedented questioning of the firm's role in the society.

Organisations are environment dependent. No organisation can exist without the environment. They depend on the environment for their survival and they have to scan the environment in an effort of budding trends and conditions that could eventually affect the industry and adapt to them Thompson and Strickland (1993). Failure to do this will lead to a strategic problem, which is characterized by the maladjustment of the organization's output and demands of the external environment (Ansoff, 1984).

According to Porter (1996), companies must be flexible to respond rapidly to competitive changes. They must benchmark continuously to achieve best practice. Hofer and Schendler (1978) observed that for organisations to be effective and hence successful, they should respond appropriately to the changes that occur in their respective environment. Consequently, they need strategies to focus on their customers and deal with the emerging environmental challenges.

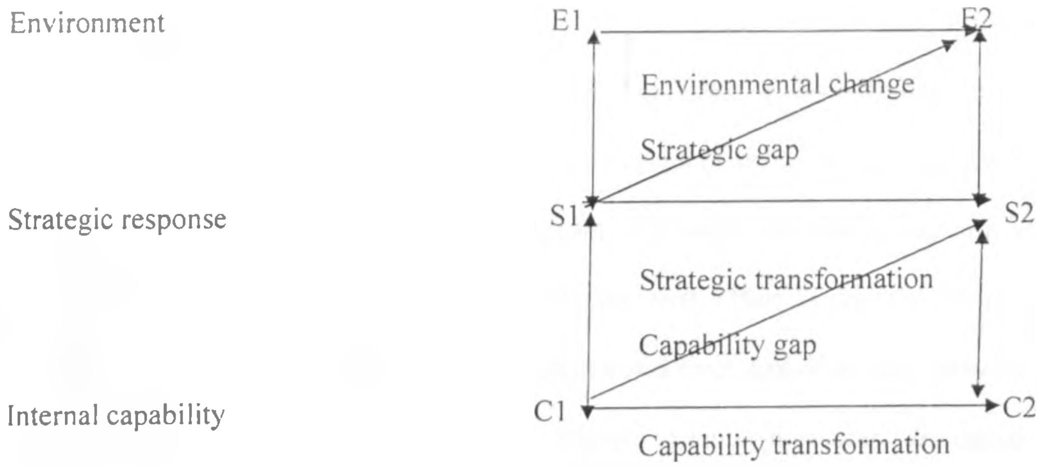
Responses of any organisation can be both strategic and operational. Strategic decisions are likely to affect operational decisions. The link between overall strategy and operational aspects of an organisation is important because, firstly if the operational aspects of the organisation are not in line with strategy, then, no matter how well considered the strategy is, it will not succeed , it is at the operational level that real strategic advantage can be achieved.

According to John and Harding (1989), if the operations area is to support the firm's competitive advantage in its decisions-making. The task is to develop the characteristics of the operations area in line with the market needs. For example where the firm chooses to compete through a cost leadership strategy, then this must be reflected in the definition of the key operations tasks. All structural decisions in the operations area must be made with a view to reducing costs, as this will be totally in concert with the firm's position within its industry. plant and equipment will therefore be chosen with cost saving as a major consideration; an organisation structure will be chosen that avoids duplication and is cost effective: operating systems will be chosen that can be managed to drive out costs; and both process and information technology will be used to gain competitive advantage through cost-saving. If the operations area makes a concerted and consistent effort against all these dimensions, it will develop an internal culture supporting the key operations task of structuring the lowest-cost operations facility in the industry. If that objective is achieved, real competitive advantage will accrue to the firm through operations performance.

Ansoff and McDonnell (1990) have developed ways of measuring changes in the external environment if an organisation has to stay successful. The strategy has to match the changes in the environment. The environment constraints the managers with strategies to use due to the turbulence within it. Ansoff and McDonnell further argue that change has been the central occupation of most managers. The turbulence comes from unaccustomed and unfamiliar sources; from foreign technologies, from foreign competitors, from governments. An increasing number of such changes pose major threats or opportunities to the firm: obsolescence of the firm's technology, major loss of market share, drastic increase in the cost of doing business, a chance to get a major jump on competitors, or a ground floor entry into a new industry.

Any shift in the environment can lead to inconsistency between the organization's strategy, its internal capability, and the environment. This shift can be illustrated in the formular diagram below:

Figure 2.1 Managing firm's adaptation to environment



Key

E1=Present Environment

S1=Present Strategy

C1=Present organisation Capability

E2=New Environment

S2=New Strategy

C2=New organisation Capability

Adapted from Ansoff and McDonnell (1990).

In an environment on turbulence level E1, the organisation can operate successfully with strategies at S1 and internal capabilities C1. If the environment turbulence moves to level E2, then the effective strategies become S2. Failure to align your strategy with the environment will mean that it is operating in the new environment with the old strategy. Consequently, this will create a strategic gap. At the same time the organisation needs to adjust its internal capabilities to C2 in order to match with the new strategy and the environment. Failure to do that will create a capability gap meaning it is operating with a new strategy but hanging on the old capabilities of doing things. These internal capabilities are composed of functional (marketing, production, research and development. production etc.) and general management capability.

Ansoff and McDonnell (1990) have observed that when a discontinuous change impact on the firm, there are three types of management behaviour. In the reactive behaviour, response is delayed until the impact of change has become painful and threatening. Once the response is triggered, the first effort is 'heroic' operating changes and retrenchment. Measures are tried one at a time. and only when they have been exhausted, does attention turn to strategic counter-measures. In decisive management, the response is triggered when the impact of change has become unambiguous, without the traditional procrastination observed in the reactive management. Operating counter-measures are tried first, but in a planned systematic manner. Once the operating measures have been exhausted, the firms turn attention to a strategic response. Planned behaviour differs from the preceding two in the fact that strategic and operating counter-measures are considered at the outset, and a proper combination is used in parallel. All these behaviours have their place in the repertoire of management responses to threats and opportunities. In slowly changing environments, reactive management, while costly, can avert disaster. As the environment becomes more and more turbulent, it becomes necessary to use first, the decisive response, and second the planned response, if the firm is to avoid a disastrous impact.

