STRATEGIES USED BY EQUITY BANK (KENYA) LIMITED TO ENHANCE MOBILE BANKING SERVICES FOR THE MICRO, SMALL AND MEDIUM ENTERPRISES IN KENYA

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

Signature ………………..…………….. Date: …………………………..….

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

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DEDICATION

This paper is dedicated to my dear parents the Late Henry Gitobu Nchebere and Elly Kajuju Gitobu for their unwavering sacrifice and support in every stage of my life, and to my entire family, relatives and friends for their moral support.

ABSTRACT

Kenya's mobile money transfer pioneered by Safaricom's Mpesa platform has been widely taunted as revolutionary because of opening up financial services to the masses, mostly to the unbanked population. Most commercial banks have been quick to adopt the spin-off from this innovative mobile money wallet platform through adoption of mobile banking. It has now became apparent that in the coming years banking will move from the more conventional brick and mortar to the more interactive platforms of which mobile banking will be the foremost.

This state of affairs compelled the researcher to conduct this study on the strategies used by Equity Bank (Kenya) Ltd to enhance mobile banking services for the Micro, Small and Medium Enterprises (MSMEs) who make up a key constituent of Kenya's economy. The data was collected from senior bank managers within Equity Bank (Kenya) Ltd. The researcher used an interview guide to collect data from respondents. The interview guide had different questions majorly covering the factors that have enhanced and inhibited mobile banking services to MSMEs. The study observes that mobile banking offers a lucrative opportunity for financial institutions and its potential is yet to be fully exploited.

There are a number of factors that that either hinder or propel use of mobile banking by MSMEs, bearing in mind that the operating environment is also not static but evolving. The design of effective strategies should therefore ride on competencies inherent within an organization in addition to taking advantage environmental factors that also favour it while at the same time curtailing threats posed by competition. The study therefore concludes that financial institutions should therefore come up with mobile banking strategies, products and solutions geared towards MSMEs whose needs are seen to vary from other customer segments. Such strategies will offer a competitive edge to banks in an industry dominated by mobile Telcos.

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ABBREVIATIONS AND ACRONYMS

ATM **:** Automated Teller Machine

EAC : East African Community

GDP **:** Gross Domestic Product

ICT **:** Information Communication Technology

KNBS **:** Kenya National Bureau of Statistics

KSH **:** Kenya Shillings

M-Banking : Mobile Banking

MNO **:** Mobile Network Operator

MSMEs **:** Micro & Small Enterprises

MVNO **:** Mobile Virtual Network Operator

NFC **:** Near Field Communication

POS **:** Point of Sale

SIM **:** Subscriber Identification Module

SMEs **:** Small Medium Enterprises

SMS : Short Message System

TELCOS **:** Telecommunication Companies

USD **:** United States Dollar

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Strategy for an organization forms its comprehensive master plan that states how the organization will achieve its mission and objectives, it maximizes an organization's competitive advantage and minimizes it's competitive disadvantage (Wheeler and Hunger, 2008) Kenyans far exceed their counterparts in their use of mobile money transfer services, 60.3 percent of all Kenyans send or receive mobile money compared to Tanzania's 14.1 percent, Nigeria's 0.5 percent and South Africa's 3.2 percent usage (World Bank, 2012) Lee and Benbasat describes mobile banking as a kind of electronic banking that applies Short Message System (SMS) and Wireless Application Protocol (WAP) services to facilitate customers in making online transaction (as cited in Keli, 2012, p.1) Kenya's banking sector has seen rapid penetration among the population and financial deepening has been a notable success for the sector. Kenyan banks were the first to introduce mobile money transfer services and its financial sector is the most developed in the East African Community (Moody, 2014). Demombynes and Thegeya (2012) observe that banks in Kenya have entered into structured agreements with various mobile service providers which are not exclusive, hence allowing them to engage multiple mobile service providers with the ultimate goal of providing universal delivery channel if form of mobile money access to their diverse client account bases.

Equity Bank (Kenya) Ltd is among Kenya's leading bank with a bias towards lending to the microfinance sector. Among the many awards the bank has been feted over the years, it won the best overall bank 2015 second year in a row, by Think Business Kenya – Banking awards. The award was in recognition of best practice in the banking industry based on a number of parameters key among them being customer service, reach and innovation. The bank also won a continental by Africa Investor in 2012 for best initiative in support of Small & Medium Enterprises and the millennium development goals, this award was in recognition of the bank's exceptional business practices, economic achievements & investments that support the millennium development goals. In all the many awards the company has been feted, it is evident that the organization is noted for coming up with innovative solutions to address their customer needs by leveraging on its resources both material, human, organizational and locational thereby creating unique value creating strategies that have endeared the organization to various stakeholders.

A more notable development by the bank as it sets to strengthen its position in the mobile banking sphere involves the granting of Mobile Virtual Network Operator (MVNO) license to by the Communications Authority of Kenya. There is no commonly agreed definition of what constitutes a Mobile Virtual Network Operator. Regulatory bodies around the world have come to adopt various definitions and different forms of regulatory interventions depending on the extent to which MVNO relies on the facilities of the Mobile Network Operator (MNO). Generally MVNOs are companies that do not own a licensed communication band, but resell wireless services under their own brand name using the network of another mobile network operator (Malaysian Communication and Multimedia Commission, 2008).

1.1.1 Concept of Strategy

Strategy is an action an organization takes to attain one or more its objectives, for most organizations the overriding goal is to achieve superior performance (Hill and Jones, 2001) Strategy represents a firm's game plan; it reflects a company's awareness of how to compete, against whom, when, where and for what (Pearce II and Robinson Jnr, 2002) According to McCarthy, Minichiello and Curran (1996) most organizations have several options for accomplishing their objectives and mission. Strategy involves the determination and evaluation of the alternative paths to achieve an organization's objective, and eventually a choice of the alternative that is to be adopted.

