Emerald Emerging Markets Case Studies

M-Pesa: an evolution in organisational strategy

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After spending a week at the Vodacom office in Tanzania, Hemmanth Singh boarded his flight back to Johannesburg, South Africa. As the newly appointed Managing Executive responsible for Mobile Commerce at Vodacom South Africa in April 2013 (Exhibit 1), Singh was responsible for the execution of a broader evolution in the organisational strategy of simple mobile telecommunications to include financial services, and the relaunch of M-Pesa into the South African market was his immediate task. This launch was on the after a launch attempted three years previously that had not delivered the anticipated results. After just three weeks into his new role and after various interactions with the Chief Executive Officer of the Vodacom Group, Shameel Joosub, to whom he would be reporting, Singh knew that the launch would not be an easy task. His first meeting with the existing M-Pesa team in South Africa, as well as his recent five-day visit to Vodacom Tanzania, made him aware that unless certain changes were made to the team as well as to the product, the relaunch of M-Pesa would, once again, prove unsuccessful and not deliver.

The Vodacom corporation

Vodacom is a leading African mobile communications company providing a wide range of services, including mobile voice, messaging, data and converged services to more than 60 million customers (www.vodacom.com/com/main/whoweare). From its roots in South Africa, it has grown its mobile operations to include networks in Tanzania, the Democratic Republic of Congo, Mozambique and Lesotho. Vodacom was originally founded in 1993, with Telkom (a South African telecommunications group) and Vodafone (a British mobile phone operator – one of the world's largest mobile communications companies by revenue) as its two largest shareholders. In November 2008, Vodafone announced that it would increase its stake to 65 per cent, and Telkom decided to spin off its remaining holding by listing it on the Johannesburg Stock Exchange (http://online.wsj.com/articles/SB122596655256404705), and Vodacom is now majority owned by Vodafone and is listed on the Johannesburg Stock Exchange. Its head office is in Johannesburg, and the company employs close to 8,000 people across its regions.

Global and local mobile telecommunication industry

The 2014 statistics show that there are almost as many mobile-cellular subscriptions as there are people in the world, depicting an almost 100 per cent penetration rate. Developed countries have a penetration rate of 128 per cent and developing countries have a penetration rate of 89 per cent (www.itu.int/en/ITU-D/Statistics/Documents/facts/ICTFactsFigures2013-e.pdf). As the global mobile telecommunication industry approaches saturation point, growth rates have been seen to decline rapidly, resulting in increased competition on pricing and service offerings.

The South African mobile telecommunication industry is no stranger to these statistics, with a mobile penetration rate of 123 per cent and over 50 million connections. There are three major network operators in the country with Vodacom dominating at a market share of just over 50 per cent (www.gsma.com/publicpolicy/wp-content/uploads/2012/03/SSA_FullReport_v6.1_clean.pdf).

Change in leadership

After spending 18 years in various roles in the organisation, Shameel Joosub was appointed as the Chief Executive Officer of the South African Vodacom Group in 2012. Born on 8 March 1971 in Laudium, an Indian township near Pretoria, Joosub was destined for great things. Difficult family circumstances forced him to come up with income-generating ideas at a very young age to contribute to the household income. From the age of five, Joosub sold everything he could lay his hands on, from foodstuffs at school to earrings at the taxi rank in Marabastad. Struggling to find a job in the late 1980s due to the rampant prejudice, he persevered with his studies and managed to simultaneously and successfully hold down four jobs to help pay for his university fees. Upon completion of his degree in Accounting Science, Joosub joined Vodacom on 1 March 1994 just three months before the mobile network operator went live in South Africa, and he rapidly progressed through the ranks, first as Senior Accountant in the General Ledger Budget Control and upwards to Managing Director of the South African business in 2005 (www.brainstormmag.co.za/index.php?option=com_content&view=article&id=4828%3Astraight-talking-mr-fixit&Itemid=126).

Having evolved professionally in the mobile telecommunications industry while constantly monitoring trends in developed economies, Joosub knew that market saturation in terms of the number of subscribers generating voice revenue was inevitable. His secondment to Vodafone in Spain in 2011 as the CEO highlighted the importance of introducing additional revenue streams into the business to sustain growth and meet shareholder expectations, especially when operating in highly competitive and rapidly evolving market conditions.