2.3.1 Strategic Response by Organizations to the Environment

Pearce and Robinson (1999) argue that strategic responses are a set of decisions and actions that result in the formulation of plans designed to achieve a firm's objectives. Strategic responses are part of competitive strategies that organisations develop in defining their goals and policies. They are reactions to what is happening on the environment of the organisation. Strategic responses are concerned with the long-term strategy of an organisation involving high investments and embracing the organisation as a whole.

Njoroge (2006) notes that strategic responses call for organisations to change their strategy to match the environment and also to transform or re-design their internal capability to match this strategy. It involves identifying changes taking place in the environment and establishing how they affect the organisation and its activities. It also entails determining resources and competences of the organisation and ascertaining whether these provide special advantages or yield new opportunities. Strategic responses result in restructuring the organisation and adopting changes in information technology, changes in the marketing of products or services and culture changes.

Firms find themselves competing for the same customers when it comes to service or product delivery, it is for this reason that managers have to implement strategies that will give them a competitive advantage over and above their competitors. Strickland and Thompson (1998) argue that they are as many competitive strategies as there are competitors. However, beneath the subtleties and superficial differences, there are impressive similarities between different competitive strategies when one considers a company's market target and type of competitive advantage the company is trying to achieve.

In any market place where competition exists just like any war there are injuries and casualties, hence the best strategy wins. It is therefore imperative that any firm wishing to compete to establish areas in which they have a competitive edge.

Strickland and Thompson (1993) observe that a company has a competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces. They further note that to succeed in building a competitive advantage a firm must try to provide what buyers will perceive as "superior value"- either a good product at a low price or a "better" product that is worth paying for more.

Firms have therefore resorted to various strategies so as to gain a competitive advantage over and above their competitors in attempts to attract buyers, withstand competitive pressures, and improve its market position. According to Strickland and Thompson (1993) companies the world over have tried every conceivable approach to outcompeting rivals and winning an edge in the marketplace. And because managers tailor strategy to fit the specifics of their own company's situation and market environment, there are countless variations. However, beneath all the nuances, the approaches to competitive strategy fall into three categories: A low –cost leadership strategy where the organisation strives to be the overall low –cost producer in the industry, a differentiation strategy where the firm seeks to differentiate ones products from rivals' products and a focus or niche strategy the firm focuses on a narrow portion of the market rather than the whole market.

For the purpose of this research the Ansoff's matrix will be used to explore and explain ways in which organisations respond to changes in their business environment to remain relevant and also out-compete their rivals in product or service delivery. The Ansoff's matrix is a series of suggested growth strategies that set the direction for the business strategy. The matrix essentially shows the risk that a particular strategy will expose a firm to, the idea being that each time a firm moves into a new quadrant (horizontally or vertically) a firm increases risk.

Figure 2.2: The Ansoff Matrix -Business

Market Development	Diversification
Market Penetration	Product Development

Existing Products & Services New

Source: Ansoff HI, Sullivan PA. (1993) Optimizing profitability in turbulent environments: A formula for strategic success for long Range Planning 26(5): 11-24.

Market penetration strategy is very much "business as usual" a business focuses on products and markets that it knows well. Once the market approaches saturation another strategy must be pursued if the firm is to continue to grow. Market development is a growth strategy where the business seeks to sell its existing products into new markets. Developing new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. In product development strategy the business aims to introduce new products into existing markets. A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself and finally Market diversification strategy where a business introduces new products to new markets. It is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm.i.e. the business moves into markets in which it has little or no experience. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return.

2.3.2 Operational Response by Organisations to the Environment

Operational responses target specific functional areas of the organisation. These do not require a huge amount of resources to implement and they are on a short-term basis (usually less than one year) Mutugi, (2006). In addition Pearce and Robinson (1990) note, operational controls provide post action evaluation and control over short periods usually from one month to one year.

Technology is one of the environmental factors that have continued to evolve creating opportunities in terms on new innovations for organisations as well as threats and weaknesses as methods of operations become obsolete. According to Pearce II and Robinson (2007), a technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing factory. They further note that to avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adaptations can suggest possibilities for new products or for improvements in existing products or a manufacturing and marketing technique.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that will be used to carry out this study. The chapter presents the research design, the population, data collection method and the instruments and data analysis.

3.2 Research Design

A survey research was conducted because once carefully done to produce results that are broad, credible and generalizable to the whole population. A survey research is also used because it allows the collection of large amounts of data from a sizeable population in a highly economical way. A survey also allows the researcher to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics. Besides that a survey study gives the researcher more control over the research process.

A descriptive survey was undertaken for the purpose of this research .Descriptive designs result in a description of the data, where words, pictures, charts and tables and whether the data analysis shows statistical relationships or is merely descriptive. Saunders M, et.al note that the descriptive survey is preferred as it portrays an accurate profile of persons, events or situations. (Robson, 2009:59) also due to time constraints and it was easy for the researcher to administer the data collection tools to the respondents in their workstations, which is relatively easy, and plays a great role in increasing the response rate.

3.3 Population

The population of this study constituted all commercial banks in Kenya. Currently there are 44 licensed commercial banks and 1 mortgage finance company as per the CBK internet directory as at 15th July 2011.

3.4 Data collection

The data type that the research intends to collect is qualitative data from the category questions that seek to get the respondents response to questions on the variables. Primary data was collected using self-administered questionnaires. The questionnaire was structured with multiple choice questions on the variables under study, open ended and closed questions. The mode of collection was by "drop and pick later" method which enable respondents dedicate some tine convenient to themselves to fill it in. In order to ensure integrity of data collected the filled questionnaires were collected within a week of being dropped and instructions shall be clearly stated on the questionnaire.