Successful strategies are pegged on: clear goals, understanding the competitive environment, resource appraisal and effective implementation (Grant, 1998). Wheeler and Hunger (2008) make reference to an organization having three types of strategy: corporate strategy which describes an organization's overall direction in regards to growth and management of its various business or product lines; business strategy which emphasizes improvement of the competitive position of an organization's products or services; functional strategy which is an approach taken by a functional area to achieve corporate and business unit objectives by maximizing resource productivity.

1.1.2 Mobile Banking

Laukkanen and Pasanen describe the terms M-Banking, M-Payments, M-Transfers and M-Finance collectively as a set of applications that enable people to use their mobile phones to manipulate their bank accounts, store value in an account linked to their handsets, transfer funds, or even access credit or insurance products (as cited in Keli, 2012, p.3). Klein and Mayer (2011) note that mobile banking is basically the use of mobile phones to make financial transactions, and that mobile money and branchless banking schemes are sprouting across the world.

Klein and Mayer (2011) further observe that the significance of mobile banking is three fold: it provides financial services in otherwise unbanked locations; it raises significant regulatory and competition policy issues by unbundling and disaggregating financial services; and it gives fundamental conceptual insights into the nature of these services.

Mobile banking has the potential to be transformational because: It uses existing mobile communications infrastructure which already reaches unbanked people; It may be driven by new players such as Telcos (Telecommunication Companies), with different target markets from traditional banks; It may harness the power of new distribution networks for cash transactions, such as airtime merchants, beyond the conventional merchant POS or ATM networks of banks; and it may be cheaper than conventional banking, if the offering is competitive (Porteous, 2006). Comninos, Esselaar, Ndwila and Stork (2008) explain that to be transformational M-Banking (Mobile Banking) must progress towards bringing more informal businesses and the poor into the formal economy, transacting on a mobile platform is seen to generate transaction history that acts as a basis to evaluate credit worthiness, further harnessing entrepreneurial potential of Africa's informal sector.

1.1.3 Micro, Small and Medium Enterprises in Kenya

Malhotra, Chen, Criscuolo, Fan, Hamel and Savchenko (2007) define Micro, Small and Medium Enterprises (MSME) as independent businesses that are managed mainly by their owners and have limited access to finance from formal financial markets, Small and Medium Enterprises are likely to be registered entities while Microenterprises are typically informal and having fewer than ten employees.

Table 1.1: World Bank Group Definitions of Types of Enterprises[1]

Type of Enterprise	Number of employees	Extent of total assets	Annual turnover
Micro enterprise	1-10	Less than USD100,000	Less than USD100,000
Small enterprise	11-50	Between USD100,000 and USD3 million	Between USD100,000 and USD3 million
Medium enterprise	51-300	Between USD3 million and USD15 million	Between USD3 million and USD15 million

Source: World Bank Group data (2012)

1.1.4 Factors Influencing use of mobile banking

Odera (2013) observes that most customers sign up for mobile banking because of the convenience it offers, and they rely on their knowledge of the services. In as much as Kenya is an emerging economy where cost is considered as an important factor in provision of goods and services, in mobile banking adoption cost is not an important factor neither is it a hindrance, meaning that if the service is reasonably affordable; customers are willing to pay for the convenience it offers. Njenga (N.D) states that in Kenya most individuals acknowledge the importance of the mobile based banking service in a myriad of their daily activities, usage patterns appear to be largely driven by personal missions and marketing strategies of service providers.

[1] Two of the three characteristics must be met for an enterprise to be classified in a particular category.

Njenga (N.D) further observes that depending on the nature of activities and requisite levels of expediency users will employ M-banking in variable ways, in addition there is a dimension of use attributable to the “hype factor” certain users have boarded the usage train out of the excitement and image believed to originate from the M-banking utilization atmosphere.

1.1.5 Equity Bank (Kenya) Ltd

Kenya’s banking sector comprises of 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 101 foreign exchange bureaus, 1 money remittance provider and 2 credit reference bureaus (Kenya National Bureau of Statistics, 2014). Moody (2014) observes that large Kenyan banks are best positioned to benefit from growth opportunities, given their dominant, cross-border networks and advanced mobile technology capabilities. Equity Bank (Kenya) Limited is incorporated, registered under the Kenya Companies Act Cap 486 and domiciled in Kenya. The Bank is licensed under the Kenya Banking Act Chapter 488 and offers retail banking, microfinance and related services. The bank has subsidiaries in Kenya, Uganda, Rwanda, South Sudan and Tanzania. Its shares are listed on the Nairobi Stock Exchange and Uganda Securities Exchange. Kenya’s banking sector is expected to maintain its growth momentum on the backdrop of a stable macro-economic environment, domestic and regional expansion, increased use of ICT and the increased economic activities through the devolved system of government (KNBS, 2014).

1.2 Research Problem

Moody (2014) hypothesizes that the banking systems of the EAC are expected to continue growing strongly over the next two years, banking expansion will be driven by: robust GDP growth; the ongoing integration of the region which will create new business opportunities for banks; and the so called “mobile money revolution” where customers carry out their banking activities via mobile phones. Various scholars have analyzed the impact of mobile banking internationally Comninos et al (2008) looked at M-banking the unbanked, towards evidence based ICT policy and regulation he noted that M-Banking is forcing the convergence of the financial and telecommunications sectors, policy-makers need to lay the ground rules for innovation, encouraging the development of industry standards for M-Banking security based upon access principles and changing regulatory systems to allow mobile operators to became banks, or banks to operate as Mobile Virtual Network Operators. This study focused on entire African continent however mobile banking usage dynamics differ among countries.

