

**INFLUENCE OF INNOVATION STRATEGY ON CUSTOMER CHOICE
OF A SERVICE: A CASE OF *M-PESA* MONEY TRANSFER SERVICE
AMONG *BODA-BODA* OPERATORS IN NAKURU MUNICIPALITY**

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ABSTRACT

There is widespread understanding among Kenyans and financial sector stakeholders that there is constrained access to financial services and products in Kenya. This is particularly true among the economically active poor and low income households in both rural and urban areas. The country's growing use of mobile phones and the launch of *M-Pesa* service, an innovation strategy by Safaricom Kenya Limited, have introduced a new dimension in the money transfer service. This study sought to find out how innovation strategies influence customers' choice of a service. The study employed the descriptive survey research design to determine the proportion of *Boda Boda* operators using *M-Pesa* money transfer service, how they use it and the perception of *Boda Boda* operators towards the service. The target population of the study was *Boda Boda* operator in Nakuru Municipality. The sample comprised of 400 respondents drawn from a population of 6000 operators selected using simple random sampling. Questionnaires developed were used to collect primary data. Descriptive and inferential statistics were used to analyze the data which comprised of calculation of percentages, frequencies, mean and factor analysis. The Statistical Package for Social Sciences (S.P.S.S.) version 12.0 was used in analysing the raw data. The study findings indicate a great proportion of *Boda Boda* operators used *M-Pesa* to save, send, carry, receive payments and pay bills. Accessibility, convenience, educational qualification, age, perception and monthly income are the factors influencing its usage. The high proportion of *Boda Boda* operator using *M-Pesa* money transfer service indicates that Safaricom as a mobile phone operator had embraced relatively successful strategies of reaching out to the market. The study recommends that money transfer service providers should be quick to react to the market changes in order to keep their business viable by implementing strategic and tactical changes. The study findings could be useful to the financial sector to seek innovative ways of utilizing existing technology in providing affordable, accessible and inclusive financial service.

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LIST OF ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machine
BODA BODA	A bicycle operator hired to transport people and/or goods
CBK	Central Bank of Kenya
GOK	Government of Kenya
KPOSB	Kenya Post Office Savings Bank
M-PESA	Money transfer service offered by Safaricom Kenya Limited
POSTA	Postal Corporation of Kenya
SMS	Short Message Service
SIM	Subscriber Identity Module
UNDP	United Nations Development Program

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

In a business environment characterized by intensified global competition, dynamic change and increasing uncertainty, the need for organizations to become more innovative in order to survive and grow is increasing rapidly. As competition grows and the pace of change accelerates, the development of a steady stream of new products is seen as the only way to ensure a firm's survival and success (Mallic & Schroeder, 2005). New product development leads firms to renew themselves (Floyd & Lone, 2000; Katila & Ahuja, 2002). Fuentes-Fuentes *et al* (2007) suggests that environmental factors affect several organizational strategic aspects and performance. The key issue is identifying what environmental dimensions should be considered (Bierly & Daly, 2007).

Environmental dynamism describes the rate of change in the environment and the unpredictability of that change (Dess & Beard, 1984; Bierly & Daly, 2007). Dynamic business environments are characterized by changes in various market elements, such as customer preferences, technology, economic factors and competitor structure. In a highly dynamic environment repeated change in customer demands, technology and business practices require firms to continuously modify their products or services to stay competitive. Change makes existing products and services obsolete and requires the development of new ones (Sorensen & Stuart, 2000; Jansen *et al*, 2006). Likewise, sudden and unpredictable changes may reduce the value of a firm's existing knowledge and even render it obsolete (Hitt *et al*, 2000). To minimize the threat of obsolescence firms need to introduce an exploratory strategy and develop new products that move away from existing products, services and markets. Managers facing dynamic business environments should be more proactive taking greater risk and using more innovative strategies (Miles & Snow, 1978) in an attempt to anticipate events.

Kotter & Heskett (1992), note that an organization that fails to adapt to changing realities weakens itself thus jeopardizing its vitality. The environment-strategy framework states that environmental factors are decisive when a firm is determining its strategy (Venkatraman, 1989;

Luo & Park, 2001). Infact, literature of both strategic co-alignment (Astley & Van den ven, 1983) and strategic choice (Child, 2004) shown by the firm, as a proactive participant in the environment able to adapt its strategy in response to environmental requirements (Child, 1997). There is wide discussion in the literature on the direct influence of the environment on a firm's strategic choices (Venkatraman & Camillus,1984).Using contingency theory, Koufteros *et al* (2005) analyze how environmental uncertainty and equivocality moderate product innovation. In their study of learning behaviours in product innovation, Chapman & Hyland (2004) analyse the role of environment complexity. Strategy is the organization's conception of how to deal with its environment (Henry & Waters, 1985).

Every source of environmental change leads firms to realize if they possess adequate knowledge for effectively dealing with that change. Product development requires firms to define a knowledge strategy setup, on how to create and apply knowledge in order to achieve a proper alignment with the environment. To be successful in product development, firms need to explore their existing knowledge and competence while, at the same time, exploring new knowledge to avoid dysfunctional rigidities (Leonard, 1992). Product development is, therefore, a knowledge intensive process, aimed at creating new knowledge and recombining existing knowledge to create new products that have value in the market place. Drucker (2006) notes that does not innovate has very little basis on which to compete. In competitive situations customers make choices on the basis of their perception of value for money, the combination of price and perceived product/service benefits (Gerry *et al*, 2008).

1.1.1 Money Transfer Services in Kenya

Sending or receiving money either for payment of salaries, settlement of business transactions, and payment of school fees or for family support is common both for businesses and individuals. It requires efficient, reliable, accessible, secure and affordable money transfer services. Whereby money can be deposited in one location and withdrawn in another in both urban and rural areas. Commercial banks are the major players in money transfer business in Kenya servicing mainly large users and to a smaller extent low income users. According to a report by the Central Bank of Kenya (2007) 19 percent of Kenyans have access to formal financial services through commercial banks and the Kenya Post Office Saving Bank (K.P.O.S.B.). It was also observed

that an additional 8 percent are served by SACCOs and Micro-finance institutions, while 35 percent depend primarily on informal and semi-formal financial service providers.

Among the commercial bank instruments, telegraphic transfers, electronic funds transfers and bank drafts are typically used for large value transfers. In addition bank cheques are the preferred and often required means of payment. For small amounts entrepreneurs and individuals typically use informal means or post office service, the latter especially if it is a domestic transfer. Domestically and within regions, bus and courier companies have also emerged as service providers who transport the money physically. Carrying cash on oneself or having relatives or friends carry it is still a very common means of money transfer by everyone.

1.1.2 *Boda Boda* Operators in Kenya

Boda Boda operators have been around since 1990, when young people in Busia used bicycles to smuggle goods across the border. Bicycles are major means of transport and gained prominence due to inadequate transport services and deteriorating infrastructure. The *Boda Boda* industry has created employment for many youths and has become a source of income for mostly male secondary school graduates who would otherwise be unemployed. Many *Boda Boda* operators use their own bicycles which they acquire and modify for this work. *Boda Boda* associations were formed to instill operational discipline and entry into the industry is regulated to allow only adults. They wear uniforms for identification, while on the other hand, *Boda Boda* identification is confined to bicycles which have number plates. Transport charges are regulated by associations and are based on distances and whether it is a person or goods (Ochieng & Egesa, 2003).

With enormous competition, markets today are driven by choice. The targeted customers have too many choices and choosing among multiple options is always based on differences, explicit or implicit. Therefore, organizations have to differentiate in order to give the customer a reason to choose their product or service (Hammer, 2005). The study, therefore, sought to investigate the innovation strategy that influences the use of Safaricom money transfer service amongst *Boda Boda* operators in Nakuru Municipality.

1.2 Statement of the Problem

Accessible, efficient and affordable money transfer and payment services are an important financial service that has long been dominated by the Commercial banks and non-bank financial institutions. These systems have served corporate clients and salaried employees leaving out informal business operators that have often been termed as “unbankable”. Kenya Post Office has continued to offer money transfer service to a wider population by virtue of its elaborate network throughout the country. This service, however, has had many shortcomings in terms of time, accessibility and convenience. Safaricom Kenya Limited, a leading mobile telephone service provider, came up with an innovation that allowed its subscribers to transfer money within their network from March 2007, witnessing an upsurge in the services operations mainly by the “unbanked” population. The degree to which this popularity of *M-Pesa* has been received has resulted in opening up of numerous *M-Pesa* outlets across the country signaling an innovation strategy by Safaricom. This study, therefore, sought to determine the innovation strategy that influenced the use of Safaricom money transfer service among a segment of the “unbanked” population, in this case, *Boda Boda* operators in Nakuru Municipality.