The questionnaire were administered to the Bank officials who were either in the top level or middle level of management in the respective bank branches as they were in continuous interaction with the customers who visited the bank and were therefore able to highlight the response of customers to the introduction of the mobile money transfer service and also highlight why the bank introduced the service.

3.5 Data Analysis

The data gathered was analysed using descriptive analysis which employs the use of graphical presentation of variables under study and Inferential. Descriptive statistics are used to describe the basic features of the data in study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data. Descriptive statistics simply describes what is or what the data shows.

CHAPTER FOUR: DATA ANALYSIS,FINDINGS AND DISCUSSIONS

4.1 Introduction

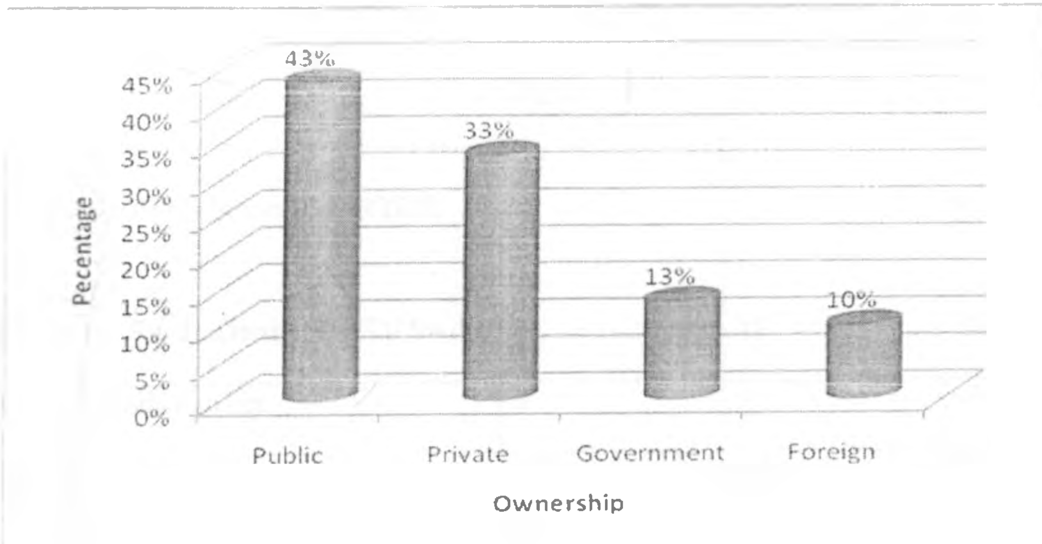
This chapter presents the findings and presentations of the study. The chapter has two sections one on the findings on the demographic information of the respondents and section two findings on response of commercial banks in Kenya to the introduction of mobile money transfers services. The findings are presented using charts and tables.

The study had a response rate of 68.18%. This was approved and considered as reliable and sufficient for the study. According to Mugenda (2003) a response rate of 50% is sufficient for a study, 60% is good and 70% is excellent.

4.2 Demographic Information

Banks have been known to provide financial services ranging from money transfers to safe custody services. However, over the years technology has continued to evolve resulting in new ways of transacting and banks have found themselves competing with non-financial institutions in the delivery of these services, one such innovation has been the introduction of mobile money transfer service which the non-financial institutions have taken advantage of and are now competing with the banks. This being clear to the researcher it was important to establish what modes of money transfers were been offered by banks, how frequently they were used, whether banks had introduced mobile money transfer services and how the introduction of mobile money transfer service had affected the previously used transfer services. The respondents were issued with a questionnaire that sought to answer the researchers concerns and the data was summarized by use of tables and figures as indicated below.

Figure4.1: Bank Ownership



Source : Research Data (2011)

From the findings, most of the banks (43%) are publicly owned. 33% of the banks are private owned. This findings therefore, points to the fact that most of the banks are owned by the public in kenya. It was also noted that most of the banks management was indigeneously composed with only a few being foreign managed.

4.2.1 Money Transfer Services.

Banks offer different modes of money transfer services. The resesearcher was interested in determining the frequency of usage of the services, how the same services were affected by the introduction of mobile money transfer service and also establish who were eligible to receive the service. The respondents were requested to provide information on how they used money transfer services. The findings are shown in Table 4.1 below.

Table4.1: Frequency on usage of money transfer services in commercial banks in Kenya.

	Rarely used (%)	Fairly used (%)	Mostly used (%)
Real Time Gross Settlement (RTGS)	7	7	87
Electronic Funds Transfer (EFT)/ Swifts	0	10	90
Internal funds transfer	0	7	93
Standing Orders	3	41	55
Western Union	35	57	9
Money gram	63	26	11

Source : Research Data (2011)

From the table above, majority of the banks (93%) use internal Funds transfer, Electronic funds transfer (EFT)/Swifts (90%) and Real Time Gross Settlement (RTGS) (87%). Money gram was rarely used or nor used at all (63%). These findings implies that banks use RTGS, EFT and internal funds transfer as means of money transfer services. Money gram and Western Union method of money transfer are rarely used or not used at all by most banks. Most banks provide money transfer services to account holders only as it is in line with the know your customer policy (KYC) and as most of this transactions go through the central bank. However, they provide mobile money transfer service to both account and non-account holders.

It was also noted that the introduction of mobile money transfers by banks has affected previously offered money transfer services in different extents The respondents were requested to give details on how the mobile money transfer services affected the other forms of money transfer services in banks. The findigs were presented using a likert scale and analysed using mean and standard deviation . The findings are shown in figure 4.2 below.