The South African market was no exception. Joosubs' return from Spain in September 2012 confirmed his expectation as he found Vodacom in a far more competitive position than when he had left (Exhibit 2). The third largest mobile operator had become more aggressive in the market by decreasing prices to unprofitable levels. Vodacom had already lost a significant 2 per cent of its market share, resulting in uneasiness within the organisation.

Joosub immediately knew that a strategy to match the pricing of competitors was not sustainable in the long term. He needed a new strategy, one that was clear and cohesive and adapted to the current market conditions, so that competitors could be aggressively challenged as well as a differentiation point that cohered with the organisation's values and vision (Exhibit 3). New growth areas, such as data growth and financial services, must be introduced so that they could be invested in with the promise of becoming new revenue streams in the future. The expectation from the board of directors at the time was that financial and digital services would contribute approximately US$435 million to the bottom line by 2019, and M-Pesa was a key contributor in this regard. Joosub was also well aware of the success M-Pesa experienced in other Vodafone markets with a similar geographical, political and economic make-up to South Africa. The spotlight was now on him to deliver a similar success in the South African market which constituted the largest Vodafone market within the African continent.

Introduction of M-Pesa

M-Pesa (M stands for mobile and *Pesa* is the Swahili word for money) is the world's most successful money transfer service. Launched in Kenya in 2007, M-Pesa provides millions of people, who have access to a mobile phone but do not have or have only limited access to a bank account, to send and receive money, top-up airtime and make bill payments.

M-Pesa started as a mechanism to facilitate the repayment of microfinance loans, in emerging markets, using the mobile phone. However, the tool was increasingly used by ordinary people to send money as opposed to just repaying their microloans. Previously, money was transported either physically by the person getting onto a bus and travelling to the location where the money had to be delivered or trusting the bus driver enough to deliver the money to the other party, which was both risky and very expensive. The Vodacom Group picked up on the trend of person-to-person money transfers and saw it as a revenue-generating opportunity. The organisation was nimble and adaptive enough to identify a need of the customer and to create a product to meet this need. The result was a life-changing experience for the customer.

The service works as follows: Customers register for the service at an authorised agent (often this is a small mobile phone store or retailer) and then deposit cash in exchange for electronic money that they can then send to friends and family. Once a transaction has been securely completed by entering a user-chosen PIN number, an SMS (short message) is generated and sent to both parties confirming the amount that has been transferred. The recipient receives the electronic money instantaneously and can then redeem it for cash at any participating agent at his/her convenience (Exhibit 4).

While the service has millions of person-to-person and person-to-business transactions, M-Pesa also contains a social element, whereby it makes a substantial difference to peoples' lives in other ways. An example of this is in Tanzania, where the high cost of transportation prevents those in rural areas from accessing medical care being offered in urban areas. One government organisation uses the service of M-Pesa to transfer money to patients that allows them to pay for transportation to the relevant hospital.

The Tanzanian market had just seen phenomenal growth from 1.8 million with 3.1 million active users (representing a third of their total customer base) in the past year alone and average transactions of approximately US$500 million processed per month. In 2014, M-Pesa accounted for 8.5 per cent of Vodacom Tanzania's service revenue compared to 2.8 per cent in the previous year. The South African comparative uptake had been disappointing, with only 500,000 registered users equating to just under 2 per cent of the total customer base since its launch in 2010 (www.vodacom.co.za/cs/groups/public/documents/document/pocm01-584680.pdf).

Joosub recalled why the first launch of M-Pesa in 2010, in partnership with the Nedbank Banking Group, had not achieved the desired results:

> Even though we had more than a million people signing up, M-Pesa in South Africa didn't enjoy the substantial uptake seen in markets like Tanzania. We realised there were insufficient distribution outlets; that the banking industry in South Africa was far more tightly regulated compared to other developing economies; and that we did not fully understand the culture and needs of our South African market. We made too many assumptions the first time around. It's been a learning process gaining insight into what will and won't work in our local environment.

Given the immense potential impact on the bottom line for Vodacom, Joosub realised that he needed a new person with a fresh perspective to head the relaunch of M-Pesa.