1.3 Objective of the study

The general objective was to investigate the innovation strategy factors that influence customer’s choice of a service. A case of Safaricom *M-Pesa* money transfer service among *Boda Boda* operators in Nakuru Municipality. The specific objectives of the study are:

- i) To find out what proportion of *Boda Boda* operators use *M-Pesa* transfer service.
- ii) To find out how the *Boda Boda* operators use the *M-Pesa* money transfer service.
- iii) To establish which innovation strategy factors influence the use of *M-Pesa* money transfer service among *Boda Boda* operators.
- iv) To establish what factors influence the customer’s choice of the *M-Pesa* money transfer service.

1.4 Research Questions

- i) What proportion of *Boda Boda* operators use *M-Pesa* money transfer service in Nakuru Municipality?

- ii) How do the *Boda Boda* operators use the *M-Pesa* money transfer service in Nakuru Municipality?
- iii) What innovation strategy factors influence the use of *M-Pesa* money transfer service among the *Boda Boda* operators in Nakuru Municipality?
- iv) What factors influence the customer's choice of *M-Pesa* money transfer service in Nakuru Municipality?

1.5 Significance of the study

The findings and recommendations of this study will be useful for proper planning and decision making for the money transfer service providers. The findings and recommendations of the study will be useful to managers and administrators of commercial banks and microfinance institutions. The findings of this study will be documented to enrich literature in the area of innovation strategy and customer choice of goods or services. It is also expected that the findings will stimulate further research to refine or extend the current research. The study findings are also expected to help improve the Safaricom *M-Pesa* service provider internal efficiency and help them reinvent their competitiveness. Furthermore, the study findings will form a basis for further research on how to enhance the competitiveness of not only Safaricom but other organizations too.

1.6 Limitations of the study

The study was limited to the *Boda Boda* operators within Nakuru Municipality hence the findings were to be generalized only to the Municipality. The study involved 400 *Boda Boda* operators. Extending the study to other geographical areas may lead to conceptual refinement and insight. Some *Boda Boda* operators were illiterate hence required assistance in filling the questionnaire while others were not willing to disclose some information required.

1.7 Scope of the Study

The study was carried out in Nakuru Municipality, Rift Valley province Kenya. It focused on the *Boda Boda* operators who use the *M-Pesa* money transfer service in their transactions. With regard to customer choice of a service, The study was confined to measurable indicators of innovation strategy such as accessibility and convenience of the service. Similarly, the study also

assessed the indicators of customers' choice of a service by testing their loyalty to the service provider.

1.8 Assumptions of the study

It was assumed that the respondents would co-operate and divulge the required information to the researcher. The researcher also assumed that the test instruments used in gathering information helped establish the innovation strategy factors influencing the use of *M-Pesa* money transfer service among *Boda Boda* operators in Nakuru Municipality. Also, the researcher assumed that the *Boda Boda* operators used *M-Pesa* money transfer service in their transactions.

1.9 Definition of terms

Formal money transfer system -these are commercial banking institutions and other formal institutions set up to carry out services of which money transfer is a component. The fee charged to transfer money is in form of set tariffs of fees.

Informal money transfer system – they comprise individuals, friends, relatives, drivers and conductors of buses /matatus carrying out money transfer, often more as a favor than as a business.

Money transfer services – sending or receiving money. Money is deposited in one location and withdrawn in another location both in urban and rural areas.

Semi-formal money transfer system - These are institutions providing money transfer service but are not specifically licensed to transfer money neither do they require such a license. The system does not have risk management strategies for money lost.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines the literature to develop a framework for this study. It is organized under the following subheadings: concept of innovation, factors influencing innovation strategy, the concept of innovation strategy, elements and approaches of innovation, the nature of innovation strategy, *M-Pesa* as an innovation strategy by Safaricom, customer choice, empirical issues in innovation strategy research and conceptual framework.

2.2 The Concept of Innovation

The growing importance of innovation is reflected in a dramatic increase in literature that addresses the role and nature of innovation. In spite of this increase and the resulting vibrancy within the field, prior research has not yielded a widely-held consensus regarding how to define innovation. Additionally, without a good working definition, we still lack good measures of innovation. Kotabe & Swan (1995) argue that one of the greatest obstacles to understanding innovation has been lack of a meaningful measure. Without adequate measures, theory development is impeded and it becomes difficult to suggest appropriate interventions for the firms seeking to pursue innovations.

For more than half a century, research and development (R&D) has been closely associated with technological innovation (Miller & Morris, 1999). Invention is the narrowest definition of innovation. Drucker (1994) maintained that there are seven basic sources of opportunities to innovate. Only one of them is to do with inventing something new. Thus, innovation is more than invention and does not have to be technical. There are numerous examples of social and economic innovations. Hence, innovation has many facets and is multidimensional. The most prominent innovation dimensions can be expressed as dualisms: 1) radical vs. incremental; 2) product vs. process; and 3) administrative vs. technological.

Innovation can be radical and incremental. Radical innovation refers to path breaking, discontinuous, revolutionary, original, pioneering, basic or major innovations. Incremental

innovations are small improvements made to enhance and extend the established processes, products and services. Product innovation, as the name suggests, reflects change in the end product or service offered by the organizations, [whereas] process innovation represents changes in the way firms produce end products or services”. Some researchers have categorized innovation into technological and administrative innovations. Technological innovation is about “the adoption of a new idea that directly influences the basic output processes, [whereas] administrative innovation includes changes that affect policies, allocation of resources and other factors associated with the social structure of the organization”. Schumpeter (1934) identifies that innovation is achieved by 1) developing new products or services, 2) developing new methods of production, 3) identifying new markets and 4) discovering new forms of organizations.

Most of the widely-used definitions of innovation focus on novelty and newness. For example, the European Commission Green paper on innovation defines innovation rather broadly as a synonym for “the successful production, assimilation and exploitation of novelty in the economic and social spheres” (European Commission, 1995). Nohria & Gulati (1996) defined innovation to include any policy, structure, method or process, or any product or market opportunity that the manager of an innovating unit perceives to be new. Damanpour defined innovation as “the generation, development and adaption of novel ideas on the part of the firm” (1991), and Zaltman *et al* defined it as “any idea, practice, or material artifact perceived to be new by the relevant unit of adoption” (1973).

Although newness is a theme in all of these definitions, they do not agree on three basic questions about the nature of newness: what is new, how new, and new to whom? Several of the definitions suggest a theme of “successful adoption”, for example, but are vague in terms of what is adopted and what constitutes a success. Specifying what is new is important for distinguishing from mere change (Slappendel, 1996) because all innovation presupposes change, but not all presupposes innovation. Additionally, none of the above definitions addresses the issues “how new?”, that is, the degree or extent of newness that constitutes an innovation. Finally, the issue of new to who is also unresolved in the above definitions. Nohria & Gulati’s (1996) definition seems confusing because it is unclear whether the newness of an innovation applies to the

manager of an innovating unit or to the innovating unit itself. Damanpour's (1991) emphasis on newness to the firm seems to exclude the kind of innovation that might be associated with individuals or emerge from systems of innovation outside the firm. Generally, Zaltman *et al's* (1973) definition of innovation as "any idea, practice, or material artifact perceived to be new by the relevant unit of adoption" appears to be more popular.

Evidence of vagueness in specifying whether innovation is new can be found by analyzing how innovation has been operationalized in prior studies. An European example illustrates this well. In 1991, the European Commission stated the following, "economic performance depends upon the progressive introduction over time of innovations in products and processes..." (European Commission, 1991). This notion was elaborated in the European Commission Green paper on innovation which emphasized "the successful production, assimilation and exploitation of novelty in the economic and social spheres" (1995). When it came to operationalizing the construct, however, the Green Paper used proxies as measures of innovative activity rather than explicitly addressing what is new. These proxies include, among other measures, total expenditure on R&D, proportion of R&D scientists and engineers, and number of patents.

A review of the four orientations in the innovation literature reveals that severally different approaches have been used to address the issue of how new, that is, the degree of newness that constitutes an innovation. The literature has devoted considerable attention to debating the issue of revolutionary innovations. Revolutionary innovations, often reflected in punctuated equilibrium models, describe situations where discontinuities totally redefine the meaning of an industry by creating new technological regimes or paradigms. The invention of the combustion engine and IBM's introduction of the DOS operating system are examples of such revolutionary innovations.

The distinction between radical and incremental innovations is also often highlighted in studies of innovativeness. Hage (1980) argued that innovations vary along a continuum from incremental to radical. The term "radical" has been associated with revolutionary innovations, whereas "incremental" is associated with innovations within a paradigm. Damanpour (1996), for example, used the term radical innovations to characterize innovations that produce fundamental

changes in the activities of an organization and large departures from existing practices, whereas the term incremental innovations was to depict innovations that represent a lesser degree of departure from existing practices. In both cases, the terms apply to within-organization innovations.

Prior innovation research suggests that the extent of newness of an innovation may be related to the domain into which the innovation is adopted. Innovation involves implementing newly created ideas and the process can be classified as invention, extension, duplication and synthesis. Strategic planning is used to assess the entrepreneur's position in external or internal environments, identify key success factors and to implement a strategy. The innovation process can be categorized into four basic types, suggests Kuratko & Hodgetts (2004). These are: invention; extension; duplication and synthesis. Novel products and services are 'inventions' and the application of a current concept to a different application is an 'extension'. An improvement to an already existing concept is 'duplication' and forming a new application from existing concepts is synthesis.