Table 4.2: Effect of mobile money services to other money transfer services in banks

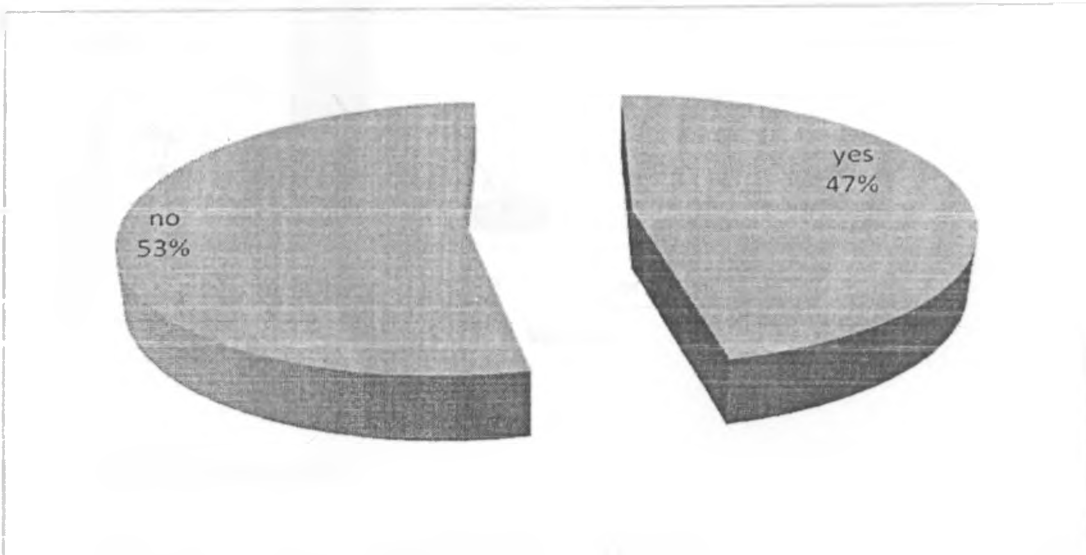
	Mean	Standard Deviation
Real Time Gross Settlement (RTGS)	2.333333	1.676163
Electronic Funds Transfer (EFT)/ Swifts	2.333333	1.676163
Internal funds transfer	2.933333	2.051712
Standing Orders	2.533333	1.552264
Western Union	3.909091	2.42712
Money gram	2.8	1.932184

Table 4.2 shows the extent of effect of the mobile money transfer services to other money transfer services. According to the findings, the introduction of the M-money transfer services has affected the western union to a moderate extent (M=3.9, SD=2.4). Other services were affected to a low extent such as the Real Time Gross Settlement (RTGS) (M=2.3, SD=1.6), Electronic funds transfer (EFT) (M=2.3, SD=1.6) and standing orders (M=2.5, SD=1.5).

4.2.2 Mobile Money Transfers.

Mobile money transer service has gained prominence in the Kenyan economy. Growth and development in technology has found banks have found themselves competeing with non-financial institutions for customers. Banks have now introduced this service to their customers. It was therefore important for the researcher to determine how banks have adapted to this service,which service provider was opted for and also how long the service had been provided for in the bank. To determine this the respondents were requested to provide information on the usage of mobile money transfer. The findings are shown in Figure 4.2 below.

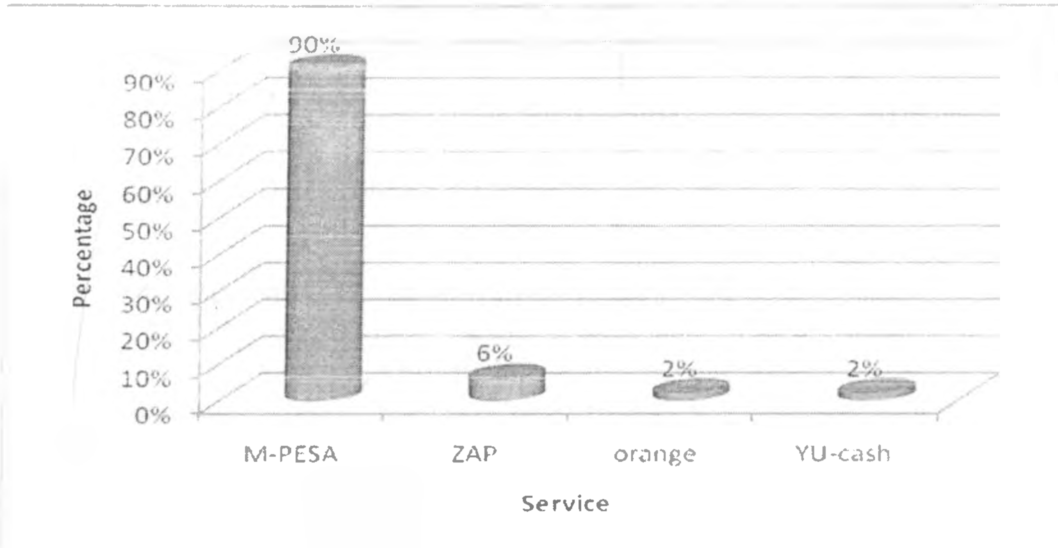
Figure 4.2 : Propiortion of banks offering mobile money transfer services.



Source : Research Data (2011)

From the findings, majority of the banks (53%) do not have or do not offer mobile money transfer services to their clients. However, 47% of the banks do offer mobile money transfer services. This findings therefore indicate that most of the banks do not provide mobile money transfer services in kenya despite the prominence. It was also noted that for those banks that provided mobile money transfer Safaricom's M-PESA was highly prefered as indicated in the figure below. The respondents provided information about the use of Mobile banking services. The findings are shown in Figure 4.3

Figure 4.3 Mobile money transfer services adopted by banks.