Locally various studies have been conducted on mobile banking. Kimondo (2012) studied the influence of mobile money wallets on banking services among commercial banks in Kenya where she observed that mobile wallets affected banks services, efficiency and effectiveness, therefore commercial banks should incorporate the mobile money wallets for their customers to use in the transferring of funds between their mobile phones accounts and their respective bank accounts for easy accessibility and convenience. Amwayi (2013) analyzed benefits from strategic partnerships in mobile banking services in Kenya, her study noted that mobile telephone firms and banks enjoy a lot of benefits from strategic partnerships and that these partnerships have been found to be useful to customers who utilize M-Banking platform. Odera (2013) studied mobile banking adoption in the banking industry where she observed that most customers sign up for M-Banking because of the convenience it offers, M-Banking adoption cost is not an important factor neither is it a hindrance meaning that if the service is reasonably priced customers will be willing to pay due to the convenience it offers.

To the best knowledge of this researcher no study has been specifically done on strategies used to enhance mobile banking usage to MSMEs by commercial banks, most of the studies tend to group Micro, Small and Medium enterprises (MSMEs) together with other classes of mobile banking users though their needs are perceived or known to be different. Micro, Small and Medium enterprises have been identified as among drivers of economic growth by the Kenyan government, this perspective has also been picked up by Kenya's banking industry through fashioning financial products targeted to them. On the other hand Safaricom which is currently the leading mobile money wallet service provider in Kenya has recently introduced 'lipa na Mpesa' with the intention of encouraging business owners to transact with their customers through the mobile money platform.

An observation of the local studies conducted reveal that no research has been done to establish the strategies in use by commercial banks to enhance M-Banking services for the Micro, Small & Medium Enterprises (MSMEs) whose financial needs are perceived to be different from regular customers, and the factors that have enhanced and/or inhibited use of M-Banking by MSMEs. This study therefore seeks to address this gap by focusing on strategies used by Equity Bank (Kenya) Ltd in enhancing M-Banking services for the MSMEs by addressing the following research questions: What are the factors that hinder or enhance use of mobile banking by MSMEs in EBL? What are the strategies in use by EBL in enhancing mobile banking to its MSMEs?

1.3 Research Objectives

The study focussed on the following objectives:

(a) To establish the strategies in use by Equity Bank (K) Limited in enhancing mobile banking services to MSMEs.

(b) To establish the factors that have enhanced and/or inhibited use of mobile banking facility by MSMEs in Equity Bank (K) Limited

1.4 Value of the study

The findings of this study will be vital to current and future scholars who may need to undertake research on strategies used to enhance mobile banking usage to MSMEs in Kenya. This will help them build on their knowledge and also identify areas of further research.

The study will also provide the managers of Equity Bank (Kenya) Limited and any other commercial bank, an avenue of assessment of strategies that they can use to enhance mobile banking usage to MSMEs within their institutions.

The study will also enlighten government regulators and policy makers in their drive towards digitizing mode of payment for both the formal and informal sectors of the economy which span Micro, Small and Medium enterprise sector.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This section presents a review of literature on strategies used by Equity Bank (Kenya) Ltd to deepen its mobile banking services to MSMEs. The review has been carried out across the following topics: theoretical foundation of strategy and business strategy in organizations.

2.1 Theoretical foundation

There are a number of theories that have been advanced in an effort to explain various strategies adopted by organisations, the study was based on the following theories.

2.1.1 Dynamic capability theory

Eisenhardt and Martin define dynamic capabilities as the process to integrate, reconfigure, gain and release resources to match and even create market change, and the organizational and strategic routines by which firms achieve new resources and configurations as markets emerge, collide, split, evolve and die (as cited in Wang & Ahmed, 2007, p.6) According to Zott (2000) there is an emerging consensus in strategic management that underpins dynamic capabilities as: embedded in an organizational process; captured by a firm's routine; and directed toward effecting change. Long term competitive advantage lies in the functional competencies that firms build and reshape using dynamic capabilities and not in the capabilities themselves, dynamic capabilities are therefore the tools by which functional competencies can be configured and manipulated by managers so as to form new and innovative forms of competitive advantage (Protogerou, Caloghirou & Lioukas, 2007).

Dynamic capabilities encompass three clusters of activities and adjustments: identification and assessment of an opportunity (sensing); mobilization of resources to address an opportunity and to capture value from doing so (seizing); and continued renewal (transforming), some firms will be stronger than others in performing some or all of these tasks (Kimotho, 2013). Ambrosini, V., Bowman, C. & Collier, N. (2009) suggest that there are three levels of dynamic capabilities which are related to managers perception of dynamism: incremental dynamic capabilities concerned with continuous improvement of the firm resource base; renewing dynamic capabilities concerned with refreshing, adapting and augmenting the resource base; regenerative dynamic capabilities which change the way the firm changes its resource base.

Bearing in mind the evolution of Kenya’s banking industry it is good to take cognizance of the views of Kor, Michael & Mahoney (2007) that development of dynamic capabilities, in particular, managerial capabilities, organizational learning, and strategic flexibility, is crucial to survival and prosperity of firms that transition from regulated to deregulated environments. Kor et al., (2007) further state that the processes underlying dynamic capabilities define and fuel a firm’s long-term growth trajectory as a continuum of initiatives for leveraging and stretching a firm’s resource bundle, thus dynamic capabilities and a firm’s long-term learning and growth trajectory are inextricably intertwined. Dynamic capability can therefore be appreciated as an approach that lays emphasis on the organization’s ability to renew its resources in line with the changes in its environment, the key focus being how an organization’s changing array of activities and capabilities adjust with the changing external environment.