Hemmanth Singh

Hemmanth Singh was previously the Chief Executive Officer of the Innovation and New Business Incubator in the largest bank in Africa, and was a director of the same bank for 12 years. During this time, he was instrumental in launching the fastest-growing money transfer solution in the country. In his first years at the bank, Singh drove the launch of Internet banking, mobile banking and e-commerce payment solutions, resulting in him gaining the reputation of a highly credible, seasoned expert in the field of banking and technology. He had also worked as a strategy, mergers and acquisitions and business process reengineering consultant and specialised in turn-around and change management initiatives.

When called in by the Vodacom Chief Executive Officer for an interview early in 2013, Singh felt positive about being able to turn M-Pesa around. He had watched the initial launch from the outside and identified many areas that, in his opinion, could be improved. He also knew that it was only a matter of time before the natural progression between mobile network operators and financial services occurred, and the launch of M-Pesa was a perfect vehicle for this.

Hemmanth Singh's dilemma

A great fan of the product, Singh had been following the progress of M-Pesa since its first successful launch in Kenya in 2007 as well as subsequent successful launches in other Vodafone markets. His personal experience of creating and replicating new business models across various markets on the African continent had taught him that success in one market does not always guarantee success in another market, irrespective of how similar the markets may appear to be. Challenges, such as culture differences and regulatory requirements as well as dissimilar political and economic landscapes, must be considered as a part of a thorough market analysis to help inform the strategic implementation plan that is to be recommended. In this regard, Singh reflected specifically on a recent conversation with the Vodafone global head of M-Pesa who visited South Africa:

> When I was first persisting about the opportunity for M-Pesa in South Africa at the time of the first launch, they said South Africa is different; South Africa is almost a developed country. My response was: Yes, I understand that there are elements of the population that have bank cards and Internet access, but there is also a huge element, 50 per cent of the population, who don't and it is those guys you want to attract.

Singh was cautious about this statement as he understood that while the South African financial services sector could be compared to that of a developed economy, its market was considered to be a developing economy in most respects. It was thus necessary to fully understand the customer needs and make relevant changes to the existing M-Pesa model, so that it was better suited to work in the South African economy. But he first had to manage the internal team issues before beginning to tackle the product-related issues.

Singh spent his first two weeks at Vodacom listening to the comments and concerns of the existing team who were somewhat demotivated and still recovering from the aftermath of the unsuccessful first launch and wondering whether a second launch would yield a different result. Most of these individuals had been with the organisation for many years and had been previously recognised in various forums for high performance and were thus accustomed to success. He began reflecting on some of the feedback that he received from his team meetings held over the two weeks before his trip to Tanzania:

> We were the team responsible for the first launch that wasn't a success. Everyone in the rest of the organisation looks down on us and laughs when we speak about M-Pesa. It is definitely seen as a poisoned chalice.
>
> When Shameel Joosub returned from Spain, he openly said that M-Pesa will be launched successfully in South Africa. While this demonstrates his passion and belief in the product, what's different this time?
>
> We're a mobile telecommunication company, not a bank. Why don't we just stick to doing what we are good at? We're now trying to do a brain stretch from mobile telecommunication to financial services.
>
> M-Pesa is seen by everyone in the organisation as a cost centre. How does this translate into improved profits in the future?
>
> We haven't mastered the distribution. We need approximately 40,000 distribution agents to be successful and currently have only 4,000.

> The first launch has resulted in us disappointing our dealers and customers as the product did not work. This resulted in damage to the brand. How will we recover from this?

Upon consideration of these comments, as well as deeper consideration of the personalities within the current team, Singh realised that the team for M-Pesa consisted of high-performing people from within Vodacom who had only ever worked in the telecommunication industry and had then been asked to launch a financial services product. Vodacom did not hire people who knew how to design a system; they hired people who knew how to run an already constructed system. So if what they built did not work, then it was very likely that they had no idea how to adapt it.

In addition, the telecommunication industry was very different to the financial services industry in that the telecommunication industry had historically always seen rapid growth and instant success in every market around the world. Vodacom had a winning culture and the strategy had always been clear about what needed to be achieved. The M-Pesa department was isolated by the other departments because of not being profit-generating. The current team had also never experienced failure, and their expectations of success were thus somewhat unrealistic. M-Pesa is a product that, unlike mobile telecommunication, has long-term financial benefits, and patience is critical in ensuring success. Singh could now better understand the reasons for demotivation within the team.