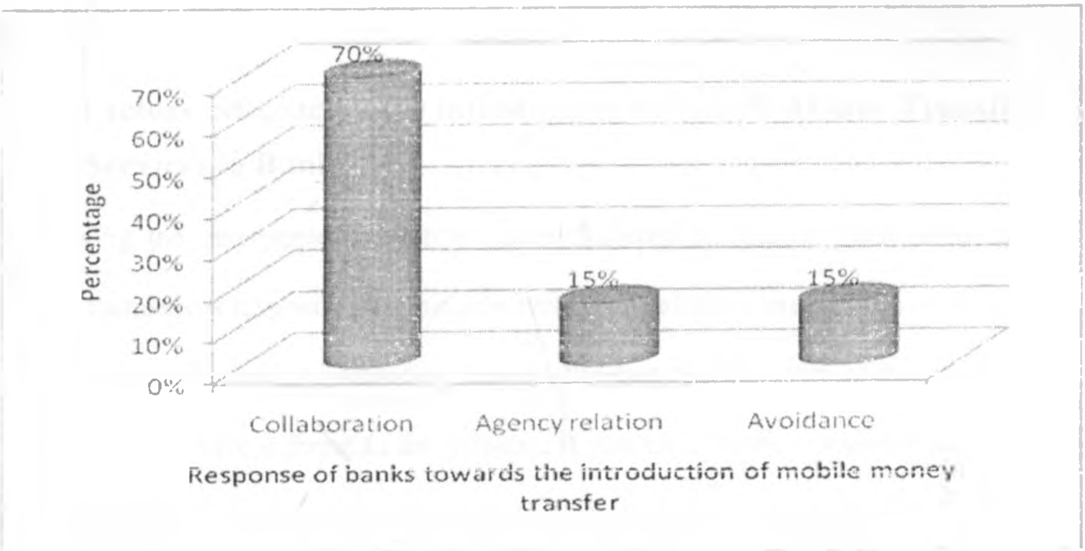
Source : Research Data (2011)

From the findings, majority of the banks have adopted Safaricom's M-pesa services (90%) to offer their mobile money transfer services to their customers. This indicates that the mostly used mobile money transfer service by the banks in kenya is the M-pesa service. It was further noted that for the banks that provided mobile money transfer services they had provided the same for a period of not less than one (1) year.

4.3 Response By Commercial Banks in Kenya to the Introduction of Mobile Money Transfer Services.

Changes in technology have seen the emergence of new modes of money transer which have now left banks competing with non-financial institutions for services that were once considered a preserve of banks. Following the introduction of mobile money transfer services in the market banks have found themselves responding in various ways. for the researcher in this particular study the fact is clear that banks have responded.and therefore sought to find out why they have responded and how they have responded to the introduction of mobile money transfer. the study sought to find this out through questionnaires that had questions that captured on how banks responded to and why they responded in the way they did and the results obtained were as shown in the figure below.

Figure 4.4: Response of banks towards introduction of mobile money transfers.



Source : Research Data (2011)

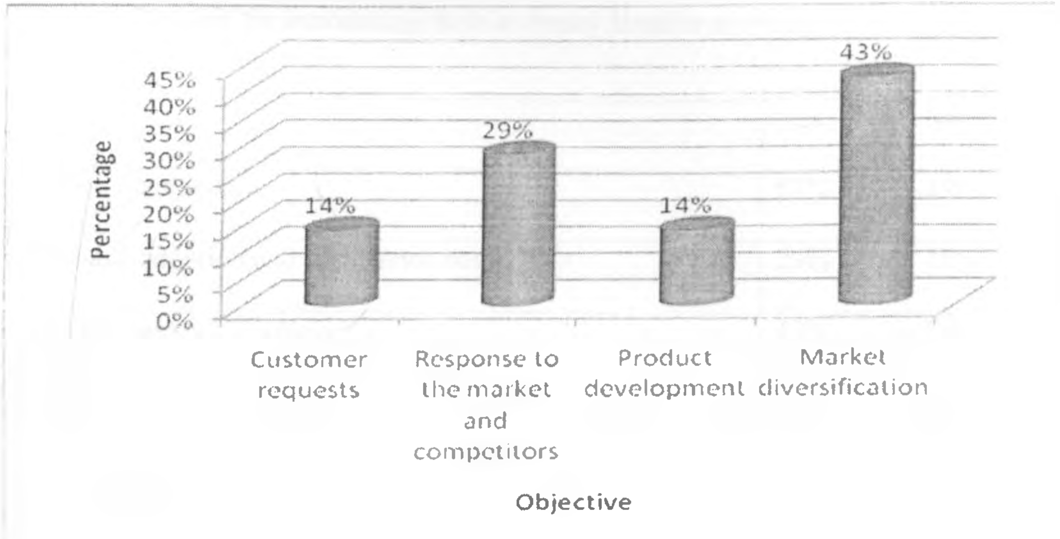
Figure 4.4 shows how banks responded to the introduction of mobile money transfers. From the findings, majority of the banks (70%) collaborated to enhance and adopt the services. however, the research indicates (15%) avoided or have not adopted the service at all. This indicates that for the banks that have responded collaboration was highly prefered in comparison to Agency relation as a response to mobile money transfer services in kenya.

It was further noted that banks did not view mobile money transfer services as a threat to the banking industry, despite the service being fast.convenient and easy to use because it was unable to cater for the needs of the customers who transacted in bulk who mostly were organisations that still prefered to transact through the bank as it mostly catered to the small scale business people. The research also indicated that reception of the service in the bank was good as customers visisted the bank for both services though majority of the customers visited the banks for normal banking services.

4.4 Factors influencing the introduction of Mobile Money Transfer Services in Banks.

Following the emergence of mobile money transfers in Kenya commercial banks found themselves responding to this new technological phenomenon that seems to be creeping into the banking industry. Despite the fact that majority of banks did not consider the service a threat to the industry, It was clear to the researcher that banks had responded by either collaborating or through agency relations hence it was important to establish what factors influenced the banks to respond to the introduction of mobile money transfer, this the researcher did by the help of the questionnaires distributed to the respondents and the factors were given as indicated in the figure and table below.