2.1.2 Resource Based Theory

Barney defines resource based theory as attributes advantage in an industry to a firm's control over bundles of unique material, human, organization and locational resources and skills that enable unique value creating strategies (as cited in Priem & Butler, 2001, p 24). Ferriera, Azevedo & Fernandez (2011) draw a distinction between resources and capabilities: resources are inputs into the production process, they include items of capital equipment, intellectual assets, patents, brand names and so on; capability is the capacity for a team of resources to perform some task or activity, resources are therefore the source of the firm's capabilities which form its competitive advantage. Kozlenkova, Samaha & Palmatier (2013) define resources as tangible and intangible assets that firms use to conceive of and implement its strategies, capabilities on the other hand are subsets of the firm's resources which represent an organizationally embedded non-transferrable firm specific resource, whose purpose is to improve the productivity of the other resources possessed by the firm.

Nemati, Bhatti, Masqal, Mansoor & Naveed (2010) state that internal resources are directly under the control of a firm hence the organization can influence them, while external resources which may include the production process, external links of the organization and organizational behavior are not under the direct influence of the firm. Wade & Hulland (2004) contend that resources are valuable and rare, whose benefit can be appropriated by the owning firm providing it with a temporary competitive advantage that can be sustained over the long run provided that the firm is able to protect against resource imitation, transfer or substitution.

The abilities of an organization enable capabilities to be performed along the organization's vision or strategy, capabilities enable resources to begin to be utilized and the potential for creation of output arises, corporate strategy is therefore the function of a firm to obtain entrepreneurial rent by exploiting the factor markets disequilibrium that is to maximize the difference between 'before' values of input and 'after' values of outputs in a dynamic world (Akio, 2005).

2.1.3 Game Theory

Turocy and Stengel (2001) define game theory as the study of conflict and cooperation and applies whenever the action of several agents are interdependent, the agents may be individuals, groups, firms, the theory therefore provides a language to formulate, structure, analyze and understand strategic scenarios. Shubik (1972) defines game theory as a body of theory providing formal language to describe conscious, goal oriented, decision making processes involving one or more players, the solutions derived from game theory may be thought of as normative or descriptive views of multi person decision making. In today's world many business decisions involve interdependent outcomes and therefore seem to lend themselves to game theory, whose modeling is appropriate when studying actions between agents with differing goals, which is typical of many strategic management decisions (Ogot, 2011).

Game theory as applied to industrial organizations has two basic tenets that are of interest: commitment games which involve investment in specific assets and excess capacity, research and development with or without spillovers; horizontal merger and financial structure, reputation games which describe relationship within the firm and collection of employee beliefs essentially defined as culture (Rumelt, Schendel, & Teece, 1991) Game theory is based on the assumption of rationality which essentially means that players know all their possible strategies and are able to determine strategy consequences, ranking them in order of preference, they also know all these items about their opponents and other players in the game (Muzikova, N.D). Moorthy argues that game theory cannot be used as a technique that provides precise solutions to strategic management problems for the reason that the theory does not have a single solution to provide, moreover for many real world problems capturing the reality of the situation may entail hundreds of strategies for each player and computing an equilibrium of such a game might not be easy. (As cited in Ogot, 2011, p7).

2.2 Business Strategy

Grant (1998) explains that the 'design school' of strategy views strategic decision making as a logical process in which strategy is formulated through rational analysis of the firm, its performance and the external environment. Strategy is then communicated to the organization and implemented down through successive organizational layers. Grant (1998) further explains that the 'process school' of strategy focuses on the realities of how strategies emerge, the central theme being the process through which strategic decisions is made in practice. The 'design school' therefore aims at uncovering the factors that determine success to permit managers to develop performance enhancing strategies. Porter contends that the success of a strategy depends on doing many things well, not just a few, and integrating them, if there is no fit among activities, there is no distinctive strategy and little sustainability (as cited in Ogot, 2011., p. 1).

Wernerfelt & Karnani (1987) observe that strategy is concerned with the future, the strategic context of a firm is always uncertain, although the degree and the sources of uncertainty may be different for different firms, facing this uncertainty of the future the first decision to be made is when to act. Competitive strategy under uncertainty therefore involves among other things a tradeoff between acting early and waiting, and another tradeoff between focus and flexibility. According to Mintzberg & Waters (1985) the fundamental difference between deliberate and emergent strategy is that whereas deliberate strategies focus on direction and control that is getting desired things done, emergent strategies opens up the notion of strategic learning, therefore defining strategy as intended or deliberate precludes the aspect of strategic learning as once intentions have been set, focus shifts to realizing them and not adapting them. Mintzberg & Waters (1985) further state that emergent strategy implies learning what works meaning taking one action at a time in search for that viable pattern or consistency, it can also be looked at as the means by which deliberate strategies change, unrealized strategies are also a source of learning as managers find out which of their intentions did not work, rejected either by their organizations themselves or else by environments that are not submissive.

According to Porter a firm develops its business strategies in order to obtain competitive advantage over its competitors, it does so by responding to five primary forces: the threat of new entrants, rivalry among existing firms within an industry, the threat of new substitute products/services, the bargaining power of suppliers, and the bargaining power of buyers, a company therefore assesses these five forces in a given industry and then tries to develop the market at those points where the forces are weak (as cited in Shin, 2001. p.165).Porter (1979) also points out that it is the collective strength of these forces that determine the ultimate profit potential of an industry, moreover based on these forces an organization can derive a plan of action that may include: positioning the company so that its capabilities provide the best defense against the competitive force; and/or influencing the balance of the forces through strategic moves thereby improving the company's position; and/or anticipating shifts in the factors underlying the forces and responding to them with the hope of exploiting change by choosing a strategy appropriate for the new competitive balance before opponents recognize it.