However, recent attempts in defining innovation focus on the concept of newness. Slappendel (1996) argues that the perception of newness is essential to the concept of innovation as it serves to differentiate innovation from change. The newness theme is especially important to understanding the link between innovation and entrepreneurship as suggested by prior studies that emphasize its pivotal role in new venture creation and management: "new business start-up"; "new entry"; "new organizations" and "organizational renewal". Thus, it is suggested that, in order to isolate a useful definition and measure of innovation, there is need to address three newness-related questions: what is new, how new, and new to whom? With these innovation concepts in mind, there have been developed six different types of innovative activity: 1) new products; 2) new services; 3) new methods of production; 4) opening new markets; 5) new sources of supply; and 6) new ways of organizing. There are various factors which influence innovation strategy:

During the last decade, there has been observed explosive attention, both in the popular press and among academics on innovation as a means to create and maintain sustainable competitive

advantages. Innovation is considered a fundamental component of entrepreneurship and a key element of business success. This is becoming even more evident as we move into a post-capitalist, knowledge-based society. Continuous changes in the state of knowledge produce new disequilibrium situations and, therefore, new profit opportunities or “gaps”. The rate of change is also increasing due in part to exponential advancements in technology, frequent shifts in the nature of customer demand and increased global competition. This has been categorized as “hyper-competition” and, as we move into a more knowledge-based society, an increasing number of industries and firms are likely to face such hyper-competition conditions. Hence, the unending and increasing stream of knowledge that keeps marketplaces in perpetual motion will require companies to focus even harder on being innovative in order to create and sustain competitive advantages.

2.3 The Nature of Innovation Strategy

The 7S is a framework for analyzing organizations and their effectiveness. It looks at the seven key elements that make an organization successful or not: strategy; structure; system; style; skill; staff; and shared values. Consultants at Mc Kinsely and company developed the 7S model in the late 1970s to help managers address the difficulties of organizational innovation. The model show that organizational immune systems and the many interconnected variables involved make innovation complex and that effective innovative effort must address many of these issues simultaneously.

2.3.1 Strategy

A well-defined and proactive strategy is central to an entrepreneurial and innovative organization. Such an organization needs internally focused strategies that propel growth and stimulate change within the organization as well as externally focused strategies that actively seek out new ventures, acquisitions, mergers, or joint ventures to achieve commercial success through innovations. The strategy should be diverse enough to address a spectrum of technological, financial, and human issues, and should be congruent with the future scenario envisaged for the organization. Given the close synergies between entrepreneurship and innovation, the strategy should be both entrepreneurial and innovative, and should include methods of transforming established products and services into something new that will add value to existing businesses.

Meeting and exceeding the changing needs of customers, as well as an emphasis on marketing and the development of new markets, should be key management and entrepreneurial strategies. Moreover, in the current turbulent e-business environment, developing organizational capacity to acquire, create, accumulate, and exploit knowledge should be an essential strategy in gaining a competitive advantage through innovation. A good strategy depends on effective execution and requires an appropriate system, a capable staff team, a wide range of skills and an encouraging and supportive management style that fosters an innovative and entrepreneurial organizational structure.

2.3.2 System and Structure

It has been recognized that size, industry sector and type of organization do not determine the extent of organizational capability in entrepreneurship and innovation, and that cultural and structural elements play a crucial role. Generally speaking, flexible, adaptive, and open organizations are more conducive to innovation because a highly centralized decision making process restricts information flows and communication with inter-firm partners and also stifles the motivation of e-innovation. The control and management system should be flexible depending on the changing situational conditions affecting each project or program. Generally speaking, innovation is not fostered in tightly controlled structures. Empowerment and delegation are needed especially during the early stages of innovation and product development. However, to secure a niche market, an appropriate control system should be maintained to monitor quality and cost, to meet tight deadlines and to achieve predetermined objectives as the project develops. An effective balance between freedom and control is required.

2.3.3 Staff

People are the most important assets in today's knowledge-based economy. Staff members in an innovative organization must be creative people with a flair for innovation spirit to realize its value. They must be keen to change and keen to exploit such changes as an opportunity. To succeed in its economic environment, an innovative organization needs entrepreneurial project managers to promote and coordinate the development of innovative projects as well as creative and conscientious supporting staff to implement the projects. The right mix people is essential to be successful commercialization of innovation.

2.3.4 Skill

Drucker (1994) maintained that systematic innovation requires the capturing and monitoring of seven sources of opportunity: 1) the unexpected; 2) incongruities; 3) process need; 4) industry and market structures; 5) demographics; 6) changes in perception; and 7) new knowledge. Clearly, an innovative and entrepreneurial organization needs a range of managerial and entrepreneurial capacities and skills to handle innovation. These can be summarized as follows: 1) an ability to search for identity innovative opportunities; 2) a proactive attitude to the promotion of innovation through a strategic vision; 3) the ability to create a cultural environment that fosters innovation and entrepreneurship; 4) the ability to develop effective plans to implement innovation and commercialization procedures; 5) the ability to integrate research, design, and market information to convert new ideas and inventions into commercial viable innovations; and 6) the ability to develop effective and realistic procedures for evaluation of R&D projects in terms of innovation, quality and commercial value.

2.3.5 Style and Shared Values

An ideal entrepreneurial management style for innovation should be open and supportive, should encourage and nurture new product development and should identify new needs of customers, new users and new markets through an ability to absorb information from various sources. The style of an innovative and entrepreneurial organization should provide employees with a culture of empowerment and should enforce a reward system that provides incentives for innovative and entrepreneurial behaviours, values and assumptions.

2.4 *M-Pesa* as an innovation strategy by Safaricom

Most managers today agree with the notion that they should focus on growing the lifetime value of their customer relationships (Drucker, 2006). Building loyalty and retention, cross selling related goods and services, broadening offerings to fulfill more of customers' needs- all are ways of adding to overall customer equity. Indeed, given the cost of winning new customers and the ultimately finite universe of buyers out there, a mature business would be hard pressed to increase profits otherwise. Consider the story of Oldsmobile, an American car brand in the 1980's it enjoyed outstanding brand equity with many customers. By 2000, Oldsmobile market share had sputtered to 1.6% from 6.9% in 1985. And in December 2000, General Motors announced that the Oldsmobile brand would be faced out. When a marketer

focuses on growing a customer base, and not necessarily a brand, things can look very different.

The dynamic nature of the modern organizations, particularly those competing in the same sector, makes it imperative that they become more innovative in order to survive and grow (Harrison, 2003). Organizations must become competitor oriented and pursue the right competitive strategy. They must avoid the strengths of the competitors and look for weak points in their positions and then launch marketing attacks against those weak points (Pearce & Robinson, 2009). According to Mungai (2008) the ability of technology to reach the poor and the failure of mobile banking sector to penetrate the mass market, has opened the door for mobile operators to build successful mobile payments services. Change is considered strategic when an organization attempts to achieve competitive position that leads to superior and sustainable internal and external organization performance (Rajagopalan & Spreitzer, 1996). Safaricom (2007), state that *M-Pesa* mobile phone money transfer targets people without bank accounts.

Ansoff (1990) has expanded on the concept, that strategy is a tool which offers significant help for coping with turbulence confronted by business firms. Ansoff (1988) further notes that the major issues are forthcoming developments either inside or outside the organizations. Mintzhberg (1994) argues that strategy emerge overtime as intention collide with and accommodates a changing reality. Wheelan & Hunger (1995) discusses the need for entrepreneurial developments as a key factor in ensuring the survival of a company. The major task of managers is to ensure the continued existence of their enterprises by responding to challenges posed by the ever changing environment of the organization. According to the population ecology perspective, Hannan & Freeman (1984), the environment determines which organizations survive and which ones will not. New firms better suited to the changing environment constantly replaced existing ones.

According to Drucker (2003), every organization operates on a theory of the business, that is, a set of assumptions:1)What its business is;2)What its objectives are;3)How it defines results;4) Who its customers are;5)What the customers value and pay for. Strategy converts this theory of

the business into performance. It enables an organization to achieve its desired results in an unpredictable environment. UNDP (2005) reports that about 46 percent of Kenya's 33 million people live in poverty and that doing business with the poor has the potential of boosting a company's competitiveness if products and services are tailored to suit them. The power of creating and deploying new ways of performing fundamental business processes is the springboard to success Hammer (2005).

Safaricom viewed the low income earning group as a viable clientele that has to be mapped for the success of the firm. It targeted the lower-end of the market with tailored products. Typically, these customers do not have access to a bank or they do not have sufficient income to justify a bank account. Safaricom (2007), states that *M-Pesa* mobile phone money transfer service targets people without bank accounts. This is in agreement with Drucker (2006) that the most successful innovation results from a conscious purposeful search for innovation opportunities. The innovation should involve deciding which customers to serve with which products or service and meeting those customers legitimate needs and wants.