Figure4.5: Factors influencing introduction of the mobile money transfer services in banks.



Source : Research Data (2011)

Figure 4.5 Shows the factors influencing the introduction of mobile money transfer services. As shown 43% of the banks that have responded to mobile money transfer services they indicated that market diversification as the main reason followed by response to the market and competitorsy their market (43%). 29% of the banks adopted the mobile money services so as torespond to market and competitors.

It was further noted that banks just like other organisation have had to adopt to changes such changes included introduction on new modes of money transfers such was the case with mobile money transfer which the banks have adopted. Reasons behind the introduction of mobile money transfers in banks ranged from response to customer demands.to allow for extensive network coverage, enhansing and maintaining market share and profitability and even affordable adoption and sustenance costs. The respondents were required to provided some of the reasons as to why banks adopted mobile transfer services by giving a No or Yes answer as shown in Table 4.3

Table 4.3: Reasons for introducing mobile money transfer services

	Yes	No
Customer demands	57%	43%
Affordable adoption and sustenance costs	29%	71%
Extensive network coverage	43%	57%
To enhance and maintain market share and profitability	43%	57%

Source : Research Data (2011)

Table 4.3 shows the reasons which promted banks to adopt mobile money transfers. From the findings, majority of the banks (57%) adopted mobile money transfers due to the customer demands, 43% adopted mobile money transfers to acquire extensive network coverage and to enhance and maintain market share/profitability (43%). This indicates that the introduction of mobile money transfer service is more of a response to the market in attempts to remain relevant and as they compete with their competitors.

4.5 Discussions

Organizations respond to the environment in different ways. In his analysis of organizational response to the environment, Ansoff introduce's the Ansoff matrix where he categorises organization responses into four aspects namely market penetration. market development. product development and finally market diversification. Market penetration strategy is very much "business as usual" a business focuses on products and markets that it knows well. Once the market approaches saturation another strategy must be pursued if the firm is to continue to grow. Market development is a growth strategy where the business seeks to sell its existing products into new markets. Developing new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. In product development strategy the business aims to introduce new products into existing markets. A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself and finally Market diversification strategy where a business introduces new products to new markets. It is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm.i.e. the business moves into markets in which it has little or no experience. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return.

The study indicates that banks like other organization respond to the environment in different ways for different reasons and has emerged that most banks responded to the introduction of mobile money transfer as a market diversification strategy as well as response to the market and their competitors which are all in line with the Ansoff's matrix as banks are seeking to remain relevant and also ensure profitability and they have combined more than one of the strategies as their reasons cut across all the four strategies discussed in the Ansoff matrix.

According to Otunya (2006) in his research a survey of consumer adoption of mobile phone banking in Kenya revealed that intention influences behavior and thus adoption of a given service or product. In his study he found out that most users of the service were young and educated. Otieno (2006) studied an investigation into internet banking technology adoption among commercial banks in Kenya, Mugweru (2008) studied strategic responses of Barclays Bank of Kenya Ltd to challenges in the external environment and Rumba (2008) studied strategic responses by mobile phone companies in Kenya to environmental changes.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study was motivated by the need to explore the ways in which the commercial banks in Kenya have responded towards the introduction of the mobile money transfer services. The study also sought to establish the factors which prompted banks to adopt the mobile money transfer services in banks in Kenya. This chapter provides the discussion, conclusions and recommendation of the study.

5.2 Summary

The findings of this study indicated that previously banks used internal funds transfer, Electronic Funds Transfers (EFT`s) and Real Time Gross Settlement (RTGS) as modes of money transfer in relation to other modes of money transfers such as western union and money gram which were more common to individuals who had international relations thus very few of the banks offered the same. Mobile money transfer gained prominence in Kenya and as such financial institutions found themselves compete with non-financial institutions to serve the untapped niche. Despite the fact that it was clear banks did not consider this service a threat banks found themselves respond to this phenomenon, though only less than half the population of the banks in the study had responded. Some of the banks that had not responded to the introduction of mobile money transfer service sited that the introduction of the same was in the pipeline, however for the banks that had introduced the service the study showed that they offered the service to both account and non account holders unlike in the past where funds transfers were highly restricted to account holders only as great emphasize on know your customer was highly and is still emphasized and also this could possibly be because of the stiff competition among the banks in Kenya and non-financial institutions as banks now found themselves competing with non-financial institutions for what was once considered the preserve of banks alone.

The study also noted that Safaricom's M-PESA service was highly preferred by most banks that had introduced the service in comparison to other services which was due to the extensive coverage of Safaricom and the need for the banks to penetrate to the remote and untapped zones and also to reduce on costs as M-PESA was already famous thus reducing on promotional and marketing costs.

The study also noted that the service had been introduced for more than one year and the reception to the same was good. This implied that banks acknowledged the role played by mobile money transfer services and the need to be flexible enough to adopt to the needs of their customers as they sought to remain relevant as they compete to retain and even enhance their market share.

According to the findings, most of the banks adopted the mobile money transfer services to diversify their products (43%). Others adapted to the mobile transfer service to respond to the market and competitors (29%). The study also got information on the impact of the introduction of the mobile money services in banks it was noted that despite the product's fame its effect on other money transfer services was minimal as its financial effect was minimal in comparison to transaction such as Real Time Gross Settlement (RTGS) which though few transactions were made the financial implication was huge and great. The findings showed that they reduced the influx of customers in the most of the banks (67%) this can be explained by the fact that most customers preferred to use the fast, convenient, easily accessible and easy to use or less bulky mode of funds transfer unlike in the banks where one had to hold an account in the given bank, queue for hours just to be able to transfer funds. However, despite this convenience people still preferred the bank because of the safety associated with them, the nature of transaction that only the bank could cater to and the fact that banks had larger floats to transact with. In addition to this some respondents cited that they were those services that can only be offered by banks as banks do not impose restrictions on the amounts which one can transact, while others sited cited that mobile money transfer services favour individuals rather than corporate.