This thought allowed him to reflect on his recent visit to Tanzania and the many conversations held with his counterpart responsible for launching M-Pesa in the country, Jerome Black. When asked about how he achieved such success, Black said:

> The market conditions were tough and we were losing market share to our competitors. Margins on traditional revenue streams like voice and short message service (SMS) were under pressure and I needed a new product to not just protect my existing revenue but contribute to it in the long term. I knew that M-Pesa was the solution. The elements to success of M-Pesa, in my opinion, comprise a system that works, a tightly knit ecosystem between all the transacting parties, densely populated distribution points and most importantly a dedicated team who have passion and belief in the product. At the moment we have about 70,000 M-Pesa agents and process transactions equivalent to USA$1.2 billion which is equivalent to about 35 per cent of Tanzania's GDP through M-Pesa.

Singh began to evaluate just how many of these success factors were present in the South African context and realised that a lot of work still needed to be done to ensure that the second launch of M-Pesa was a financial and organisational success. He knew that his first step had to begin with fixing the current team structure. Black shared his thoughts on the skills and experience required of an M-Pesa implementation team:

> When choosing my team, I looked for people who had worked previously in the Fast Moving Consumer Goods industry. I didn't care that they didn't have telecommunication knowledge as I knew that I could teach them telecommunications. My rationale was that in sales the people that go to talk to the retailer need to understand retail dynamics. In my mind, understanding the retailer accounts for 60 per cent and understanding your product and service accounts for 40 per cent.

This was interesting to Singh as he realised the importance of having an adequately skilled and experienced team who understood the operating environment as well as the required product specifications. But was an adequately skilled and experienced team enough to ensure success? In this regard, Black commented on the importance of a motivated and passionate team as well as his advice on how this could be achieved:

> To ensure that I have the requisite buy-in from all employees within the organisation, I ensure that the strategy is communicated effectively throughout the organisation. Every month I meet the 600 employees and share with them the company results and challenges. I also take the opportunity to recognise employees who have done well in the last month so everyone else has a clear idea of the impact that their performance can have on the organisation. With M-Pesa, I

specifically communicate the long-term benefits that it is expected to have on organisational growth in terms of retaining the customer for the long term.

The key message here was the importance of constant, inclusive and effective communication to all employees within the organisation. Black further added:

> You need to have different levels of engagement and communication depending on who you're talking to in your organisation so the level of discussion and debate that we have at an executive committee level is obviously different to when I'm speaking to, for example, call centre agents. It's important to communicate appropriately at their level and it's amazing how this motivates them.

Singh also realised that the current competitive environment had brought about a change in approach to the way a customer is considered. In this regard, Black commented:

> If I look at financial services, I want to bind my customers emotionally, not with handcuffs. I want them to stay because they love the product and the brand as it has changed their lives for the better. In this way, I create demand by getting the customer to ask agents for the service and as more and more people ask, the agents start getting interested in servicing the need.

Singh marvelled at Black and the success that he had achieved in such a short space of time. He had succeeded not only in rolling out a great product, but also in creating great enthusiasm within his team. Black's head of marketing commented:

> We are an organisation that is very much dependent on our leader right now. Jerome is great and I think it will be a challenge when we lose him as he has introduced a great working culture in the team where everyone feels united. Failure is never punished and we are all encouraged to think up new ideas that are never laughed at irrespective of how silly they might initially appear. There are no silos and everyone is working towards attaining the same goal.

Singh was also adamant that the culture he intended to create within his team be deeply embedded and sustainable. He reflected on one of his team members saying that people in the organisation were afraid to talk to managing executives, as they were deemed to be too senior and unapproachable. This could manifest in middle managers being hesitant to participate in strategic decisions due to the fear of challenging senior leadership. He thought back to his own leadership style and knew that inclusivity was key, so was seeing his team every day, greeting them personally every morning and inviting them to engage him personally on issues that they were experiencing. Experience had shown him that open and inclusive communication was a vital component for a high performance team.

He thought back to a conference he had attended a few months before on the complexities of change. In particular, his thoughts were drawn to a discussion on an organisation attempting to introduce and sustain an emergent approach to change. Singh had been surprised at the similarities between the critical success factors that were taught and the issues he was facing. The conference speakers stressed that the creation of an adaptive culture within an organisation contributed positively towards the introduction and sustainability of an emergent approach to change. In their view, it encouraged employees to monitor the changes occurring in the external environment and simultaneously make the relevant changes internally to remain competitive.

In Singh's view, the role of leadership would therefore be critical in guiding any change initiative. According to the experts, the leaders should be visionaries and should have the ability to think strategically and react quickly to take advantage of new opportunities. They must have the ability to create an environment where employees feel free to innovate and suggest new ideas, while ensuring that they are humble enough to recognise and acknowledge those employees who make valuable contributions. And, he contemplated, did not another speaker talk about participation of middle managers in strategic decisions? He recalled her saying that participation ensures bottom-up influence where more views and perspectives are considered before resources are committed, and this contributes positively to strategic planning. Senior leadership and management should also ensure that their egos not get in the way of innovation due to the fear of personal reputational risk in case the initiative failed.

The British change expert had stressed the role that flexibility and strategic planning or structure play during a change process and the importance of maintaining a balance between the two. Singh remembered thinking that being a subsidiary of an international listed company could sometimes introduce rigid structures that stifled innovation and the organisation's ability to adapt.

Keywords:
Leadership,
Organisational behaviour,
Change management,
Mobile telecommunication industry

With all these thoughts racing through his mind, Singh ordered a drink and stared out the window at the rolling clouds. Given the turbulent market conditions that the Vodacom Group found itself operating in, the ability to adapt was crucial for success. It would thus be a continuous challenge to maintain an adaptive culture without compromising on the structure and efficiency within the organisation, and a clearly defined strategy for the relaunch of M-Pesa would help in this regard. The benefits of improving customer retention and overall satisfaction, building brand awareness and creating trust with the Vodacom brand were all factors that would ensure the financial success of M-Pesa and contribute to the overall financial position of Vodacom. Singh would share his thoughts with Joosub at their next meeting. One thing he was certain of, though, was that they would need to improve their internal communication, so that their people fully understood the positive impact that the evolution in organisational strategy could have on their customers as well as the future of the organisation. The challenges in implementing M-Pesa were the very lessons that were necessary to elevate the Vodacom Group to an extraordinary organisation.

Further reading

Joosub, S. (2014), Interviewed by authors on 26 August, 27 September and 21 November.

Singh, H. (2014), Interviewed by authors on 24 October, 7 and 19 November.

Exhibit 1. Vodacom South Africa organogram (with details of mobile commerce team)

Figure E1

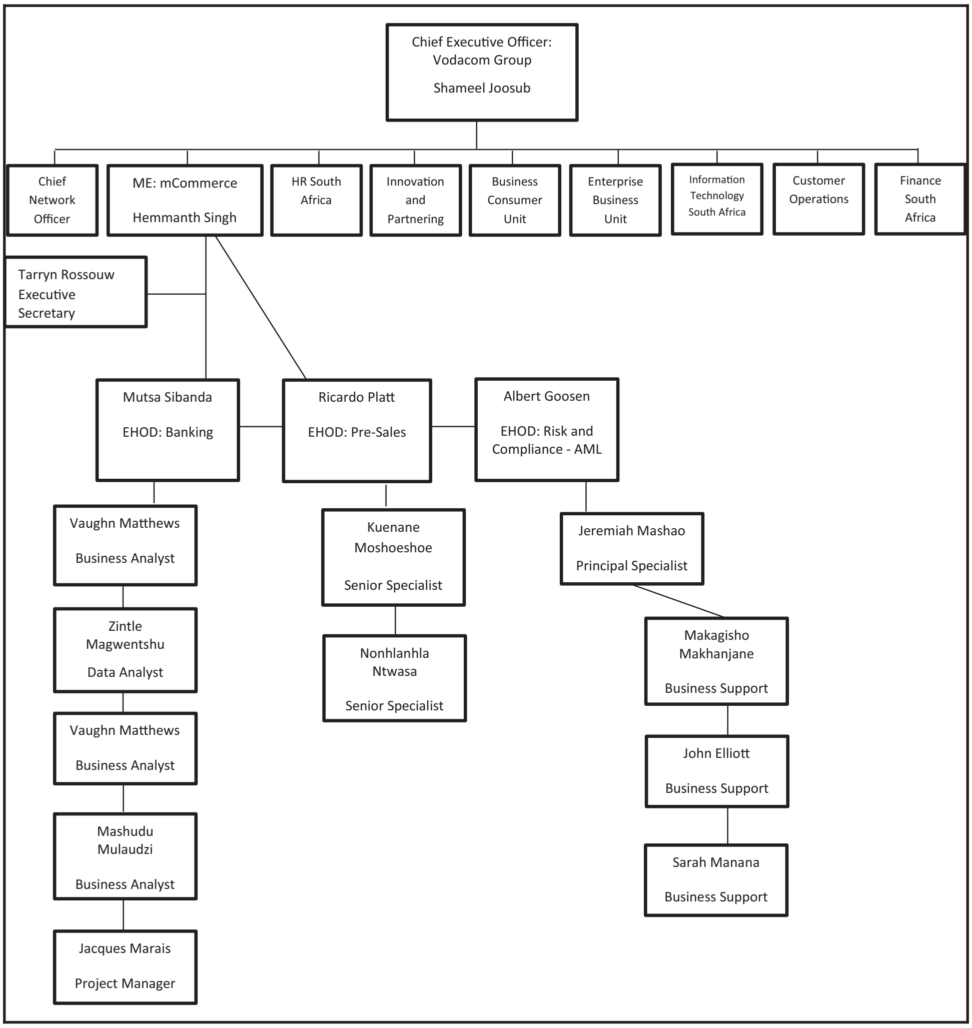

Exhibit 2. Vodacom key financial indicators

Figure E2

	Year ended 31 March			No change
Financial	**2012**	**2011**	**2010**	**11/12**
Service revenue (Rm)	**58 245**	54 052	52 184	**7.8**
Data revenue as a % of service revenue (0%)	**14.0**	11.9	9.1	
International service revenue as a % of Group service revenue (0%)	**17.4**	14.7	15.5	
EBITDA (Rm)	**22 763**	20 594	19 782	**10.5**
Opex as a % of service revenue (%)	**23.7**	24.1	23.4	
Operating free cash flow (Rm)	**16 934**	14 837	13 489	**14.1**
Free cash flow (Rm)	**10 971**	8 829	7 212	**24.3**
Headline earnings per share (cents)	**709**	656	510	**8.1**
Dividend per share (cents)	**540**	355	110	**52.1**

	Year ended 31 March			No change
Economic	**2012**	**2011**	**2010**	**11/12**
Distributed to employees (Rm)	**4 368**	4 049	3 884	**7.9**
Capital expenditure (Rm)	**8 662**	6 311	6 636	**37.3**
Distributed to governments (Rm)	**5 449**	5 027	4 255	**8.4**
Distributed to providers of finance (Rm)	**8 648**	6 076	3 233	**42.3**
BBBEE score (%)	**7 577**	7 084	6 956	
BBBEE procurement spend (Rm)	**16 429**	12 537	6 647	**31.0**
BBBEE enterprise development cumulative spend (Rm)	**1 438**	1 308	1 070	**9.9**

	Year ended 31 March			No change
Social - Employees	**2012**	**2011**	**2010**	**11/12**
Number of employees	**7 503**	7 513	7 643	**(0.1)**
Engagement index – People survey (%)	**73**	73	77	
Employee turnover (%)	**9**	11	6	
Women representation in senior management (%)	**26.4**	22.6	23.5	
Black representation in senior management (%)	**45**	42	41.3	
Total training spend (%)	**68**	71	58	
Average training spend per employee per annum (%)	**9 794**	9 359	7 570	**4.6**
Ratio of average basic salary of men to women	**1.5**	1.4	1.4	**7.1**

	Year ended 31 March			No change
Social - Communities	**2012**	**2011**	**2010**	**11/12**
Customers (thousand)	**47 835**	36 819	30 968	**29.9**
Active data customers (thousand)	**15 107**	10 168	7 294	**48.6**
Active M-Pesa customers (thousand)	**3 139**	1 317	371	**138.3**
Total foundation contributions (Rm)	**77**	77	83	**-**

Source: Vodacom integrated report (2012), Retrieved from www.vodacom.com/com/aboutus/annualreports

Exhibit 3. Vodacom values and vision

Figure E3

Exhibit 4. How M-Pesa works in South Africa

Figure E4

Note: In 2014, the M-Pesa (SA) VISA card was only usable within South African borders; For more information on M-Pesa, please visit: www.vodacom.co.za/vodacom/services/ financial-solutions/m-pesa; www.vodacom.co.tz/mpesa

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