Tanwar (2013) further notes that competitive strategies involve taking offensive or defensive actions to create a defendable position in the industry, generic strategies which include overall cost leadership, differentiation and focus can help an organization cope with the five competitive forces in an industry, however firms normally pursue only one of the above generic strategies, others make an effort to pursue more than one strategy at a time by bringing out a differentiated product at low cost, though approaches like these are successful in the short term they are hardly sustainable in the long run.

Abuga (2013) analyzed strategy implementation challenges of mobile banking in commercial banks in Kenya, she opinioned that it is important for financial institutions wanting customers to use and be satisfied with M-Banking, to implement personalized aspects to the service by getting to understand what the customer needs and act as per the demands. Keli (2012) studied factors affecting adoption of mobile phone banking by customers of commercial banks in Kenya, she opinioned that M-Banking is useful and beneficial, and users are likely to adopt to M-banking services, therefore banks should emphasize the benefits of cost saving, ubiquity, flexibility and mobility by using M-Banking services. These mentioned studies lump MSMEs together with other users of the service however MSMEs have different needs from regular M-Banking users. This study will therefore aim to understand mobile banking usage by MSMEs, so as to try to establish what strategies are in play to enhancing mobile banking to them in the Kenyan context factors that affect usage of mobile banking platform by MSMEs.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a discussion of the research methodology that will be used to address the research questions. The chapter presents the research design, data collection method and instruments of data analysis.

3.2 Research Design

This study was qualitative, adopting a case study research design where the unit of study will be Equity Bank (Kenya) Ltd. Kombo & Tromp (2006) explain that research design can be thought of a the structure of research, it holds all the elements in a research project together, a design is used to structure the research, to show how all of the major parts of the research project work together in addressing the central research questions. A case study seeks to describe a unit in detail, in context and holistically (Kombo & Tromp, 2006).

3.3 Data collection

The study used primary data through an interview guide that will target five senior level managers of the bank that is two general managers and three heads of department. This is because they are knowledgeable in matters of strategies used by the bank to enhance mobile banking services for the micro, small & medium enterprises. The tool to be administered for data collection will be a face to face interview.

3.4 Data Analysis

Data collected was qualitative and content analysis was used to identify repetitive issues. Content analysis examines the intensity with which certain words have been used the analysis therefore describes the form or content of written and/or spoken material (Kombo & Tromp, 2006). Content analysis enabled the researcher synthesise large volumes of data with relative ease, it hence provided an empirical basis for monitoring shifts in public opinion.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data findings on strategies adopted by Equity Bank (Kenya) Ltd in enhancing mobile banking to Micro, Small and Medium Enterprises in Kenya. Using an interview guide, 4 General Managers and 1 Chief Operations Officer based at the company's head office in Kenya were interviewed for this study. A response rate of 100% was recorded for this study since all the 5 respondents agreed to take part. The interview method allowed the researcher to ask probing questions and get an in depth explanation of scenarios that would not have been possible using questionnaires. The findings of this study were presented in prose and explanations provided.

4.2 Position Held in the bank and number of years worked in the bank

The respondents were required to provide information on their job title and years served in the organization. All of the four General Managers and the Chief Operations Officer had been with the organization for a period exceeding ten years and had worked in various posts rising through the years to their current positions. This showed that the respondents had a good understanding of the organization culture and had a track record of delivering results.

4.3 Education background and departments that you work in the bank

All the respondents had university level education with four of them having advanced to Masters Level in their fields of interest. The respondents were also required to provide information in relation to which departments/sections they work in, 4 respondents were general managers were heading different lines/channels as follows: product development & mobile payments; ICT Innovations & Development; Credit Administration and; Retail Banking. 1 respondent was the Chief Operating Officer.

4.4 What does Mobile Banking Entail

The interviewees observed that mobile phones are in hands of many Kenyans as such mobile banking is a channel that leverages on mobile phone technology to deliver banking products to customers. They further observed that mobile banking has enabled un-bounding of banking from physical infrastructure to a convenient service that can be undertaken by customers without necessarily visiting a physical branch. Mobile banking extends such banking services like money transfers, balance inquiries, bill payments and credit facilities.

4.5 Challenges in venturing into Mobile Banking Platform

The respondents mentioned that the bank faced several major barriers as they were venturing into mobile banking platform aimed at MSMEs, these included: technology in the sense that initial technology available on the mobile Subscriber Identification Module (SIM) card through Unstructured Supplementary Service Data (USSD) was limiting to the banking functionalities that could be brought on board targeting MSMEs; Acceptance by customers of the mobile banking platform as most customers were apprehensive about transacting through the platform; Regulatory in the sense that Central Bank initially did not have a framework to govern agency and mobile banking therefore the bank had to wait for necessary approvals before rolling out mobile banking; Cost was also a major barrier in that the bank was relying on Mobile telcos companies to offer mobile banking, these mobile telcos charged tariffs which were perceived as prohibitive by customers; Lack of full control of the mobile banking platform by the bank due to reliance on Mobile telcos in hosting of the mobile banking platform exposing the bank to service delivery hindrances like system downtime that was beyond the bank’s control, hence leading the bank to acquire an MVNO license that has enabled it to be fully in charge of the mobile banking ecosystem.

4.6 Factors that have endeared Mobile Banking to MSMEs

Different factors have endeared mobile banking to MSMEs as put forward by the respondents. The main factors identified as 'traditional' trust banks with customers, the need for a cash management solution, ability to access credit, and convenience in conducting banking transactions. The respondents highlighted that customers have a traditional trust towards banks and prefer transacting through commercial banks as opposed to other forms of mobile money wallets. The respondents mentioned that commercial banks featured prominently amongst the top forty Kenyan brands in 2014, as per a survey undertaken by brand finance which was based on an assessment of public listed companies in the Nairobi Stock Exchange.

The need for a cash management solution was also identified as a major factor that has endeared mobile banking to MSMEs by the respondents. Large and medium sized enterprises mostly engaged in distribution of fast moving goods have identified mobile banking as a channel they can use efficiently to manage their working capital. The respondents added that the bank is further perfecting mobile banking solutions that will facilitate a seamless link between large and medium sized businesses with their web of retailers, in so doing these businesses will be on a cashless system thereby eliminate all other risks associated with cash handling and as a consequence save on operational costs.

Access to credit was seen as a major factor that has endeared mobile banking to MSMEs. The respondents observed that through mobile banking MSMEs are now able to access credit up to a current limit of twenty thousand though this will rise to one hundred thousand shillings once they have been registered and credit scoring undertaken. Customers therefore prefer this form of access to credit which they find more quick and accessible as opposed to the more conventional rigorous credit appraisal process.

Convenience in conducting transactions over the mobile banking platform was also seen as a major factor that has endeared mobile banking to MSMEs. The respondents observed that mobile banking offers to MSMEs a convenient, safe, 'twenty four' hour and real time solution when conducting transactions with their customers or amongst themselves. This is further aided by the fact that the bank's mobile banking solution is also connected to other forms of mobile money wallets and electronic value accounts hence allowing for seamless transfer to these other accounts.

4.7 Factors that have hindered the use of Mobile Banking by MSMEs

There are a number of factors that have hindered the use of mobile banking by MSMEs, the respondents mentioned that the major impediments to MSMEs using mobile banking are: limitation of mobile banking technology in relation to allowing multiple users, customers lack of confidence with the system, transactional cost, general lack of awareness of the sensitivities revolving around Personal Identification Number (PIN) and linkage of mobile numbers to mobile banking.

The interviewees noted that even though a majority of MSMEs begin as sole proprietorship businesses, they tend to bring in more partners like for example their spouses, business partners or even employees as they expand and grow. The current mobile banking platform allows only for single user interface therefore the limiting the use of mobile banking to MSMEs who might prefer different levels of clearance and functionalities for their partners or employees depending on the level of responsibility in handling various business transactions. The respondents further noted that even though mobile SIM card technology has improved there are still limitations on the functionalities available through USSD and SIM application toolkit (STK) mobile platforms that limit multiple users.

Lack of acceptance by customers was also noted by the respondents as a major impediment of mobile banking to MSMEs. Most customers still prefer dealing in cash, and view transactions involving access of their bank accounts through the mobile phone as susceptible to technological fraud. This is despite efforts by Kenyan government and the banking sector to promote use of digital money.

Most mobile banking platforms are reliant on mobile telcos infrastructure to facilitate their transactions, the respondents observed that customers incur charges both from the bank and the mobile telcos whenever they transact through mobile banking since most transaction revolve around interaction through a USSD channel. MSMEs tend to view these transactional costs as prohibitive especially considering that a majority of the business ventures under micro and small business sectors are characterized by slim profit margins, still on the same point the transactions are many cumulatively the transactional charges from mobile banking became prohibitive.

Mobile banking principally relies on linking of a customer's bank account and his preferred mobile number, the respondents therefore noted that there is a lack of proper awareness amongst most MSMEs in relation to the sensitive nature of this link and handling of the PIN that enables access to one's bank account therefore exposing users to various security risks and limiting the use of mobile banking.

4.8 Ways in which strategies for Mobile Banking to MSMEs differ from other customer segments

The respondents were unanimous that the strategies for mobile banking towards MSMEs differ from other customer segments as their needs are also different. A majority of the services offered by most money wallets are of consumption in nature. Most MSMEs want a mobile solution that enables easier cash management and is able to offer other complementing services.

In most businesses especially medium and corporate ones cash management is a key area of everyday business risk. The respondents observed that MSMEs can leverage on mobile banking in mitigating this risk as it is a ‘cash-light’ system that eliminates carrying around of physical cash, especially for the MSMEs involved in distribution type businesses like fast moving goods. The respondents further stated that not only can mobile banking eliminate this risk but the system can be used to generate and avail performance management reports based on sales that these MSMEs can consume beyond the usual bank transaction services.

Across board mobile money service has evolved from the rudimentary cash transfer transactions to services that encompass availing of credit and insurance services. The respondents observed that MSMEs are no longer contend with mobile banking restrictive to money transfer services but are also looking for value added services within the platform. The bank therefore in embracing mobile banking to MSMEs is hoping to leverage on the platform, in pushing for loan products, insurance and various other investment products like money market and equity market investor’s funds targeting these category of users.

4.9 Reasons behind the bank adopting a Mobile Banking strategy towards MSMEs

Different reasons for the bank adopting a mobile banking strategy towards MSMEs were put forward by the respondents the main reasons included: to deepen retail banking, mitigate operational cost in providing financial services, changing demography, and competition.

The interviewees noted that the bank has an unmatched retail banking network in the country with over one hundred and seventy branches, which has been further boosted by the roll out of agency banking. Currently the bank has about nineteen thousand active agents. To further deepen its retail banking foothold and compliment the branches and agents, the bank needed a robust mobile banking platform targeting micro and small entrepreneurs who form a sizeable portion of its customers, who needed access to banking services conveniently. Also in reaching out to large medium and corporate clients the bank identified the need to offer mobile banking solution to enable them interact with their network of retailers and wholesalers seamlessly and in real time, thereby facilitating cash management and even generation of management reports for their respective management and accounting departments.

The respondents also observed that the need to keep the cost structure down was a major driving reason behind the bank venturing into mobile banking for MSMEs. Transaction costs like hiring additional staffs to handle usual account queries like account balance will notably reduce since customers can now be able undertake transactional banking without having to physically visit the branch and interact with a bank officer. In addition the bank is now automating processing of micro loans through mobile banking to its customers, meaning a further saving in terms of human capital costs needed to appraise and process micro loans at the branches.

The interviewees observed that in most developing countries especially in sub-Saharan Africa that the youth constitute a majority of its population. Most of these youths are not absorbed in formal employment hence engage in various businesses or other forms of self-employment ventures. The respondents therefore noted that this changing demography has also led to the bank embracing a mobile banking strategy towards MSMEs as it is offers an avenue to capture this critical segment of the population.

The interviewees noted that Safaricom's mobile money transfer form Mpesa revolutionized mobile money transfer services. Equity Bank like most Kenyan commercial banks was forced to embrace the technology by linking up with various mobile telcos including Safaricom through Mkesho to offer banking services. Safaricom is continuously advancing the mobile money platform and has of late launched and is aggressively marketing 'Lipa na mpesa' which targets MSMEs and their customers in an attempt to boost cashless transaction and to make its system the preferred option in conducting such transactions. Equity bank has therefore embraced mobile banking targeting MSMEs in response to competition.

4.10 The evolving strategies of Mobile Banking to MSMEs

There was a common consensus amongst the respondents that customer needs and the general operating environment are evolving; subsequently mobile banking strategies to MSMEs are also not static but also evolving. In relation to the operating environment the respondents observed that SIM card has evolved and is now able to take more complex functions like Near Field Communication (NFC) which essentially allows for smart phones and other devices to establish communication with each other when brought into close proximity.

This has opened up a huge potential in relation to mobile banking to MSMEs as it offers a platform to which transactions emanating from a mobile phone can be interlinked with other auxiliary devices Point of Sale (P.OS) machines that are common in most business outlets but are restrictive to the traditional debit/credit card users.

The respondents noted that mobile phone handsets have also evolved considerably, from phones that had basic features which involved making or receiving telephone calls and sending SMS functions to the current era smart phones that incorporate computing software and hardware functionalities common in personal computers to the phone. The coming of ‘smart’ phones has brought about development of mobile phone software applications that banks are riding on to offer complimenting banking services that would have otherwise been restricted using the traditional SIM card functionalities. The bank has therefore partnered with mobile phone companies in coming up with smart phones that are affordable to its clients in addition to financing the said handsets through short term credit facilities.

Having been recently granted an MVNO license by CAK and being allowed to pilot the thin SIM card technology, the respondents were of the view that the bank will now be able to ride on the features inherent in a SIM card to offer reliable and affordable mobile banking solutions, putting the bank in control of the entire mobile banking atmosphere. As opposed to the current situation whereby mobile banking platform is through USSD sessions that expose commercial banks to third party limiting factors like system downtime and tariff charges which derail mobile banking penetration to MSMEs.

The respondents also noted that riding on the MVNO license and incorporating thin SIM card technology, MSMEs will be able to harness the features inherent in smart phones as well as enjoy mobile banking services without having to necessarily buy another phone to access the service if he/she wishes to retain the existing SIM card. The interviewees opinioned that due to the wide usage of mobile phones among the Kenyan populace, a majority Kenyans have been enrolled to one or more mobile money wallets. Therefore to advance its mobile banking strategy towards MSMEs the bank has tried to link its customers to the various ‘electronic value’ accounts like Mpesa, Airtel money, Orange money and Paypal among many others, therefore not limiting the customer transactions and allowing for a seamless connectivity with an electronic value account of the customers choosing.

4.11 Discussions

The study sought to establish the factors that have enhanced and inhibited use of mobile banking by MSMEs in Equity Bank (Kenya) Limited. These results are consistent with Keli (2012) who maintained that for successful adoption of mobile banking, banks should emphasize the benefits of cost savings, ubiquity, flexibility and mobility in use of the service. The results are also consistent with Abuga (2013) who identifies customer literacy, technology dynamics, network-infrastructure and network -security as major challenges in implementation of mobile banking.

The study is also in confluence with Ondiege (2010) who observed that there exists a colossal opportunity in Africa to increase affordable and cost effective financial service solution through mobile banking thereby tapping into a large population of customers who have been excluded from formal financial services for decades, this will reduce financial transaction cost leading to lower cost of doing business which will benefit small and medium enterprises and overall private sector development. The study findings are also in line with Kunt et al (2014) who contend that among the challenges of digitizing payments and shifting cash payments into accounts include; making upfront investments in payment infrastructure; ensuring recipients how accounts work and can be accessed; guaranteeing reliable and consistent digital payment experience; educating new account holders on the basic interaction involved in a digital payment system that is using and remembering PINs. The study also sought to establish the strategies used Equity Bank (Kenya) Limited in enhancing mobile banking to its MSMEs.

The study is consistent with Abuga (2013) who observes that financial institutions wanting customers to use banking technology must implement personalized aspect to the service by getting to understand customer needs and act as per the demands. The study also coincides with Kimondo (2012) who identifies the potential of mobile money and mobile banking in settlement of consumable transactions in developing countries from where commercial banks need to strategically anchor themselves. The study is also consistent with Amwayi (2013) who observes that mobile telephone firms and banks enjoy a lot of benefits from strategic partnerships that are not common to all stakeholders, furthermore these benefits spill over to customers who use the service therefore mobile banking services should pay more attention to those benefits that well address their needs.

The study also coincides with Porteous (2006) who noted that if mobile banking is to achieve its potential of massively extending safe, convenient and affordable financial services enablement in the form of not only creating regulatory framework for entry of new M-banking models, enablement will also involve managing the delicate balance between sufficient openness and sufficient certainty not least in the mind of customers who entrust money to the entity involved, consequently creating conditions favorable for the emergence of sufficient appropriate models to be tried and the successful ones to be scaled up.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the study findings where the main objectives were to determine strategies used by Equity Bank (Kenya) Limited to enhance mobile banking services for the Micro, Small and Medium Enterprises in Kenya. This chapter represents the conclusion and recommendations of this case study. To begin with a summary of the case study is presented. This is followed by recommendations for further research in the area of strategy implementation following this case study.

5.2 Summary of findings

The study revealed that since its conversion into a commercial bank in 2004, the bank has implemented various strategies successfully that have managed to place it as the market leader in the banking industry and also maintain its competitive edge despite the entry of new players into the industry and a continuously evolving environment. Protogerou et al., (2007) contend that dynamic capabilities are tools by which functional competencies can be configured and manipulated by managers so at to form new and innovative forms of competitive advantage.

On factors that have enhanced mobile banking to MSMEs the study established that the major incentives to MSMEs adopting mobile banking were traditional trust banks have in relation to their customers, the need for a cash management solution, easier access to credit and convenience in conducting bank transactions. Conversely the respondents also revealed that the major disincentives to adoption of mobile banking by MSMEs include limitations of mobile banking technology in relation to multiple users, customers lack of confidence with the system, transactional cost and lack of awareness of the sensitivity. On strategies in use by Equity Bank (Kenya) limited to enhance mobile banking to MSMEs, the study established that the bank has had to adopt strategies to enhance mobile banking towards MSMEs as a way of deepening retail banking, curtail costs associated with providing banking services, changing demography and response to competition. Further the respondents pointed out that these strategies are not static but rather dynamic propelled by changes in technology and general operating environment.

The study identified the strategies at play as riding on advancement of the features inherent in a SIM card to roll out new services targeting MSMEs, development of mobile phone banking software, partnering with mobile phone companies to offer smart phones, financing arrangements to enable purchase of smart phones by the bank's customers and ensuring a seamless link between the bank's mobile banking platform to various electronic value accounts.

5.3 Conclusions

From the research findings and answers to the research questions, a conclusion can be made about the study. There are a number of factors that that either hinder or propel use of mobile banking by MSMEs, bearing in mind that the operating environment is also not static but evolving. The design of effective strategies should therefore ride on competencies inherent within an organization in addition to taking advantage environmental factors that also favor it while at the same time curtailing threats posed by competition.

5.4 Recommendations of the study

Mobile banking offers a lucrative opportunity for financial institutions and its potential is yet to be fully exploited. MSMEs are a key constituent in Kenya's economy, a factor that has been brought out in policy guidelines by the Kenyan government through various medium and long term plans. In an ever evolving operating environment financial institutions should therefore strive to come up with mobile banking strategies products and solutions tailored towards MSMEs whose needs can be deemed to be different from other categories of customers. This will offer them a competitive edge in a cut throat environment dominated by mobile telcos. Government policy makers also need to continuously provide a regulatory framework to enhance financial inclusion through mobile banking by such actions like encouraging evolutions of new technologies in mobile banking like MVNOs.

5.5 Limitations of the study

This study was limited to strategy formulation and implementation at one commercial bank, the results may not be generalized as representative of the entire banking industry. Another limitation of the study was that given the nature and sensitivity of banking profession, most interviewees were cautious about giving away too much information on their strategies and protecting the privacy of their business units hence giving scanty responses.

5.6 Suggestions for further studies

The study confined itself to Equity Bank (Kenya) limited which is only one player in the banking industry. The study should be replicated in other players in the banking industry and the results compared so as to establish whether there is consistency on the challenges inherent in mobile banking and strategies implemented to tackle them. Further still, there is need for investigation on how best government policy makers can facilitate policy framework that foster financial inclusion in the fast evolving mobile banking field.

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APPENDICES

Appendix 1: Interview Guide

Part A: General Information

a) What is your position in the company

b) How many years have you served in the company

c) Which department/section do you work in

d) What is your education background

Part B: Factors that have enhanced and/or inhibited use of mobile banking by MSMEs

a) What does mobile banking entail?

b) Why do you think the bank embraced mobile banking?

c) Were there any barriers in venturing into mobile banking platform?

d) How have customers operating Micro & Small enterprises embraced mobile banking?

e) What factors have endeared mobile banking by your Micro & Small enterprises customers?

f) What factors have hindered the use of mobile banking by your Micro & Small enterprises customers?

Part C: Strategies used by Equity Bank (Kenya) Ltd in enhancing mobile banking services to MSMEs

a) What role do you play in formulating and/or implementing mobile banking strategy?

b) What would you say are the reasons that could have led the organization adopt a mobile banking strategy?

c) Are the strategies for mobile banking to Micro & Small enterprises different from any other customer segment?

d) The strategies to enhance mobile banking to MSMEs are they static or evolving? Please explain?

e) What recommendation do you have for future efforts for enhancing mobile banking towards MSMEs? Is there anything more you would like to add.

Appendix II: Research Consent Letter

UNIVERSITY OF NAIROBI
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MBA PROGRAMME

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P.O. Box 30197
Nairobi, Kenya

DATE 01/10/14

TO WHOM IT MAY CONCERN

The bearer of this letter HIRAM NDUMBA GITOBU

Registration No. D61/61431/2010

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.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

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01 OCT 2014
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