According to the findings of this study, the introduction of the mobile money services was received differently by different banks. From the findings, majority of the banks (70%) embraced and collaborated with the efforts to introduce the services in their banks. The study however, noted a small percentage of the banks which never embraced but avoided or have not yet embraced the new technological invention in their banks yet though some noted that introduction of the service was in progress.

The study findings, shows that most of the banks responded to the mobile money transfer services for various reasons such as so as to develop their products, market diversification, penetrate the market and even develop the banking market (60%).this was noted through collaboration and agency relations so as to develop products or services that provide ease of operation to their customers rather than compete amongst themselves.

5.3 Conclusion

The study noted that 57% of the banks have not adopted the mobile money transfer services. Despite less than half the banks in the study adopting to the mobile money transfer it is clear for the researcher that banks cannot afford to ignore the new innovation as The study therefore concludes that mobile money services have not been adopted by many banks in Kenya. The most common mobile money service is M-PESA used by 90% of the banks. The services are offered to all people regardless of whether they have account with the banks or not.

The study noted that most of the banks adopted mobile money services as a response to satisfy their customer demands, acquire an extensive network coverage and maintain their market share and profitability. Safaricom's M-PESA remained the most popular service provider among the banks in comparison to other service providers; banks do not consider the service a threat to the banking industry despite them adopting it as one of their funds transfer services through either collaboration or agency relation.

The study concludes that banks were prompted to adopt the mobile money services to diversify the market and to respond to the market and competitors. This was received differently by most of the banks. More importantly to note is that most banks embraced and collaborated so as to adopt the mobile money services. This was due different reasons such as developing their products, diversifying the market, so as to penetrate into the stiff market and also develop the banking market in general.

5.4 Recommendations

The study found that most of the banks have not adopted the mobile money services in their banks with some looking into the introduction of the service soon. It is therefore recommended that banks management move with speed to initiate this very promising advancement in the banking sector.

The findings of this study indicate that most of the banks rely majorly on one mobile money service (M-PESA). It is therefore recommended that the banks diversify their services to include other services such as Yu-cash. ZAP and Orange to diversify their customer base. The ministry of communication could also try to identify why M-PESA service is more popular in comparison to the other service providers.

The study recommends also that management of banks take steps so initiate technological advancements in line with vision 2030.

Some of the customers could be unaware that mobile money transfer services are being offered by the banks. The study recommends the members of the public to be sensitized on the same.

5.5 Limitation of the Study

The scope of the study extended and included the banking industry it was quiet on other financial institutions and micro finances.

Another limitation was the time allowed for the study which was limited hence limiting the scope of the study. Due to the time constraints the researcher was unable to extend the scope of the study to other institutions.

5.6 Suggestions of Further Studies

Further research should be conducted to determine why Safaricom's M-PESA service has gained more preference over and above other service providers in both financial and non-financial institutions. as well as the communication industry.

It is also important that other studies be carried out on adoption of the mobile money transfer services in respect to other financial institutions as well as micro-finance institutions.

REFERENCES

Ansoff, H.I. (1984). *Strategic Management.* London. The Mc millan press ltd

Ansoff, H.I. and Mc Donnell,E (1990). *Implanting Strategic Management.* Prentice Hall, 2nd Edition

CBK, (2008). *Commercial Banks and Mortgage Finance Institutions* 15th July 2011.

Retrieved from

http://www.centralbank.go.ke/financialsystem/banks/Register.aspx.

GSMA. (2011) *Mobile Money Transfer*

Retrieved from http://www.gsmworld.com

Hofer,, C. H. and Schendel, D.E. (1978). *Strategy Formulation: Analytical Concepts.* West: St Paul, MN, USA

Jack, W. and Suri, T.(2010). The Economics of M-PESA

Retrieved from. http://www.mit.edu/-tuvneet/M-PESA.pdf

Johns, T.D. and Harding, A.H. (1989). *Operations Management: A personal skills Handbook.* Gower Technical. England

Johnson, G. and Scholes, K (1967). *Organisations in Action.* Mc Graw Hill, New York

Mghendi, T. (2010). *New Kenya Transfer Service Launched* Accessed 8th Aug.t 2011.

Retrieved from http://www.tielict.com/blog/wp-content

Muse, N. (2006). "*Responses to environmental challenges by Agricultural Finance Corporation of Kenya (AFC).*" Unpublished MBA Project. School of Business University of Nairobi.

Mutugi, S.M. (2006). "*Responses of Microfinance Institutions in Kenya to the Turbulent Business Environment.*" Unpublished MBA Project. School of Business University of Nairobi.

Njoroge, M. (2006). "*Responses by AAR Credit Services LTD to Changes in the Environment.*" Unpublished MBA Project, School of Business, University of Nairobi.

Otieno, M. (2006). "*An Investigation into Internet Banking Technology Adoption among Commercial Banks in Kenya.*" Unpublished MBA Project, School of Business, University of Nairobi.

Pearce II, J.A and Robinson Jr, R.B. (1991). *Strategic Management Formulation, Implementation and Control.* 4th Edition, Homewood, IL . Irwin.

Porter, M.E. (1996). *What is strategy? Havard Business Review* 74(6), 61-78

Quinn, J B. (1980). *Strategies for Change: Logical Incrementation.* Homewood. IL. Irwin.

Ratemo J. (2011) *Kenya unveils new Mobile Money Transfer Service.*

Retrieved from http://mobilemoneyafrica.com

Rumba, C. K. (2008). "*Strategic Responses by Mobile Phone Companies in Kenya to Environmental Changes.*" Unpublished MBA Project, School of Business, University of Nairobi.