Traditionally, innovation has been perceived as purely driven by technological advancement (Govindariajon & Trimble, 2005). However, from the organizational point of view, it is more effective to see technology and business as the two principal components of innovation. Akintola & Olowoyeye (2008), note that new technologies emerge in our society on a regular basis and whether these technologies remain successful depends on the degree to which they are adopted.

2.5 Customer Choice

Although economists all agree that the price of a product or service is a major factor in the consumer decision-making process, it is not the only factor, and it may not always be the deciding factor. But a principle of microeconomics assumes that if all other factors are equal, as the price of a product/service goes up, demand for that product or service declines. Conversely if the price declines, demand goes up. Consumers' buying choices are also driven by psychological, cultural and social factors, all of which play a role in influencing preferences (Prahalad, 2006). The convenience factor is also a major influence on consumer buying in some

instances, these factors may be important than considerations of price what marketing executives refer to as brand loyalty and brand recognition are also important elements that propel consumer choices. A consumer who has had a beneficial experience with a specific brand of a product/service will most likely continue to purchase it despite increases in its price.

Expectations also have a central role in influencing customers' choice of a service. The basic factors seen to commonly influence expectations of a product or a service are Collegiate and Dinsdale (2006): 1) Personal needs: any customer or user of a service will have what they regard as a set of key personal needs that they expect the service to address; 2) Previous experience: this will in part influence their future expectations of the service; 3) Word of mouth communication: the choice will be influenced by communications from sources other than the service provider itself; 4) Explicit service communication: statements from staff or from leaflets or other publicity materials; 5) Implicit service communication: this includes factors such as the physical appearance of buildings.

Once a customer has chosen a service, there are several factors of a service that are most important in determining overall satisfactions. According to Collegiate and Dinsdale (2006), timeliness, accessibility, reliability, responsiveness and cost are the key factors. However, the concept of satisfaction is difficult to measure since satisfaction is not static but changes over time as new experiences and levels of awareness alters the potential levels of satisfaction that could have been achieved. Satisfaction occurs in social contexts which are varied and changing to the service user. It is easier to express the reasons for dissatisfaction, particularly if this is the exceptional state. If experience of the service greatly exceeds the expectations clients had of the service, then satisfaction will be high.

2.6 Empirical Issues in Innovation Strategy Research

Following previous studies, the environmental context in innovation strategy has been defined as a multidimensional construct where environmental dynamism and complexity are considered to be the respective dimensions. The measure which is used to capture environmental dynamism is based on four items concerning technology and market dynamism. These items are adapted from the works of Gupta & Shally (2006), Fuentes-Fuentes (2004), who assessed the environmental

complexity by assessing the level of the firms innovation strategy and product development. In fact more than three decades innovation strategy advocates, researchers and management practitioners have argued for its legitimacy as a tool of effective strategic management. These arguments are based on the presumed positive relationship between innovation strategy and consumers' choice of goods and services. Specifically, they link innovation strategy with improved financial performance, effective organizational mission definition, competitive advantage and organization-environment alignment critical to creating sustaining superior competitive advantage (Porter, 1985). Competition within an industry is related to performance which in turn is related with innovation.

Successful competition requires aligning the innovation strategy of the firm to the characteristics of its environment. Research on innovation strategy based on the concept of customer choice is still evolving. Although past research has suggested that environmental factors influence on the choice of the innovation strategy, empirical investigation has produced mixed results. Firms compete in particular environments therefore they must define an innovation strategy linked to the requirements of its environment. Companies in almost every sector of the economy have been coping as best as they could to continuous and tremendous environmental changes. As a direct result of these environmental revolutions in every industry, a large number of organizations have disappeared, while other companies have emerged and many others are continuously engaged in massive strategic reorientations. In fact, innovation strategy is frequently considered both by managers and scholars as one of the primary forces which can help organizations to continue surviving in this new type of "hypercompetitive environment" (Lluntich & Lewin, 1996). Therefore, in this context, the knowledge of determinants of innovation strategy and their implications seems today more needed than ever. Since late 1970s, a large body of diverse literature and research is devoted to understanding factors motivating and constraining innovation strategy in organizations.

Recent innovation strategy research has focused on the relationship between environmental dynamism and product development. In stable environments, customers' preferences are relatively stable and, therefore, competition is based on strategies relating to efficiency and cost reduction. Therefore, the focus is thus on incremental processes of innovation rather than radical

product innovation (Bierly & Darly, 2007). The same expectations holds to how agencies formulate strategies including planning strategy. Indeed advocates of innovation strategy often tout the potential positive impact of the practice on an organization's outcome (Hitt *et al*, 2000). The environmental-strategy framework states that environmental factors are decisive when a firm is determining its innovation strategy. It is thus about improving and renewing the organization's expertise and competences to compete in changing markets by introducing the variations needed to provide a sufficient amount of choice to solve problems (Gupta & Shalley, 2006). It reflects how the firm harvests and incorporates existing expertise and competences into its operations, not just for economizing the efficiency of existing resource combinations, but also for creating new ones.

Although most researchers have found a positive relationship between innovation strategy and customer choice, there are some empirical works with mixed findings. Thus, in some cases there was found a negative relationship (Slappendel, 1996), in others it is not significant (Hodgets, 2004). A positive effect of certain managerial characteristics on innovation strategy is a common pattern observed in a sizeable body of quantitative cross-sectional and longitudinal studies (Barker & Duhaime, 1997; Goodstein & Boeker, 1991) and many case studies. These findings seem to be in line with theoretical arguments proposed in the interactive perspective.

2.7 Conceptual Framework

A conceptual framework is a collection of concepts or models from literature which informs a research study. It relates a study to existing ideas or principles. For this study, it considers innovation strategy as a critical component of customers' choice of a service. According to this framework, innovation strategy constitutes the independent variable. On the other hand, customer choice of a service is the dependent variable. The variables and how they are related is shown in figure 1.

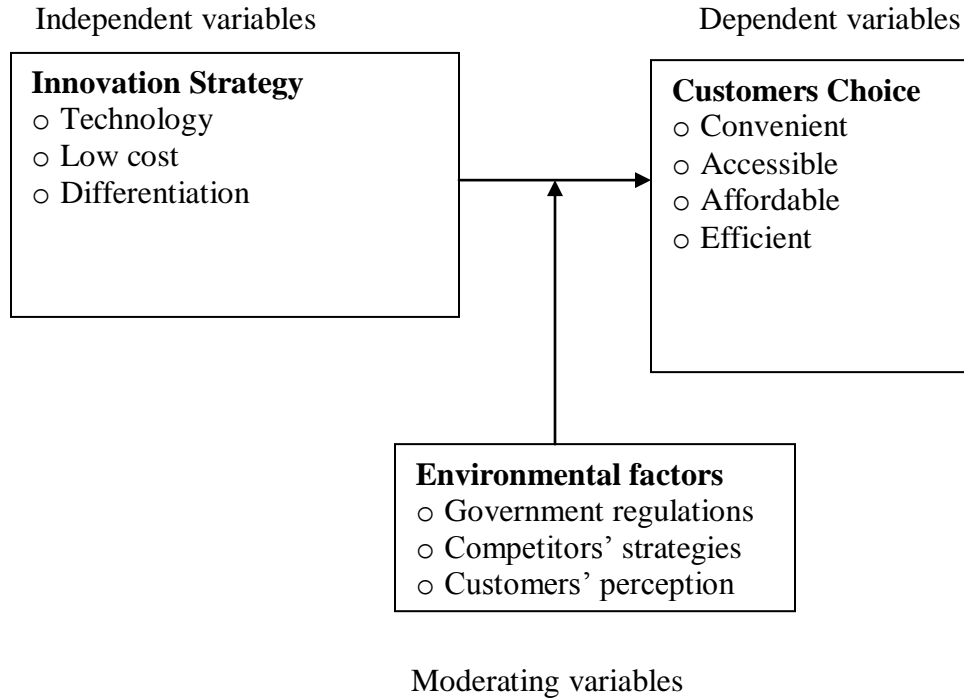


Figure 1: Relationship between innovation strategy, environmental factors and customer choice

Source: Author

As shown in figure 1, innovation strategy usually starts as a solution to a narrow problem. A firm can choose to innovate in the area of operations and cost and in others it can change to innovate on services and revenues as two ways to achieve competitive advantage (Porter, 1985). A firm which focuses on innovation strategy of reducing its cost focuses on three main areas, namely: advance segmentation, new business models and new technologies.

When a customer is choosing a service, there are several factors of the service (accessibility, convenience, affordability, efficiency and security) they look for. These factors determine the overall satisfaction of the service which influences the customers' perception hence choice of the service. However, the relationship between innovations strategy to customer choice is moderated by environmental factors which include government regulations, competitors' strategies and customers' perception.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design that was adopted in this study, as well as the location and population. Instrumentations, data collection and analysis were other important aspects that were explained in this chapter.

3.2 Research Design

The research designed for this study was descriptive survey. The purpose of a survey is to explore and describe a phenomenon. According to Emory (1985), surveys are more efficient and economical. They help the researcher to know much about opinions and attitudes of the respondents. It also seeks to obtain information that describes existing phenomenon by asking individuals about their perceptions, attitudes, behaviours or values. A survey used questionnaires and interviews in order to determine the opinions, attitudes, preferences and perception of groups of people (McMillan & Schumacher, 1993). According to Mugenda & Mugenda (1999), a survey attempts to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. In this study, variables such as age, level of education, marital status, monthly income and their perception was studied vis-à-vis the role of innovation strategy on customer choice of a service.

3.3 Location of the Study

The study was carried out in Nakuru Municipality, Rift Valley Province, Kenya. According to Municipal Council department of Social Services records (2007), the Municipality has a total of 6000 *Boda Boda* operators. The Municipality was chosen because it has multiplicity of ethnic groups. This means that the respondents were not biased in terms of ethnic background. Nakuru also being in an agricultural and industrial area has attracted people of diverse cultural, social, education and economic backgrounds. This implied that the population is rich in information that was being sought in this study.

3.4 Target Population

The target population of this study was *Boda Boda* bicycle operators in Nakuru municipality. It had a population of 6000 operators.

3.5 Sampling techniques

The study adopted simple random sampling techniques in picking the sample from the population since the population was homogeneous. The estimated population is 6000 the sample constituted of 400 operators. The study adopted the following Kothari (2010) statistical formula to pick the sample.

$$n = \frac{N \times P \times q}{(N-1) D + p \times q}$$

Where

n = maximum sample size

N = Study population

P = Proportion of target population

q = 1-p

p = 0.5

D = $\frac{B^2}{4}$ where B is the bound on error of estimation equal to 0.05

$$n = \frac{6000 \times 0.5 \times 0.5}{(6000 - 1) 0.000625 + 0.5 \times 0.5} = 400$$

3.6 Data Collection

To achieve the objectives of the study, primary data was collected. The data was collected regarding aspects of innovation strategy and customer choice of a service. To collect the data, a closed and open ended questionnaire was used. The instrument further consisted of a scale that sought to compare the *M-Pesa* service and other modes of money transfer that employed a scale of five responses employing the likert summated rating method. The responses were rated as strongly agree, agree, undecided, disagree and strongly disagree. The questionnaire was self administered to gather information from the respondents. Permission was sought from various authorities to undertake this research. Time scheduled for respective visits was observed and

reasons for the research explained to the respondents and results obtained handled with confidentiality. A period of one month was used to carry out the survey.

3.7 Data Analysis and Presentation

Collected data was processed, coded and analyzed to facilitate addressing the research objectives and the research questions. This was done using descriptive and inferential statistics. Descriptive statistics was summarized in tables, pie charts, bar graphs and cross tabulations. Factor analysis helped in getting the most popular innovation strategy influencing the use of *M-Pesa* money transfer service amongst *Boda Boda* operators and the perception towards *M-Pesa* money transfer service. Inferential statistics was used in making deductions and generalization about the whole population.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter shows the presentation of data collected, analysis of results and findings as obtained from the field. While the administration of structured questionnaire was used in gathering data, frequency tables, pie charts and bar charts were adopted in presenting the data. Factor analysis was used to answer research questions and give evidence in the analysis results. Data was collected in different locations within Nakuru Municipality. The findings and discussions presented were based on 400 *Boda Boda* operators who filled in the structured questionnaire.

4.2 Demographic Characteristics of the Respondents

This section presents a brief description of the respondents involved in this study. Such a description is considered to be very important in providing a better understanding of the respondents included in the study and, therefore, provide a good foundation for a detailed discussion of the results based on the stipulated objectives of the study. The demographic characteristics included age, marital status, level of education and the monthly income.

4.2.1 Distribution of the Respondents by Age

The study findings indicate that the 400 respondents selected were relatively young people that were vibrant and energetic in dealing with the strenuous task of operating the *Boda Boda*. The results revealed a significant proportion of the operators fell between the ages of 21-25 years that accounted for 65% of the study sample. A further 30% fell between 26-30 years while other proportion was of young people aged between 18-20 years that accounted for 5%. The results are tabulated in Figure 2.

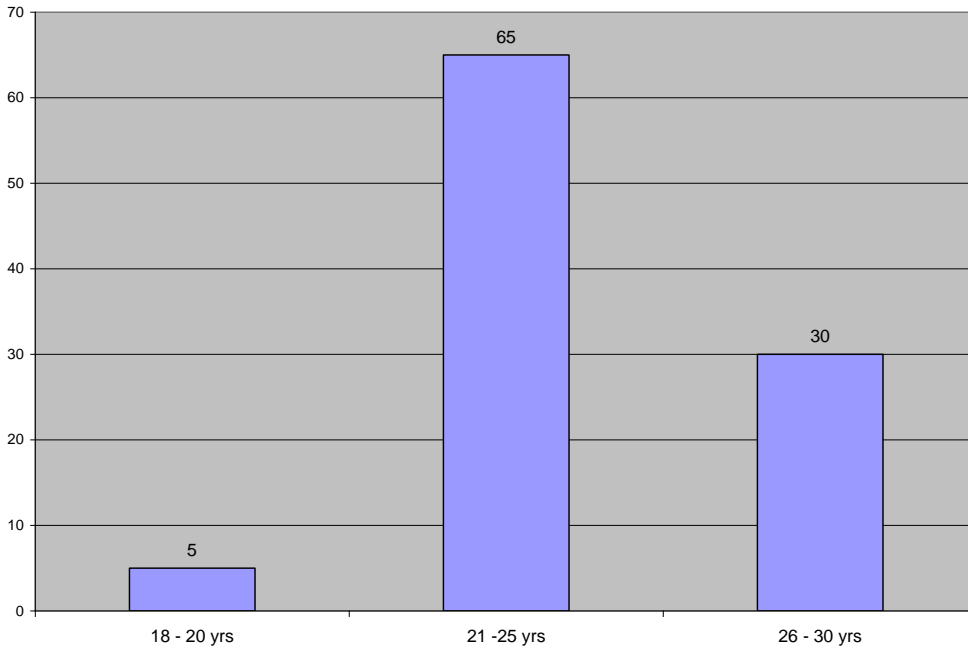


Figure 2: Age of Respondents

(Source: Research Data)

4.2.2 Respondents' Marital Status

Respondents' marital status is an important factor with significant influence on the level of entrepreneurship. Survey data as shown in figure 3, indicates that 55% were single while 45% reported to being married.

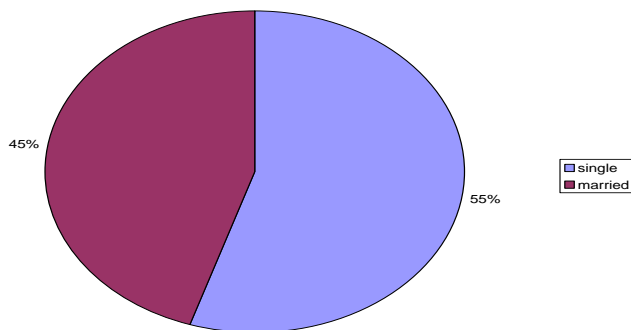


Figure 3: Marital Status of the Respondents

(Source: Research Data)

The study findings suggest that *Boda Boda* operation was instrumental in offering stable incomes based on the relatively large proportion of operators that were raising families.

4.2.3 Respondents Level of Education

The study sought to investigate distribution of *Boda Boda* operators by level of education. The results were as indicated in table 1.

Table 1: Educational Qualification

	Frequency	Percent
Primary education	120	30.0
Secondary education	80	20.0
Post-secondary education	200	50.0
Total	400	100.0

(Source: Research Data)

The respondents were 400 and the categories of the academic qualifications were primary education, secondary education and post secondary education. The data (table 1) showed that majority of the *Boda Boda* operators were post secondary graduates accounting for 50% while those with primary education accounted for 30%. A minority of 20% had secondary education. The study findings suggest that the *Boda Boda* industry has created employment for many youths. It has become a source of income for mostly male post secondary graduates who would otherwise be unemployed.

4.2.4 Respondents' Average Monthly Income

An investigation of the respondents' level of income indicates that this form of employment had returns ranging from less than Ksh 5,000 accounting for 45% and between Ksh5,000 -10,000 that accounted for 45% of the sampled respondents. A further 10% reported to earning between Ksh 10,000-15,000. Figure 4 indicates the findings.

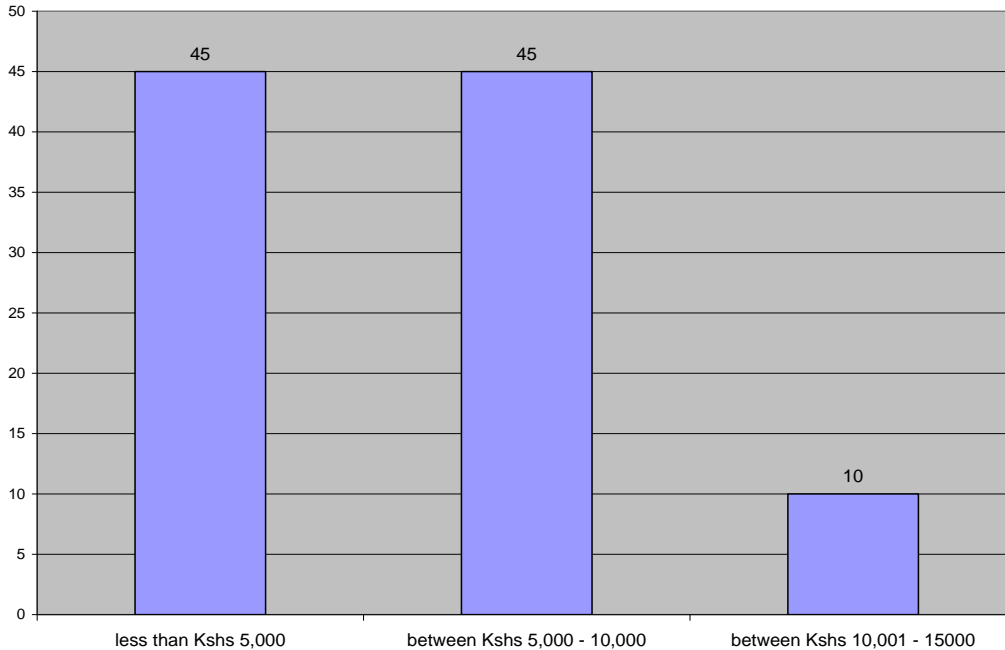


Figure 4: Respondents' Average Monthly Income

(Source: Research Data)

4.3 Respondents using M-Pesa money transfer service

Objective one sought to find out what proportion of *Boda Boda* operators use *M-Pesa* money transfer service. To achieve this objective, the respondents were asked to indicate whether they are registered with *M-Pesa* or not. They were also asked to indicate if they use *M-Pesa* money transfer service. The study findings reveal that 100% of the respondents are registered and use *M-Pesa*. This shows that Safaricom as a mobile phone operator had clearly embraced relatively successful strategies of reaching out to the market. The results are tabulated in table 2 below.

Table 2: Respondents registered with M-Pesa and use the service

	Frequency	Percent
Yes	400	100
No	0	0
Total	400	100

Source: Research Data

4.4 Usage of *M-Pesa* Money Transfer Service

The second objective of the study sought to find out how the respondents use the *M-Pesa* money transfer service. In this regard, the respondents were asked to indicate how they use the service. The results are tabulated in table 3.

Table 3: Usage of *M-Pesa*

	Frequency	Percent
Send money	20	5.0
Receive money	40	10.0
Save money	60	15.0
Send, receive, save, carry and pay bills	280	70.0
Total	400	100.0

Source: Research Data

The study findings table 3 revealed that majority of the *Boda Boda* operators, 70%, used it to send, receive, save, carry money and pay bills, 15% for savings money, 10% for the receiving money and 5% for sending money. The study findings suggest that the *M-Pesa* money transfer service was very instrumental in offering the respondents money transfer service. Further investigations revealed that 30% of the respondents had bank accounts while the greatest proportion of 70% did not have. The respondents indicated that they preferred to use *M-Pesa* than banks because the service was accessible and a faster means of transferring money. They indicated that a cheque required banking for a few days before it can be cleared. Cheques need to be deposited into an account and cleared, which can take between three to ten days depending on the remoteness of the destination branch. Table 4 presents the findings.

Table 4: *Boda Boda* operators with bank account

	Frequency	Percentage
Yes	120	30.0
No	280	70.0
Total	400	100.0

Source: Research Data

4.5 Innovation Strategy Factors influencing the use of *M-Pesa* money transfer service

Objective three sought to find out the innovation strategy factors influencing the use of *M-Pesa* money transfer service among the *Boda Boda* operators in Nakuru Municipality.

4.5.1 Accessibility

The respondents were asked to indicate how far they reside from the nearest *M-Pesa* agent. The study findings indicate that 40% of the respondents reside between 100 – 500 meters. A further 30% reported to the service being within less than 100m while those that reported to it being between 500m-1 Km accounted for 25% of the sampled respondents. Respondents that indicated to *M-Pesa* service being between 1Km – 5Km accounted for the least proportion of 5%. This affirmed that *M-Pesa* service was strategically located within reach making it more popular to many users. Figure 5 presents the findings.

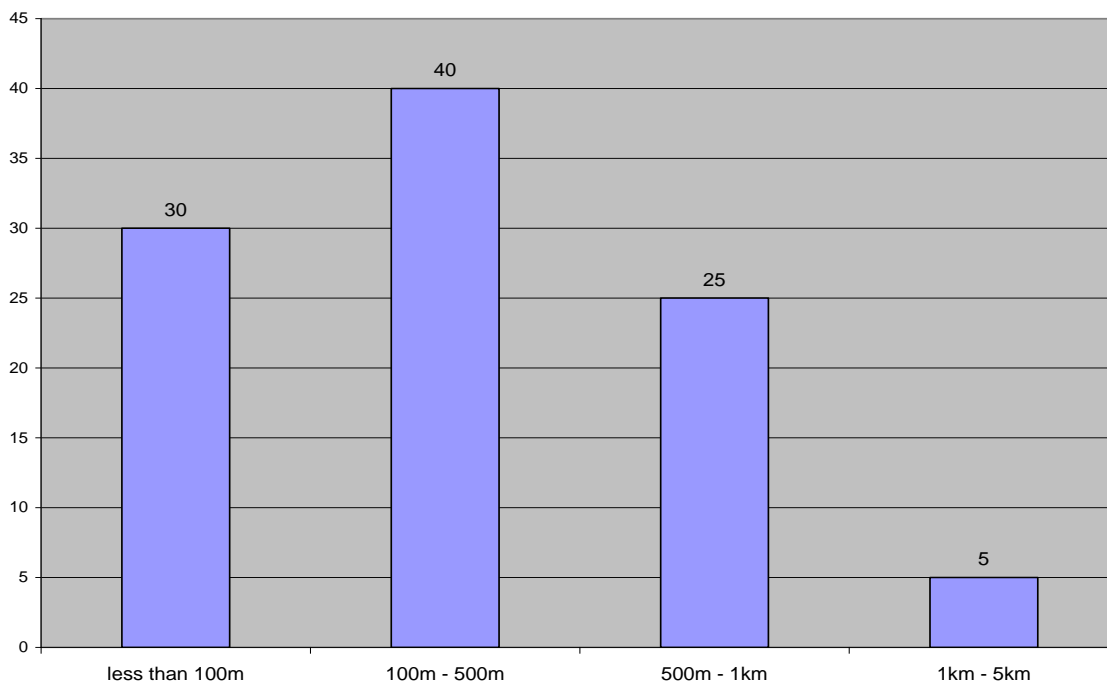


Figure 5: Distance from residence to the nearest *M-Pesa* agent

(Source: Research Data)

The respondents were also asked to indicate how far they reside from the other modes of money transfer services. Comparing *M-Pesa* accessibility to the other modes of money transfer services, 60% of the respondents indicate to residing over 5km from the service provider. 35% reside

between 1km-5km, while the minority proportion of 5% resides between 500m-1km . The results are tabulated in table 5.

Table 5: Distance to the nearest bank, Western Union or posta

	Frequency	Percentage
Less than 100m	0	0.0
100m-500m	0	0.0
500m -1km	20	5.0
1Km – 5 Km	140	35.0
Over 5 Km	240	60.0
Total	400	100.0

Source: Research Data

4.5.2 Convenience

The study sought to find out the mode of money transfer service employed by the respondents before advent of *M-Pesa*. Figure 6 presents the findings.

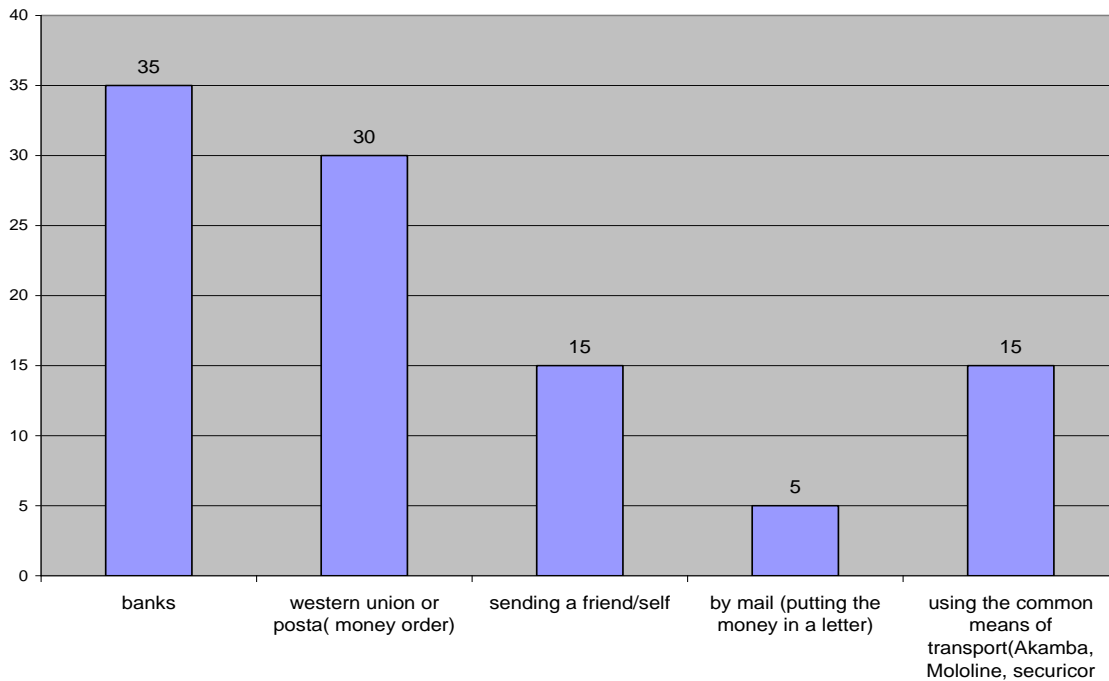


Figure 6: Mode of money transfer used before advent of *M-Pesa*
 (Source: Research Data)

The study findings indicate an overwhelming proportion employed Banks and Western union/Posta money transfer accounting for 35% and 30% respectively. These by then were the only institutionalized facilities that offered the safest and most reliable money transfer services. The findings revealed that a further 15% employed the use of a friend or local transport facilities such as Akamba, Mololine or securicor couriers. The respondents reviewed that the challenges associated with physical transfer ranged from highway robberies, thefts and misuse of money by friends and relatives. The least popular mode appeared to be the use of mail that received 5% responses. Removal of money from envelopes was a risk with the mail delivery system.

The study also sought to determine how the respondents learnt about the *M-Pesa* service. The findings indicated that an overwhelming proportion of 65% had learnt about *M-Pesa* through media advert. This was a strong indicator that Safaricom had heavily invested in advertisement and public relations in an attempt to sensitize the public on *M-Pesa* service. Further respondents indicated that word of mouth from friends as well as sensitizations from Safaricom staff were key in enlightening the masses on *M-Pesa* service accounting for 15% each. Figure 7 presents the findings.

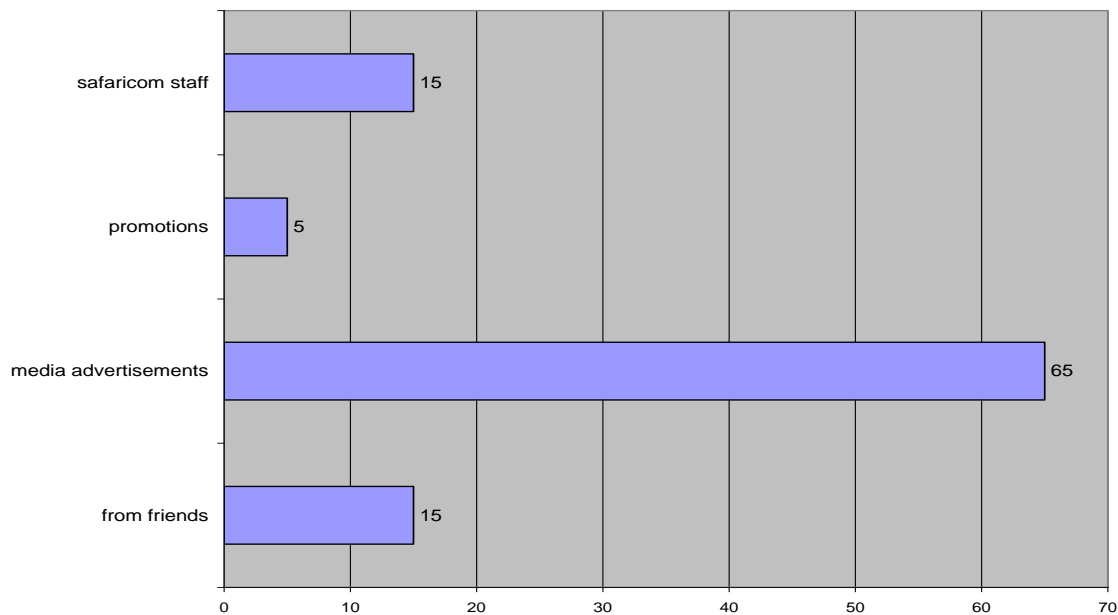


Figure 7: How the operators learnt about *M-Pesa* service

(Source: Research Data)

4.5.3 Time

To achieve this objective the respondents were ask to indicate the time they preferred using the *M-Pesa* service .Table 6 presents the findings.

Table 6: Time preferred to use *M-Pesa*

	Frequency	Percent
6.00a.m. - 9.00a.m.	240	60
9.00a.m. – 3.00p.m.	40	10
3.00p.m. – 8.00p.m.	100	25
8.00p.m. – 12.00a.m.	20	5
Total	400	100

Source: Research Data

The study findings reveal that 60% of the respondents used the service between 6.00 a.m-9.00 a.m., 25% between 3.00 p.m-8.00 p.m., 10% used the service between 9.00 a.m-3.00 p.m. The minority proportion of 5% used it between 8.00 p.m-12.00p.m. This implies that majority of the respondents use *M-Pesa* money transfer service during the hours when bank doors are closed. Money transfer service providers should increase the number of hours during which the service can be accessed.

4.5.4 Innovation strategy factors influencing use of *M-Pesa* service

With regard to accessibility as shown in table 7, 82.7% (that is 48.3% strongly agree and 34.4% agree) of the respondents agreed that *M-Pesa* accessible. Furthermore 67.6% (that is 48.8% agree and 18.8% strongly agree) of the respondents agree that *M-Pesa* is convenient. Study findings also reveal that 46.9% (that is 34.4% agree and 12.5%strongly agree) of the respondents agree that *M-Pesa* time of using the service is favourable .Table 7 presents the findings.

According to the statistical mean in Table 7 accessibility was ranked in order of magnitude (M=4.31), convenience (M=3.44) and time preferred (M=2.94).This implies that for service providers they need to come with innovative ways in making their service accessible, convenient and increase the hours of service delivery.

Table 7: Innovation strategy factors influencing use of *M-Pesa*

Statement	Percentage Responses (%)					Mean
	Strongly agree	Agree	Un-decided	Disagree	Strongly disagree	
Accessibility	48.3	34.4	6.3	3.1	3.1	4.31
Convenience	18.8	48.8	6.3	25.0	6.3	3.44
Time	12.5	34.4	9.4	21.9	21.9	2.94

Source: Research Data

Factor analysis was conducted to rank the factors influencing the use of *M-Pesa*. Results from the component matrix in the order of magnitude are accessibility ($h^2=0.891$), convenience ($h^2=0.865$), education qualification ($h^2=0.837$), age ($h^2=0.730$), average monthly income ($h^2=0.573$) and time ($h^2=0.521$). Table 8 presents the findings.

Table 8: Factors influencing the use of *M-Pesa*

	Component			Communalities
	1	2	3	
Age	0.820	-0.104	0.216	0.730
Education qualification	-0.227	0.858	0.220	0.837
Average monthly income	0.543	0.528	-1.68E-02	0.573
Time preferred to use <i>M-Pesa</i>	-0.562	-0.401	0.210	0.521
<i>M-Pesa</i> is accessible	0.635	-0.251	0.652	0.891
<i>M-Pesa</i> is convenient	-0.574	0.126	0.721	0.865

Source: Research Data

4.6 Factors influencing the Customers' Choice of the Service

The fourth objective of the study sought to establish the factors influencing the respondent choice of *M-Pesa* money transfer service. The five likert scale with levels strongly agree, agree, undecided, disagree and strongly disagree was used. The results are tabulated on Table 9.

Table 9: Factors influencing the respondents' choice of *M-Pesa*

Statement	Percentage Response (%)					Mean
	Strongly agree	Agree	Un-decided	Disagree	Strongly disagree	
Cheap	15.6	53.1	6.3	15.6	9.4	3.50
Accessible	15.6	50.0	15.6	12.5	6.3	3.56
Convenient	12.5	56.3	9.4	15.6	6.3	3.53
You would recommend a friend	18.8	53.1	12.5	6.3	9.4	3.66
Pay bills	18.8	65.6	6.3	9.4	0.0	3.94
Secure	15.6	34.4	6.3	28.1	15.6	3.06
User friendly	21.0	43.8	25.6	12.5	6.3	3.63
Get paid	48.3	34.4	6.3	3.1	3.1	4.31
Use the service even after others lower the tariffs	18.8	46.9	9.4	12.5	12.5	3.47

Source: Research Data

The study findings as shown in table 9, shows that 84.4% of the respondents agree that they made payments through the service, (that is 65.6% agree and 18.8% strongly agree). Further 82.7% of the respondents agree in being paid through the service. This implies that *M-Pesa* was instrumental in the *Boda Boda* industry for sending or receiving money either for payments or settlement of business transactions. Further 71.9% of the respondents agreed that they would recommend friends to use the service. This indicates that the service had served them well. Further 68.8% of the respondents agreed that the service was convenient (that is 56.3% agreed and 12.5% strongly agree). Further 68.7% of the respondents agree that the service is cheap (53.1% agree and 15.6% strongly agree). Further 65.7% of the respondents agree that they would

still use the service even though other competitors lowered their tariffs. This implies that consumers will remain loyal to a firm if its goods or service ser well. Further 65.6% (50% agree and 15.6% strongly agree) of the respondents agree that the service was accessible. Further 64.8% of the respondents agree that the service was user friendly, while 50% of the respondents agree the service is secure.

On the basis of statistical means (Table 9), factors influencing the use of *M-Pesa* are ranked in order of magnitude: being paid through *M-Pesa* (M=4.31), paying bills through *M-Pesa* (M=3.94), recommend a friend to use the service (M=3.66), user friendly (M=3.63), accessible (M=3.56), convenient (M=3.53), cheap (M=3.50%), remain even after competitors lower their tariffs (M=3.47) and being secure (M=3.06).

Table 10: Factors influencing the respondents' choice of *M-Pesa*

	Component				h ²
	1	2	3	4	
Cheap	-2.21E-02	0.610	-0.152	0.615	0.774
Accessible	0.460	-0.494	0.556	0.229	0.818
Convenient	0.718	4.591E-02	-0.440	-0.288	0.794
You would recommend a friend	0.739	-0.229	0.134	0.486	0.853
Pay bills	0.238	0.708	0.608	5.825E-02	0.930
Secure to carry money	0.796	-0.257	0.143	0.115	0.733
User friendly	0.818	-4.43E-02	-0.216	-0.351	0.841
Getting Paid	0.611	0.627	0.196	-0.383	0.952
Use the service even though others lower their tariffs	0.388	0.172	-0.628	0.443	0.771

Source: Research Data

In order to find out which factors greatly influence the respondents' choice of the service, factor analysis was conducted and results summarized in table 10. On the basis of the components and the communalities value obtained (Table 10), ranked in order of magnitude: being paid through the service (h²=0.952), paying bills (h²=0.930), loyalty (h²=0.853), user friendly (h²=0.841),

accessible ($h^2=0.818$), convenient ($h^2=0.794$), cheap ($h^2=0.774$), remain even after competitors lower their tariff ($h^2=0.771$) and secure ($h^2=0.733$). These study findings implies that the extent to which a service meets the customers' need is a measure of the service quality. The results are tabulated in Table 10.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings and conclusions of the study with a view to highlighting findings that are relevant to Safaricom, *M-Pesa* service provider, and other sectors in general. This chapter identifies specific recommendations that flow from those conclusions, as well as areas in which follow-up research might be most useful to confirm and elaborate this study's findings.

5.2 Summary

The study aimed at investigating the influence of innovation strategy on customers' choice of a product/service. The target population was *Boda Boda* operators from Nakuru municipality. Data was collected using questionnaires. The collected data was analyzed using descriptive and inferential statistics and presented using tables, bar charts, pie charts and factor analysis. Factors analysis was used to establish the most important innovation strategy factor that influences the use of *M-Pesa* money transfer service by *Boda Boda* operators and the factors influencing the customer choice of the service.

Results of the study on the proportion of the operators using *M-Pesa* money transfer service indicated that they use it to send, receive, save and carry money. Innovation strategy factors influencing the use of *M-Pesa* money transfer service include accessibility which was rated top followed by convenience, educational qualification, age, average monthly income and time of use which was rated the least. Mobile phones are portable, small and light weight, a factor that has contributed to their being ubiquitous Ezeano *et al* (2008). Awareness of the *M-Pesa* money transfer service also contributes to its use. Results indicate that affordability, convenience, accessibility and user friendly aspects of a service influence the customer choice of a service.

5.3 Conclusions

On the basis of the findings and analysis of data the several conclusions can be drawn. *Boda Boda* operators use *M-Pesa* money transfer service to send, receive, pay bills, save and carry

money in Nakuru Municipality. Several innovation strategy factors influence the use of *M-Pesa* money transfer service which includes accessibility, convenience, educational qualification, age, average monthly income and time of use. The operators became aware of the existence of *M-Pesa* money transfer service through media advertisements, word of mouth through friends as well as sensitization from Safaricom staff. Several advantages associated to a good or service influence the perception of a customer's choice of a good or a service.

5.4 Recommendations of the study

The study based on the conclusions of the research has the following recommendations for money transfer service providers. Money transfer service providers should use technological innovations to extend financial services to millions of poor people at relatively low costs. They should expand access to financial services both in the rural and urban area so that they increase opportunities to save and market exchanges. The providers should also be quick to react to the market changes and competition. In order to keep business viable, strategic and tactical changes must be implemented. They should update the brand perception in the market place and also promote newer services. Reliability and security are two brand attributes that the money transfer service providers should leverage in all marketing efforts.

5.5 Suggestions for further research

This study provided relevant insight on the innovation strategy factors which influence the customer's choice of a service. A case study of *M-Pesa* money transfer service among *Boda Boda* operators in Nakuru Municipality. It is important that further research is carried out to assess the opportunities for companies wishing to enter the money transfer service market. This is in an attempt to understand the salient innovation strategy which could be used to reach out different segments of the market. A similar research should be conducted in a different locality, especially urban centres with a view of generating more empirical data on innovation strategy in order to allow for wider discussions and comparisons made in this study. The study was limited to Safaricom *M-Pesa* money transfer service and hence a research should be extended to other limited companies offering mobile money transfer services. Also there is need for further research to be carried out in determining the extent to which the *M-Pesa* money transfer service has aided in money transfer services.

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APPENDIX 1

RESEARCH QUESTIONNAIRE

Please tick (✓) or write your response to each of the question/statement. The information so obtained will be used strictly for the purpose of the study only.

Background information

- a) Age: 18-20yrs 21-25yrs 26-30yrs 31-35yrs 36yrs and above
-

- b) Marital status:
- Single Married Widow Widower Divorced
-

- c) Educational Qualification:-
- Primary education
- Secondary education
- Post-secondary education
- (eg Diploma, degree etc)

- d) Average monthly income:-
- Less than Kshs. 5,000
- Between Kshs. 5,000 – 10,000
- Kshs. 10,000-15,000
- Kshs. 15,000-20,000
- Above Kshs. 20,000

1. Are you registered with *M-Pesa*?

Yes No.

2. Do you make use of the *M-Pesa* money transfer service?

Yes No.

3. If yes, how often do you use it?

Daily

Once a week

Twice a week

Once in 2 weeks

Others (e.g monthly etc)

4. How do you use it?

Send money

Receive money

Save money

Pay bills

Carry money

Send, receive, save, carry and pay bills

5. What time of the day do you prefer using *M-Pesa* service?

6:00 am – 9:00 am

9:00 am – 3:00 pm

3:00 pm – 8:00 pm

8:00 pm – 12:00 pm

12:00 pm – 5:00 am

6. From your residence, how far is the nearest *M-Pesa* agent?

- Less than 100m
- 100m – 500m
- 500m-1km
- 1km – 5km
- Over 5 km

7. Do you operate a bank account?

- Yes No.

8. If yes, how often do you use it?

- Daily
- Once a week
- Twice a week
- Once in two weeks
- Others (eg monthly etc)

9. From your residence, how far is the nearest bank, western union or posta?

- Less than 100m
- 100m – 500m
- 500m-1km
- 1km – 5km
- Over 5km

10. How did you come to learn about *M-Pesa* service?

- From friends
- Media advertisement

Promotions

Safaricom staff

11. Before the advent of *M-Pesa* what mode of money transfer did you use?

Banks

Western union or Posta (money order)

Sending a friend/self

By mail (putting the money in a letter)

Using the common means of transport

(E.g. Akamba, Mololine, securicor)

Do you still use the mode of money transfer? Explain.

12. Comparing *M-Pesa* service and the other mode of money transfer, please indicate the degree of your agreements or disagreement for each of the statements listed below.

	Strongly Agree	Undecided	disagree	strongly disagree
a) <i>M-Pesa</i> is cheap	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) <i>M-Pesa</i> is easily accessible	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) <i>M-Pesa</i> is convenient	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) You would recommend a friend to use <i>M-Pesa</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Pay bills through <i>M-Pesa</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f) <i>M-Pesa</i> is a secure means of carrying Money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- g) *M-Pesa* is user friendly
- h) Customers pay you through *M-Pesa*
- i) You would still transfer money using
M-Pesa even though the other providers
Lowered their tarrifs