Saunders, M., Lewis, P. and Thornhill, A. (2007). *Research Methods for Business Students*. 4th Edition, Prentice Hall FT.

Thompson, J, and Strickland ,A. (1993). *Strategic Management Concepts and Cases*. Irwin. 7th Edition.

APPENDICES

Appendix 1: QUESTIONNAIRE

INVESTIGATING THE RESPONSE OF COMMERCIAL BANKS TO THE INTRODUCTION OF MOBILE MONEY TRANSFERS IN KENYA

Thank you for taking the time to complete this questionnaire.

Please ensure that you complete all questions by ticking all that apply.

Completion of this questionnaire is voluntary and all responses will remain confidential.

Section A: Demographics and mobile banking details.

1. Name of the bank (optional)..

2. Year of Establishment.....................................

3. How can you describe the ownership of your bank........................

   a) Public ( )

   b) Private ( )

   c) Government ( )

   d) Foreign ( )

   e) Others specify.......................

4. How can you describe the management of your bank.................

   a) Foreign ( ) b) Indigenous ( )

5. How frequent are the following money transfer services used in your bank

	Rarely used	Fairly used	Mostly used
Real Time Gross Settlement (RTGS)			
Electronic Funds Transfer (EFT)/ Swifts			
Internal funds transfer			
Standing Orders			
Western Union			
Money gram			
Others (specify)……………………………….			

6. Who is eligible to receive these services?

a) Account holders only ( )

b) Both account holders and non-account holders ( )

Please tick where appropriate

Position Top manager ( ) Middle –level manager ( )

Period in this position< 1 ( ) 1-3 ( ) >3( )

Gender Female ( ) Male ( )

Age 25-30 ( ) 31-35 ( ) 36-40 ( ) Over 40 years ( )

Section B. Response to mobile money transfers

7. Does your bank offer any mobile money transfer services?

a) Yes

b) No

If no explain…………………………………………………….

8. If yes which service

a) M-PESA

b) Airtel Money

c) Orange Money

d)Yu- cash

e) Others (specify)..

9. Who is eligible to receive this service?

a) Account holders only ( )

b) Both account holders and non-account holders ( )

10. Why did your bank opt for the particular mobile transfer service?

a) Customer demands

b) Affordable adoption and sustainance costs

c) Extensive network coverage

d) To enhance and maintain market share and profitability

11. How long has the mobile money transfer service been offered by your bank

a) one year

b) two years

c) More than one year

d) Less than one year

12. How has the response been towards the introduction of the mobile service in your bank?

a) Poor b) fair c) good d) very good

13. Using a scale of 1-7 with 1 being least affected and 7 being highly affected. How has the introduction of the mobile money transfer service affected the following money transfer services in the bank?

Least → most

	1	2	3	4	5	6	7
Real Time Gross Settlement (RTGS)							
Electronic Funds Transfer (EFT)/ Swifts							
Internal funds transfer							
Standing Orders							
Western Union							
Moneygram							
Others (specify)...................................							

14. What prompted introduction of the mobile money transfer service in your bank

a) Customer requests

b) Response to the market and competitors

c) Product development

d) Market diversification

e) Others specify......................................

15. Has the introduction of the mobile transfer service resulted in an influx of customers in the bank...................................

a) Yes

b) No

Explain...
....
....
....
....

16. What services do the customers in your bank most frequently visit the branches to receive?

a) Mobile money transfer service

b) Normal bank services

c) Both Mobile money transfer and banking services

17. Would you consider mobile money transfer service as a threat to the banking industry?

a) Yes

b) No

Explain...
....
....
....
....
....

18. How has your bank responded to the introduction of mobile money transfers?

a) Collaboration

b) Agency relation

c) Avoidance

d) Others specify.......................................

19. What prompted your bank to adopt to the given response?

a) Product development

b) Market diversification

c) Market penetration

d) Market development

e) All of the above

Appendix 2: List of commercial banks in Kenya

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Charterhouse Bank Ltd -under statutoi
8. Chase Bank (K) Ltd.
9. Citibank N.A Kenya
10. Commercial Bank of Africa Ltd.
11. City finance Bank
12. Consolidated Bank of Kenya Ltd.
13. Co-operative Bank of Kenya Ltd.
14. Credit Bank Ltd.
15. Development Bank of Kenya Ltd.
16. Diamond Trust Bank (K) Ltd.
17. Dubai Bank Kenya Ltd.
18. Ecobank Kenya Ltd
19. Equatorial Commercial Bank Ltd.
20. Equity Bank Ltd.
21. Family Bank Ltd
22. Fidelity Commercial Bank Ltd
23. Fina Bank Ltd
24. First community Bank Limited
25. Giro Commercial Bank
26. Guardian Bank
27. Gulf African Bank Limited
28. Habib Bank A.G Zurich
29. Habib Bank Ltd.
30. Imperial Bank Ltd
31. I & M Bank Ltd
32. Jamii Bora Bank Ltd.
33. Kenya Commercial Bank Ltd
34. K-Rep Bank Ltd
35. Middle East Bank (K) Ltd
36. National Bank of Kenya Ltd
37. NIC Bank Ltd
38. Oriental Commercial Bank Ltd
39. Paramount Universal Bank Ltd
40. Prime Bank Ltd
41. Standard Chartered Bank (K) Ltd
42. Trans-National Bank Ltd
43. Victoria Commercial Bank Ltd
44. UBA Kenya Bank Ltd.

Mortgage Financial Institutions

45. Housing Finance Ltd Ltd.

Source: http://www.centralbank.go.ke/financialsystem/banks/Register.aspx

Appendix 3: Introduction Letter from the University

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE...

TO WHOM IT MAY CONCERN

The bearer of this letter ....HELLEN N KARU..............................

Registration No: ....D61/71249/2008.............................

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.

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI