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The Transformation of Equity Bank

"There was a time when our colleagues in the industry ignored us during marketing drives. Equity was not even on the programme of events. If we were lucky, we were asked to greet the people at the end of the meeting. We were snubbed because they considered us a village bank. The humiliation our marketing teams suffered brought us closer together. We kept our focus on our customers; how to serve them better and how to retain them… Today, we are one of the top three banks in Kenya. Many of our customers consider themselves members of the Bank. They make suggestions to us and they introduce their friends and relatives to the Bank."

- Equity Bank branch manager

Equity Bank had indeed been transformed from a moribund building society with total losses of over KSh 33 million and a non-performing loan portfolio of 54% in 1993, into one of the leading banks in the country. In 2008, Equity Bank was ranked the No. 1 Bank in the Banking Survey by Think Business. It won the Euromoney award for the Best Bank in Kenya in 2007 and 2008. At the Africa Investor Award ceremony held at the New York Stock Exchange in September 2008, Equity Bank was named the best performing public listed company in Africa. The list of awards won by the Bank was long and impressive.

Instead of celebrating the bank's successes however, the main architect of the transformation, James Mwangi, was thinking of the challenges ahead. He wondered if the Bank could continue to meet the expectations of its customers in the homesteads all over the country and in the towns. "This is not a bank. It is a movement. It has given people dignity and self esteem. Our customers think we can solve any problem. They think we are a panacea. They expect us to go beyond a socio-economic transformation. They feel they own this institution and they expect it to do more for them. Some of them even want us to help them solve their marital problems. What should we do?" he wondered.

Dr. Franca Ovadje prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

James Mwangi, the Managing Director, was also concerned about the fact that in the last 15years, the bank has not known hard times. He shared his concerns with the case writer:

"We have not failed in anything. Our people are used to 15% to 20% salary increases every year. They have come to expect smooth curves, exponential growth in accounts, in deposits, etc. Our customers are proud of the Bank. They walk into the branches like chiefs. They even confront the staff if they feel they are not working the Equity Bank way. From a moribund institution, their bank has become the most modern bank. If there is an external shock in the economy and/or the industry, will Equity Bank weather the storm? Do we have the capacity to face an external shock, to confront failure?"

Finally, as the bank began aggressive expansion in the East African region, James wondered if the executive management had the experience to lead the Bank into the future.

Background

Equity Building Society was set up in 1984 to provide financial services to the *nwananchi* - the ordinary Kenyan. From inception it had a strong social mission. While profit was considered important, the founders were more concerned with contributing to the social and economic development of rural Kenya by providing the poor with access to financing. The business model was simple: Equity Building Society collected savings from customers and gave mortgage loans. In just a few years, the company had opened five branches in rural areas.

However, Equity's growth spurt was short lived. The 1980s and 1990s was a period of intense competition in the financial services sector in Kenya. Many local financial institutions collapsed. These failures led to a crisis of confidence in the sector. Between 1986 and 1993, Equity grew savings by only KSh 2 million and loans and advances increased by KSh 5 million. By 1993, 54% of Equity's loans were non-performing and accumulated losses totalled KSh 33 million. According to a report by Microsave, "deposits were being used to meet operating expenses. The liquidity ratio stood at 5.8%, way below the required 20%."[1] Three major depositors accounted for 85% of the total deposits of Equity. One of them, the Kenya Ministry of Water, sued for ~~the~~ liquidation of the company.

Equity was declared insolvent by the Central Bank of Kenya (CBK). According to the CBK report, the main challenges facing Equity Building Society were poor management and ineffective governance. CBK respected Equity as a financial institution that [had] touched many Kenyans in a special way.[2] It was therefore reluctant to ask the Registrar of Building Societies to close the company. When Equity's Management pleaded for time to reverse the company's fortunes, CBK asked them to find a change agent. James Mwangi's name was put forward. At the time, James was one of the three major depositors of Equity and was a well known banker. The CBK acquiesced.

[1] MicroSave Africa, 2002, p.4
[2] Coetzee, et. al. p.2

James Mwangi Joins Equity

James Mwangi joined Equity in 1994 as the Finance Director and Change Agent. He converted his deposits to shares and became a major shareholder in the fledging firm.

He was the seventh of eight children. His parents were peasants. His father died when he was very young and his mother struggled to educate the children on her own. His mother had a great influence on him. Though the family was poor, she taught them to be generous with others. Commenting on his early childhood, he said:

"I have experienced poverty; I came face to face with it in my childhood. We struggled to survive. This makes it easy for me to champion the cause of the poor. It is not my struggle; it is the struggle of a class. Struggle has been a part of my life. People in the rural areas are simple and humble; they are down to earth. I connect with them because I grew up there; I went through the same difficulties. I learnt from my mother to feel for others."

James Mwangi studied Accounting at the University of Nairobi graduating at the top of his class. He joined PricewaterhouseCoopers upon graduation, moved to Ernst & Young after a few years and then to Trade Bank where he rose very quickly to the position of Group Financial Controller. He was one of the most senior Kenyan bankers in the country when he left Trade Bank in 1994 to join Equity Building Society. The case writer asked him why he joined Equity. He explained:

"It was a cause that appealed to my heart and soul. I was earning 12 times what Equity could offer. I was newly married and we had one child. My wife asked me how we will bring up a family on that income. I did not rationalize my decision. At that time Equity had only 2,892 accounts. The cause spoke to my heart. This was the last indigenous institution and it was about to be shut down. I had to do something about it. So I burnt the bridges and put my career and reputation at stake. I put everything I had into Equity. The option of failure was remote."

Refocusing the Firm

Although he joined Equity as the Chief Financial Officer and Change Agent, James was effectively the Chief Operating Officer. At a time when other financial institutions were moving out of the rural areas, Equity continued to focus on providing financing to its target market – the common folk in the homesteads, villages and towns.

The Building Societies Act then in force limited the operations of the business. James saw that the business model had to change if the company was to survive. The mortgage loans which Equity gave were rarely used to build homes. Their customers needed money to expand their small businesses. They needed money to buy more cows, fertilizer, etc. In 1994, Equity applied for and was granted a licence to operate as a Micro Finance Institution (MFI).

As an MFI Equity had access to short term savings and could grant short term facilities. The loan tenure was between 6 to 12 months. And the average size of the loan was $300. To attract deposits, the entry point was reduced to zero; there was no need to deposit money to open an account. Account holders could deposit money anytime and also withdraw anytime. Ledger and account maintenance fees were reduced to a minimum. This was at a time when banks had minimum deposit requirements to open an account and withdrawals were allowed once a week.

First Steps

James soon found that not only was staff morale low (there had been no salary increases for years), discipline was poor. For a successful turnaround employees had to acquire new skills and more importantly change their attitude to work.

"During the first two years, James led like a dictator. Staff either had to uphold professional discipline or leave. There were strict deadlines, a dress code, long working hours and an uncompromising customer service. The message was: You are either for us or against us.

As the results of this hard line approach began to bear fruit, both in terms of performance and the adoption of the new culture by the staff, James shifted more towards staff training, coaching and participating rather than making all the decisions himself."[3]

None of the staff at the time had a university education and they lacked professional banking experience. James saw the need to boost the confidence of the staff and fill the skills gap. During 1994, James Mwangi and Nancy Nyambici (a training consultant) provided training for all employees. Training sessions on self awareness, marketing, customer service, etc. were conducted. The trainers used the training programme as an opportunity to communicate the strengths of the new strategic direction (which was taking shape) and to instill in the employees the hope that they could turnaround the fortunes of the bank. James commented on his first actions:

"I spent a lot of time with people; I became a trainer. Even today, I am spending a whole day with the branch leadership. The interaction infuses and induces the right culture. Efforts were made to build a culture of client service and team work. These training sessions also created opportunities for coaching and mentoring."

Clarifying the Mission and Vision

After the initial training sessions, Management saw the need to define the firm's mission and vision. A consultant was brought it to facilitate the process. All employees were encouraged to participate in the formulation of the mission and vision (see Exhibit 1 for the Mission, Values and Vision Statement). The new vision and mission became James' mantra. He instilled hope in the employees. From a moribund organization, they were going to become a successful institution and a voice for the *nwananchi.* In a very short time, every member of staff knew the mission and vision and could recite them. The process was lengthy but "by the middle of 2005 everyone within Equity knew, and had bought into, the institution's plan and understood the roles they played in achieving it…. In the words of one Assistant Manager, "before … we just went to work to work. Now we are going to work to achieve goals."[4]

Building the Customer Base

Between 1984 and 1993, Equity Building Society had two products; a savings and a mortgage product. James and his team set out to build the customer base through aggressive one-to-one selling. "[I]n addition to mobilizing staff members, Equity persuaded influential customers to promote the institution. Equity's Board members, executive directors, management and staff

[3] Microsave, 2002
[4] MicroSave, 2007, p.5

spent vast amounts of time at formal gatherings, factories, shopping centres, offices and public meetings, creating awareness of the institution and its products and services with religious zeal"[5]

An old member of staff who is now a branch manager commented on those times:

"We fought for survival. We went on marketing drives and sometimes met our competitors there. We were ignored by our colleagues in the industry. Our name was not even on the programme of events for the function. If we were lucky, we were asked to greet the people at the end of the meeting. We were snubbed because we were considered a village bank. The humiliations our marketing teams suffered in the market brought us closer together. We kept our focus on our customers; how to serve them better and retain them. When we got back to the branch we told the entire team our experience and we strategized. …I think this is the genesis of our family spirit. We did not lose our focus on how to find new customers and retain them."

Performance improved between 1994 and 2003 (see Exhibit 2). However, growth brought new challenges, one of which was the need to increase the capital base. In 1997, Equity invited its customers to convert their deposits into shares. Many of them took advantage of the offer and the number of shareholders grew from 10 to 2,500. When it became necessary to shore up the share capital again in 2003, Equity attracted $1.4 million from the African Micro Finance Fund. The Fund gained control of 16% of the firm.

By 2003, Equity had metamorphosed from a building society to a successful microfinance institution. However, the micro finance model was not without its limitations. As Equity's customers grew their businesses their needs changed. Some customers were effectively running small and mid-sized enterprises. As a MFI, Equity could not provide its customers with chequing accounts, bank guarantees, trade finance, nor carry out foreign exchange transactions on their behalf. It was clear that another change was necessary: Equity had to become a commercial bank. The Management focus shifted towards developing the capacity to operate as a commercial bank. James Mwangi was to lead the institution into the future but this time as Managing Director.

James Mwangi takes Charge

James Mwangi became the Managing Director of Equity in 2004 following the retirement of John Mwangi. At the time, the firm had become very profitable. The number of deposit accounts had grown from 12 in 1994 to 252,000 by the end of 2003 while value of deposits had increased from 115 million in 1994 to 3,368 million KSh. Equity had established itself as a micro finance institution serving the *nwananchi* – the common folk.

Entering the Premier League

Aligning with the Mission

One of James Mwangi's first tasks as Managing Director, was to articulate the mission and values of the firm. Senior and middle level managers participated in the process which was facilitated by a group of consultants. By the end of 2004, seven critical success factors for the

[5] MicroSave Africa (2002, p.11)

mission and vision had also been identified. They included: an organizational culture that values people, enhances performance and supports people; a customer focused organization, high quality asset portfolio, efficient and effective operations and execution of strategically planned expansion. Throughout the first half of 2005, the mission, values, vision and critical success factors were communicated to the whole organization. The organization was focused on the critical success factors; everyone in the organization now had the template against which to evaluate their role and contribution. Goals, targets and measures as well as activities were agreed for each of the critical success factors.

Building Organizational Capacity

Corporate Governance

Equity Building Society was set up by a few friends. As the firm's performance worsened in the early 1990s, some of the shareholders lost interest and pulled out. Between 1994 and 2000 Peter Munga, John Mwangi and James Mwangi were the only members of the Board. During these years, the survival of the company was their primary concern. They got very involved in the day-to-day activities of the firm.

In the year 2000, the trio invited four successful professionals and businessmen to the Board. One of them was one of the earliest clients of Equity. A new era began in which Board meetings were held regularly and for the first time, "Board minutes reported … heated debates on the projections presented by management. In the minutes of subsequent meetings, one sees signs of differing opinions, discerning questions, diversity of perspectives and a strong grasp of economic, financial and strategic issues."[6]

The British American Investments Company got a seat on the Board with their purchase of a substantial stake in the firm. 1n 2003 Africap (funded by DFID, IFC, and others) joined the Board having bought 16% stake in the institution. Finally, Helios EB, a private equity fund, joined the Board in 2007 with the acquisition of 24.99% shareholding. The CEO of the Nations Group (the largest media group in Kenya) was a member of the Board. In February 2009, the Board had 14 members, 12 of whom were non-executives. All Board members signed Equity Bank's 86-page document which detailed the Code of Corporate Practices and Conduct (see Exhibit 3 for the Statement on Corporate Governance).

Leadership

James Mwangi realized that without a strong leadership team the organization would stagnate. He explained:

"We have three generations working in the Bank today. The pioneers set up Equity Building Society. As the firm grew, we realized that we needed a new set of skills. The pioneers were not prepared to lead the transformation. To give them the same opportunity as those we were to bring from outside, we encouraged them to register for degree programmes in the local universities. Many of them were admitted and the Bank paid the fees."

[6] Coetzee et al. (quoted in MicroSave, 2007, p.15)

In 2003 James initiated the process of recruiting people from outside into management positions. Senior level positions in marketing, human resources management, IT, finance and internal audit were filled from outside. The new recruits came from blue chip companies like East African Breweries, Safaricom, etc. The head of credit was poached from the Central Bank of Kenya. This second generation led the transformation of Equity from a micro finance institution to a commercial bank. Many of them joined the Bank at a time when it could not match their salaries. The case writer asked the MD why they agreed to join Equity. He responded:

"I have a personal gift of giving and receiving friendship. I suspect that they came because of me. I told them what I could offer but painted a graphic picture of the future. Maybe they joined the future. They found a purpose to live for. Equity is not about banking; it is a cause. The whole organization is aligned to the cause. It is difficult to fit into Equity without seeking a meaning in your life. The organization is not about money, it is about championing a cause; about being the voice of the voiceless. It is a movement."

James Mwangi believed that consultation and involvement in decision making make people feel bound to the decision. However, although he sought opinions widely, he did not lack the courage to take decisions. While he delegated authority and responsibility, he performed a very strong oversight function. The IT platform gave him access to real-time information on performance. Customers also called him to make suggestions or lay their complaints.

Leadership development programmes were organized regularly for managers. The senior team had attended the Advanced Management Programme organized by the Strathmore Business School in collaboration with IESE Business School. Apart from regular training programmes, job shadowing was often used for staff development.

The case writer asked James to elaborate on his style:

"We de-emphasize hierarchy. Everyone is addressed by his or her first name. We do not respect positions. We want people to behave as human beings. We look for people who are independent. We have no room for mimicry or sycophancy. We want to sift through our collective knowledge and come up with great solutions.

I am a coach. I have an intuitive sense of when someone needs me to coach them. I respect my team and I am willing to lead it. I think I am known to give room to people to perform. I listen to advice. I ask questions. I allow people try so people feel they can learn, and learn from their mistakes too. I may guide the decision but they know it is their decision."

A few managers commented on James leadership style:

"James is a visionary leader. He shares the vision, ensures that the objectives are understood and then allows you run with it. He gives you the resources you need to deliver, and then he demands results. You know he is there for you; you can consult him if you need help. He also consults a lot. He is always looking for new insights so he talks to people a lot. He values consultants." – A manager

A branch manager commented:

"I am on ground. I take decisions. New issues come up all the time; we deal with very poor people. I throw up the issues to the head office. They fine tune my suggestions, process the information, etc. I talk to James, to Alex. I tell them I am in a fix. I tell them what I have tried and they make suggestions.

New challenges come up everyday. For example, a customer walks in to open an account. We find out he has no National Identity Card. We tell him how to get one - the name of the agency, the address, etc. One customer came to withdraw money from his deceased daughters account and he had no death certificate. We help them find solutions. We are in touch with the Registration Bureau, etc. We solve the problems."

A senior manager commented on James' power of persuasion:

"We wanted to buy a new IT package some time ago. The initial investment was for $10m. The executive team thought it was too expensive. James convinced us and the Board to spend even more than that. He said we will see the results in 3 years, and we did.

In 2004 when there were only 700 members of staff he knew all of them. The Bank has grown tremendously since then so it is difficult for him to know everybody now. He gives members of staff surprise calls to ask questions about the results he is looking at on the screen. Once he called up a branch manager and said, "I see you have opened many new accounts today. What is going on?" James is in touch with the people and the business. He knows what is happening. He wants an explanation for success as well as failure. Customers call him up too. It is sometimes embarrassing for senior managers; a general manager may not have heard of a complaint that James received from a customer."

Organizational Structure

When James Mwangi became MD in 2004, the positions and reporting relationships were as shown in Exhibit 4. In preparation for the transformation of Equity into a commercial bank, a general manager level was added to the structure. The positions of General Manager, Business Growth & Development, Customer Service, Information Technology Services, and Legal Services and Company Secretary were created. The general managers reported to the Managing Director.

In 2007, a new layer was once again added to the structure: the Director (see Exhibit 9). General Managers reported to the directors who in turn reported to the Managing Director. In 2008, the position of Director, Customer Service was created. The new positions were filled from outside. No member of the executive team had been with the Bank for longer than four years (except the Managing Director). A number of managers who reported directly to the Managing Director in 2004 were now three or four levels below the Managing Director.

Building the Culture

When he became Change Driver and Finance Director in 1994, James Mwangi focused on building a culture of customer service and teamwork. Through training programmes, clear targets and personal example, James taught the staff the importance of discipline, teamwork, and uncompromising customer service.

The culture is that of a caring bank. A lot of value is placed on humility, listening, partnering. According to the Director of Strategy:

"Our culture is built on humanity. It is easy to embrace our core values. Creativity, teamwork and unity of purpose are all pertinent values in a movement. Our people are passionate about what they do. This is because of the DNA of the bank."

James Mwangi elaborated on the Bank's culture:

"Friendliness and humility are important to us. We are a very humble brand. Our people have to be humble and down to earth. I interact a lot with the staff. I spend 80% of my time with the staff. I champion the DNA of the bank. I cascade the vision. My role is to live the mission and vision; to set the example, to the best of my ability. I never do anything even subconsciously that goes against the mission and vision. Our mission and vision have remained the same over the years. What we have done is give it a wider geographical space, scale it up, use words that reflect the changing times. The spirit has not changed. We built the culture over time. I pushed it till it acquired a life of its own. I never in my actions or behaviour contradict the culture."

The Bank has an open door policy. The branch managers' offices are located close to the entrance door. Customers are encouraged to see the branch manager if they so desire. One branch manager explained:

"I attend to over 50 customers each day. I cannot lock my door. I come in early and close late to get my paper work done. At the end of the day, I can say: Yes, I was working. "

In 2005, corporate culture was identified as one of the key success factors for the Bank's mission. As the bank grew and became more successful, James was concerned that the culture was not lost. Promoting from within was not a viable option as new skills were required. To manage the possible negative impact of the rapid growth in staff numbers on the culture, Equity appointed some of the older members of staff as culture ambassadors. They told anecdotes of the beginnings and related customer success stories emphasizing the role Equity played in these successes.

Operations

Between 1993 and 1999 Equity's customers grew from about 3000 to 50,000. All transactions were carried out manually and no new branches were opened. The result was crowded banking halls and very long queues. Customers waited for over an hour to be served. Although procedures and processes had been optimized and standardized, the increase in the volume of business exacerbated the operations. In the year 2000, Equity launched computerized banking software, Bank 2000. It took only four months instead of the estimated 24 months to install the system. Managers and employees spent weekends in the office to facilitate a smooth transfer from the manual system to the new system. The results were impressive. Transaction time was reduced to 5 minutes; the number of active savings accounts per staff grew by 59% in 2001 compared to 11% the previous year.[7]

[7] (MicroSave, 2002 p. 42).

Although 21 new branches had been established since the software was introduced the number of customers grew so fast that a lot of pressure was put on the infrastructure (see Exhibit 5). The business model of high volume, low margins put a lot of pressure on operations especially after Equity became a bank in January 2005. The number of customers and the value of deposits doubled. Account activity also increased. Long queues returned crowding the banking halls. It soon became clear that the capacity of the Banking software, which was installed in 2000 and subsequently upgraded, was limited in terms of the number of accounts and transactions it could handle and also the management information it could provide. Resources were strained and it was feared that customer satisfaction would dip.

Mwangi convinced his management team and the Board to invest about US$10 million in Finacle by InfoSys. The new system could handle 35 million accounts, 5000 ATMs, thousands of Point of Sales, etc. By December 2005 the system had been deployed. The Bank also began to install ATMs more aggressively.

Following the listing of Equity Bank on the Nairobi Stock Exchange in August 2006, the number of new accounts increased from about 1,200 per day to 2,400 per day. To handle the increase in volume, more ATMs were established and customers were encouraged to use them. By December 2008, the Bank had 3.3 million customers, 129 branches, 500 ATMs (VISA branded) and 2500 Points of Sale.

Winning and Delighting Customers

The customer is at the heart of Equity Bank's activities. While competitors discouraged frequent account withdrawals and required minimum account balances as well as minimum deposits to open an account, a customer could open an account with Equity Bank without money. No minimum account balance was required. There were no limitations on access to money in the account, no limit on the amount and frequency of withdrawal and account maintenance was free.

The provision of innovative and value adding products to the *nwananchi* was considered central to Equity Bank's strategy. There were products for farmers, fishermen, women, the youth, etc. A customer of the Bank who is a small business owner told the case writer:

"They have many products. They are now selling insurance. The other day I went to my branch and found that they now give loans to enable people buy water tanks and septic tanks! Can you believe it? All that you require is a pay slip; no collateral! Everyone in Kenya will soon own a plastic tank."

To drive innovation and unearth the real needs of customers, the Bank regularly conducted market research. Surveys and focus groups were used to understand and delve deeper into customer expectations, customer complaints, etc. The findings of these research projects sometimes challenged management thinking and beliefs about customer expectations. James Mwangi commented on the first market survey which was carried out in 2000/2001:

'with market research things that we never thought were true, and things that we held so dearly as true, were challenged... Armed with the findings of the market research on what the market segment wanted, we refined our products.'[8]

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[8] (MicroSave, 2007)

Customer surveys are conducted regularly and action plans are communicated to customers. For example after the second survey in 2002, the Bank sent 200,000 personalized letters and SMS messages to its clients communicating the changes to be made in the organization as a result of the listening exercise.

Customers regularly gave feedback to the bank through personal visits and phone calls. Some customers went to the head office to talk to James Mwangi personally. One senior manager commented:

"If something happens in one of the branches the MD hears of it from a customer within 48 hours. Customers sometimes call to advise him to terminate the appointment of officers who do not fit the Equity culture."

Customers also made complaints and suggestions by completing the customer feedback forms available in the banking halls. An older member of staff in one of the branches commented of the feedback process:

"We ask for their contact details in the suggestion forms so we can visit them and listen to them more closely. Sometimes, we do not have a solution to the customer's problem, but we give them hope. Hope is important".

A recent customer survey showed that about 75% of the customers were first time users of banking services. A large majority said they liked the fact that the members of staff were warm and friendly. One of the things they said they did not like was the congestion at the branches. As one customer put it: 'Equity is not like the other banks. If I have a problem, I can see the Branch Manager and he will listen. They care about their customers and offer loans to us when other banks never would. Equity is my bank, even if I have to queue for an hour to get my salary right now, I know they are working to change that – because they care.' [9]

Customers were grateful to the Bank for changing their lives. Many have been able to educate their children, pay hospital bills, etc. They benefited a great deal from the basic business training Equity Bank provides for its customers. An officer in the Naivasha branch elaborated:

"We want our customers to be the role models in their community. We help them succeed. We feel it is our duty to listen to our customers. No matter how busy we are, if a customer stops any of us in the banking hall, we listen and respond to the customer. This has helped our customers a lot. Some of them are illiterate and they have never used a bank before. After listening, we make suggestions to management and this helps us serve our customers better."

A credit officer who has been with the Bank for 9 months said:

"We go out to meet the customers. We sit with them on stools or stones and discuss one on one. This cements the relationship with the customer. The farmers tell you their stories. Before they had nothing, with loans from Equity they now have a few cows, they send their children to school, etc. They appreciate. As a credit officer, I have freedom to do my job so long as I follow the procedure. I can consult anybody if I have a problem. People support you, they guide you." Some of the older customers called the branch manager their son. The branch manager

[9] MicroSave, 2007, p. 11

commented: "this encourages me to treat them as my parents. A bond develops. This bond links me with my colleagues; who become my brothers and sisters. This is a family. We help one another; if a cashier has a problem, we help him or her find a solution."

The case writer asked a new customer about her experience with Equity Bank. She responded:

"I am a sukumawiki farmer. I came because I want to plan ahead. My children are growing and I want to save for their school fees. Someone told me to go to Equity because they do not ask for money to open the account. I can also use any of their branches. There are no monthly charges. There were very many people but the lady was fast. She explained to me that I can put money into my account every day from my daily sales. She helped me draw up a plan for saving for my children. I am going to deposit a little money everyday."

The employees and the Bank also helped customers through unexpected situations. A customer may walk into a branch to cash some money from his account and find that he has no money because the wholesaler has not paid for the milk or tea he supplied. Sometimes, the customer has no money for the fare back home. The Bank gives him the fare (about 100 Ksh) without documentation. The customers always pay back.

Many of the customers especially those in the rural areas felt they were owners of the Bank. They talked about their membership number and not their account number. They took pride in the success of the bank. When in 2004 they knew that Equity wanted to become a commercial bank, they expressed their fear that Equity may behave like other banks and forget the *nwananchi*. James was careful during its re-branding to communicate its commitment to the common folk. In a recent survey, 78% of customers said that only death will make them leave Equity Bank.

The bank has grown through word of mouth advertising. Customers introduce their friends and relatives. They act as guarantors for those who want loans. Equity Bank also uses public relations events to increase its brand awareness. Two of such events were the acquisition of a banking licence and the listing on the NSE. Such public relations events were held in prestigious hotels and long term customers were invited. The press coverage of these events provides free advertisement for the Bank. The fact that Equity Bank is a successful Kenyan institution is emphasized at these events. The Managing Director was also frequently in the news. The many awards won by the Bank as well as presentations by the Managing Director at the African Business Leaders' Forum and G8 Gleneagles were presented in the media as achievements of an indigenous institution.

When customers were asked what they did not like about Equity the response was, congestion of the banking halls. To solve the problem, Management had set up new branches, ATMs had been installed but the congestion problem persisted. One of the very congested branches was located next to the Nairobi City Hall. To decongest the branch, a new branch was opened within a few metres of the first and ATMs were installed. Management soon realized that the ATMs were not being used and congestion in the first branch continued while the new branch built its clientele. Customers would go to the branch with their ATM cards in their pockets and queue to see the cashier. One customer explained: "This is our branch. We like it here. The man at the counter makes me happy."

To encourage customers to use the ATMs, management hired 100 street hawkers (young boys who sold recharge cards and other items on the road). They were trained and then sent to the branches to convince customers to use the ATM machine and teach them how to use it. The hawkers mixed with the customers on the long queues. They explained the convenience and cost effectiveness of the ATMs to the customers. They also helped customers use the machines for the first time. Within one month, many of the customers started using the ATMs. The Director of Strategy compared their strategy with that of other banks:

"Some banks introduced a stiff penalty for cash withdrawals from the counter. Instead, we sold the convenience and value to our customers. Today, 80% of our transactions are done with the ATM."

A major challenge for Equity as it grew was how to serve its customers whose businesses had become very successful. A number of these customers had annual turnover of between 10 to 20 million US$. Their needs had changed. They wanted trade finance, SME banking, foreign exchange and VISA cards. By 2006, Equity Bank was one of the most capitalized banks in Kenya. It was doing better than the multinationals. It could do high ticket transactions but should the focus change? Could the Bank serve the *nwananchi* and the mid-sized companies?

The Director of Strategy explained:

"We are a micro finance institution. We focus on the poor. But should we lose customers we have worked with over the years? Are we an incubator for other banks? No, we are not. So we decided to set up a few prestige branches and created a corporate banking unit to serve these customers. Today, we have four of these branches. We never advertise this aspect of our business. The prestige branches are by invitation only. All the customers who use these branches are our old customers. However, these customers invite their friends, business partners, etc. so the branches are growing."

People Management

James Mwangi was convinced that people were critical to the realization of the Bank's mission. The number of staff had grown substantially over the years (see Exhibit 6). A lot of effort was made to recruit and retain people who fit the Bank's culture. In his own words:

"We are a very disciplined and militant organization. The culture repulses those who are opposed to it. It is like blood transfusion. Any member of staff who is not humble, not down to earth is under pressure. He or she is swimming against a strong current. On the other hand, if the personality fits the culture, it is like swimming downstream. We never lose people at the leadership levels. Once you have stayed with us for one year, it is difficult to leave. About 80% of those who leave voluntarily do so within the first six months of employment. "

The organizational culture was a very effective social control mechanism. New recruits who did not share the values came under a lot of pressure to conform. Those who do not fit leave within a few months.

Recruitment

The Bank attracted people who are caring, humble, and down to earth. People were not hired into a job role: their principal responsibility was to contribute to the achievement of the purpose. A manager who had been with the Bank for four months commented: "Equity Bank does not just give you a job; it is a calling. I used to work for a foreign bank. There were days I did not look forward to going to work. I felt stifled. At Equity, decision making is fast. We ask the key questions: does it fit with our strategy? Can we do it? Which resources are required? And we move. A relative of mine, who is a customer of Equity Bank, told me about the Bank before I joined. She was very enthusiastic about the Bank. After I joined, I found that all what she told me about Equity was true."

Performance & Reward Management

Expectations were clearly communicated and resources were provided to enable people achieve set objectives. James Mwangi explained:

"Entrepreneurial spirit is important but you need much more otherwise you have a rail and no trains. People need resources in order to deliver. Our assets have increased over 30 times in the last four years. We cannot have achieved that with entrepreneurial spirit. We provided the resources and found competent people who believe in the course.

You cannot empower people with rhetoric. Maybe I am the only entrepreneur in this bank. Entrepreneurs dream but the dreams must be operationalized and executed. It is execution that counts and there is nothing entrepreneurial about execution."

Performance was carefully managed at the Bank. The process began with goal setting. The Director of Strategy elaborated:

"At the Managers' Congress every quarter, they (the managers) let us know what they want to achieve. There is a spirit of competition. If one manager sets a target for himself that others think is low, they question him: 'Why is your target so low? You have many tea farmers in the area. Don't they need our services?' At the end an agreement is reached."

During the year, performance was monitored and managed. The appraisal system was recently changed to an open and collective system. James believed that open and transparent appraisals were better suited to the mission of the institution.

"This is not a bank", he emphasized; "this is a movement. We are all members of a movement. We should all know what each one is contributing."

Managers on the same level sat down with a senior executive, usually the MD to discuss their performance. Each colleague contributed to the debate. They asked questions and rated each other's performance. The views of subordinates were also taken into consideration during the appraisal sessions. If a manager's performance was below expectation, a team made up of his colleagues was given the task of coaching him and helping him succeed. All the members of staff were encouraged to ask for help whenever he or she needed it.

Sometimes, a decision was taken to demote a member of staff. The MD explained:

"We tell the person with performance problems: Look we gave you a general's position but you are not delivering so you should go to a captain's position and let's look for a general for this job. From the top management team of 1993, not one of them is in the executive management. We have brought in layers of management and hired people from outside to fill

these positions. Today, there are 4 or 5 people who can succeed me. We all want to be led by the best person; the one who will generate the most value for the Bank."

The case of the IT manager is illustrative. He was the head of IT and reported directly to the MD before 2004. As the bank grew and a new IT platform was required, a general manager was poached from another bank to head the department. Today, the IT manager is about 4 layers below the MD. Recently, he became a shareholder of the Bank.

Practically all the staff who had been demoted still worked with the Bank. The Director of Strategy explained:

"We let people know why they have to go back and we ensure that everyone reports to someone who is better experienced, knowledgeable, etc. Everyone sees their role; their contribution. They recognize that the better the leader, the better for everybody. They know they have built the institution and they can see their role. They also realize that the institution is growing and new skills are required. We are a team. Glory goes to the team; awards are given to the team. If we see you are not a good striker, we find where you will contribute best and put you there." She concluded: *"If things don't go right in your home, you don't leave your home."*

A branch manager commented on the appraisal system:

"There are no arguments. The appraisal is on numbers. You were supposed to handle say 300 transactions, why did you deal with 200? What are your challenges? The review is to help the member of staff to succeed. The Team provides advice, mentoring, etc. to those that need help to reach their goals."

"I attend the appraisal sessions for branch managers. I have access to the figures for all the branches. It is a transparent system. Branch managers ask each other for help. I sometimes call up other branches "my brother how are you handling this?" At the appraisal we critique each branch's performance and proffer solutions to problems they are having. It is not humiliating. At the branch level it is the same. The Key Performance Indicators (KPIs) and performance against them are on the intranet. Anyone of us can access them. We track many things. There are no arguments. We work through the numbers and ask questions."

Performance was rewarded. For performance levels between 8 and 10, the bonus was 3 times the person's salary. Employees who had a performance rating of 2 or below were asked to leave the Bank. In 2007, 18 people left on account of poor performance.

There was a salary structure and each employee had access to information on how bonuses were calculated, how much her earnings would be, etc.

"Pay is competitive. We all have individual and branch targets. For example, each cashier is expected to handle say 300 transactions a day; no credit officer should have more than 2% of loans outstanding unpaid. We earn a quarterly bonus which is based on the KPIs," explained a branch manager.

Social Responsibility

The Bank started a pre-University Sponsorship Programme in 1998. The male and female students with the best scores in the national examination (KCSE) in each of the districts where Equity Bank has a presence is awarded a scholarship to university. The programme was formally launched in 2007 by the Minister of Education, Prof. George Saitoti. In 2008, the Bank spent 112 million KSh on 186 students.

The students were invited to work as interns in the branch of Equity in their district. A branch manager shared his experience with the Programme:

"This branch serves two districts so we get four interns every year. We encourage the interns to save during the time they spend with us. A number of them pay for the education of their siblings with some of their savings. Most of them go on to university and come back to work with us during the vacation period. During this time they are exposed and get to understand our culture. When they graduate, we give them employment in the district. I have a few of them in my branch. They are serving their community."

Equity Bank was involved in a host of social projects including the lighting of slums in Nairobi. Most of these projects were suggested by the members of staff in the community.

Moving Ahead

James Mwangi sat at his desk in his office on the 14th floor of the NHIF Building. The new head office building of the Bank can be seen from one of the windows and one can make out the Nairobi Park and the Ngong Hills. But James' thoughts were not on the beautiful scenery; he was taking stock and looking ahead. A new mission and vision had been agreed upon in 2008 (see Exhibit 7); there was so much to be done.

He had no doubt that the institution had been transformed. By the end of 2008, Equity Bank had become a one-stop financial services firm. It provided insurance services, and had received a licence from the Capital Markets Authority and the Retirement Benefits Authority to provide custodial services. The Bank was listed on the Nairobi Stock Exchange on the 7th of August 2006, at an initial value of 6.3 billion KSh. By 31st December 2008, its market capitalization was over 65 billion KSh. It was the only stock that returned positive shareholder value during the year 2008 at the Nairobi Stock Exchange (see Exhibits 8a and 8b for financial results).

The shareholding was well diversified. No individual owned more than 6% of the shares. Institutional investments owned about 40% of the Bank. Helios EB Investors became the largest single shareholder with their investment of US$180 million in the Bank. British-American Investments Company (Kenya) Limited was the second largest shareholder with about 11% of the shares. Both Africap and Equity Bank Employees held about 4% of the stock each. Over 7000 shareholders held about 31% of the stock.

Results of surveys in East Africa showed that only 35% of Ugandans have access to finance. During 2008, Equity bought Uganda Micro Finance now Equity Bank Uganda Limited. This added 31 branches to the branch network almost overnight. A Managing Director had already been appointed for the greenfield operation in southern Sudan. Equity had entered a new phase in its history; the Equity Group had been born. James wondered whether the executive team could lead the Bank through this new phase.

An additional source of concern was competition. The success of Equity Bank had drawn attention to the wealth at the bottom of the pyramid. Competitors were falling over each other selling products to the *nwananchi*. Could the other banks copy Equity's strategy successfully? Maintaining the tempo was not going to be easy.

James Mwangi wondered if the Bank could continue to meet the expectations of the customers and the employees. *"The public owns this institution. 78% of our customers told us in the last survey that only death could make them leave Equity. This is good, but are their expectations realistic? Some of them want us to go beyond the socio-economic mission. They see us as a panacea so they bring all their problems to us. Can we meet these expectations? Should we?*

For 15 years, we have not confronted failure. For many years, employees have not known hard or lean times. We expect and see smooth curves, no shocks; we are constantly growing. What will happen if there is a huge setback? Does the Bank have the capacity to manage failure?"

EXHIBITS

Exhibit 1 Mission and Vision Statements

Mission Statement 1995
"We, Equity Building Society, will mobilize savings and term deposits for the timely provision of loan facilities to generate sufficient and sustainable profits. This will enable us to contribute to the members' (clients') welfare and to the national economy. Equity recognizes the importance of staff members and their contribution to the institution and will avail them of opportunities for growth and job security."

Vision: To become the biggest microfinance provider in Kenya in terms of funding, loan portfolio and profitability

MISSION STATEMENT 2007
We mobilize resources and offer credit to maximize value and economically empower the micro-finance clients and other stakeholders by offering customer -focused quality financial services.

VISION STATEMENT 2001-2005
To be the dominant microfinance provider in Kenya by the year 2005

VISION STATEMENT 2005-2020
To become the microfinance provider of choice in Kenya and the region

Core Values

Professionalism

Integrity

Creativity and Innovation

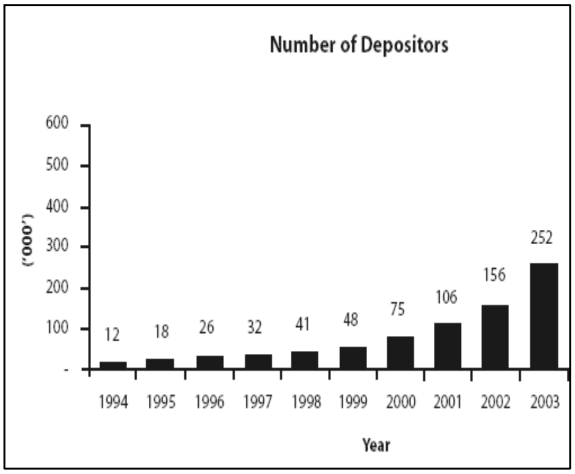
Teamwork

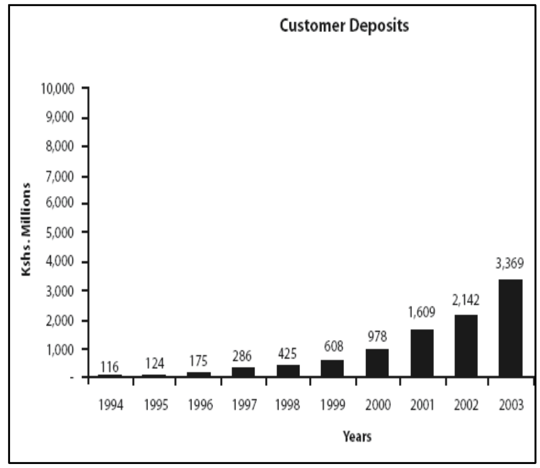
Unity of Purpose

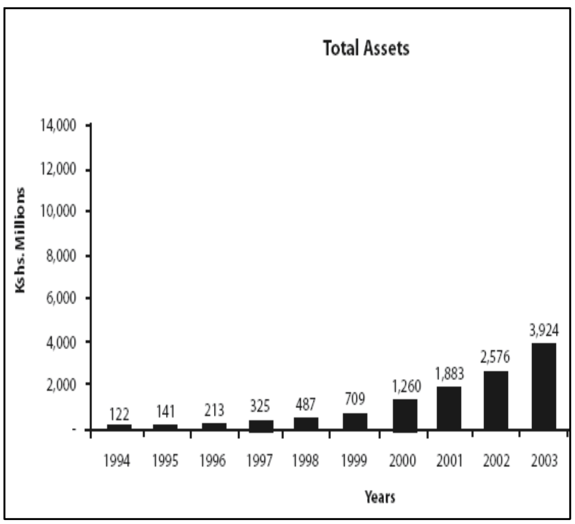
Respect and dedication to customer care

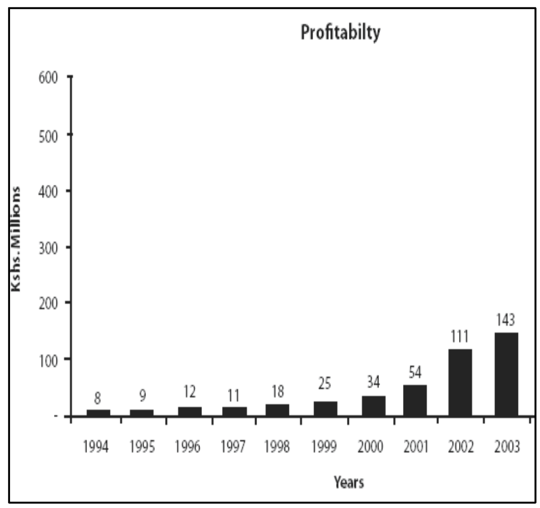
Effective Corporate Governance

Exhibit 2 Summary of Equity Bank Performance 1994 – 2003









Source: Equity Bank Information Memorandum 3rd July 2006

Exhibit 3 Statement on Corporate Governance

Equity Bank's corporate governance is a culture built on the bank's core values. The Bank is managed by a Board of Directors that is responsible for the long term strategic direction to ensure maximization of economic value to stakeholders. This Bank incorporates high standards of corporate governance and business ethics. It is also characterized by transparency and openness, good corporate citizenship, fairness, compliance with regulatory and prudential requirements.

The bank has an elaborate governance structure comprising Shareholders, Board of Directors and Board Committees together with an effective management structure that enhances the separation of duties and dual control system.

Oversight Role of the Board of Directors
Over the years, the Board of Directors has supervised the delivery of dramatic growth with the bank continuing to deliver strong financial performance. It has also provided leadership to the Bank resulting in the bank being able to take its services to the furthest reach of the Kenyan society and generate great shareholder wealth.

The Board has attracted directors who have shown great commitment and enthusiasm in involving themselves in the affairs of the Bank and who have demonstrated the spirit and ethos of the organization. In line with maintaining international standards, the Board commissioned and successfully completed a self evaluation exercise in year 2007. The evaluation focused on the role and responsibility of the Board, structure, composition, functions and processes, information, meetings, among other critical areas.

Board Committees
The Board has established seven committees which are all governed by Charters.

Audit Committee- It ensures that the bank has and adheres to the sound policies, processes and procedures that deliver business strategic plans effectively. It also reviews the financial performance of the Bank, internal controls, performance and findings of internal auditors.

Credit Committee- Reviews and oversees the overall lending policy of the Bank, it ensures lending systems and procedures are adequate and adhered to.

Risk Management Committee- Ensures the quality, integrity and reliability of the Banks' management. It also discharges duties relating to corporate accountability and associated risks in terms of management assurance and reporting. The committee also monitors compliance with the Banks' risks policies and procedures and reviews regularly the adequacy of the Risk Management framework in relation to the risks faced by the Bank.

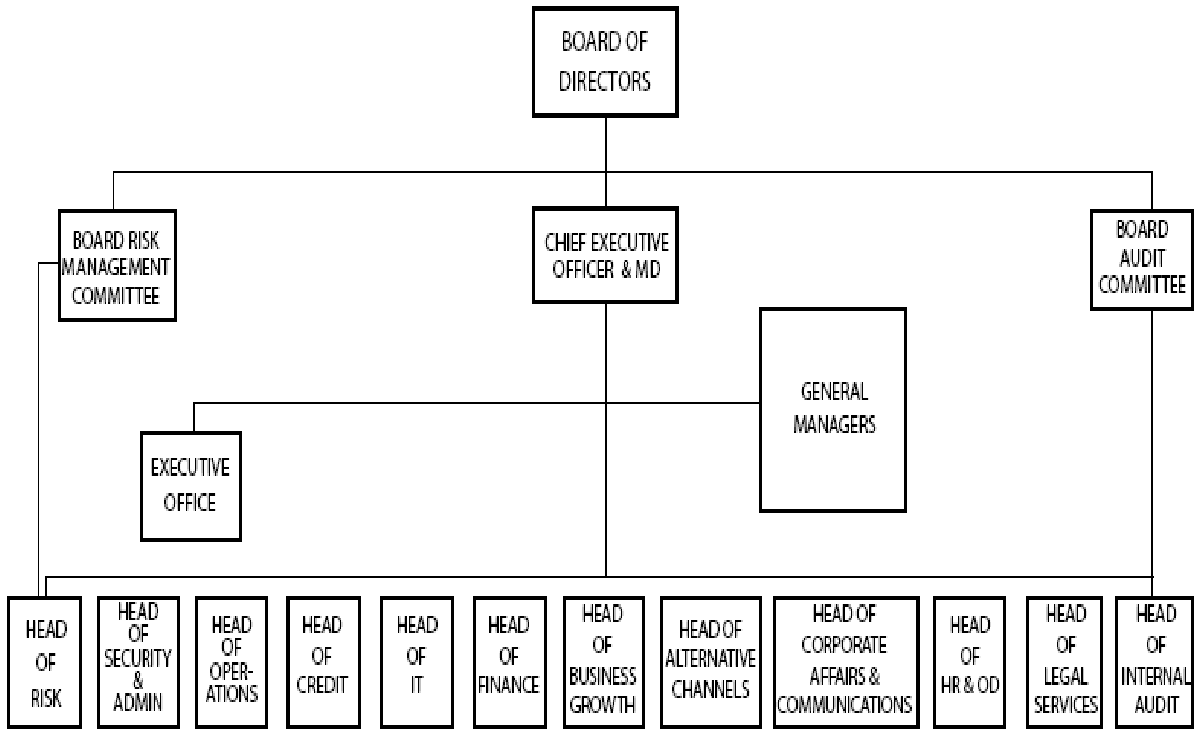
Strategy and Investment Committee- It supervises the development of corporate strategy and monitors the implementation of the same. It manages the process of resource allocation to increase shareholder value in pursuit of the vision of the bank. It also reviews and considers the proposed strategic investments, makes recommendations to the Board and advices the management accordingly.

Tendering and Procurement Committee- Oversees and keeps the Board appraised on issues pertaining to the tendering and procurement of goods and services for the bank including regularly reviewing the tendering and procurement procedures.

Governance, Board Nominations and Staff Remuneration Committee- Ensures implementation and compliance with Human Resource Policies, makes recommendations to the board for policy on executive and senior management remuneration formulated to attract and retain high calibre staff and motivate them to implement the bank's strategy. It also ensures the board appointments maintain a good mix of skills, experience and competence in various field of expertise.

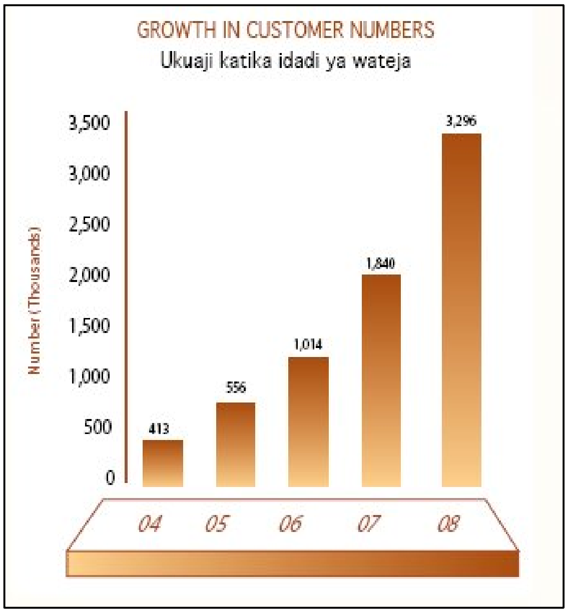
Board Executive Committee- It provides coaching and mentoring for the Chief Executive and provides the link between the Board and the management. The committee provides a first line of support and response to management.

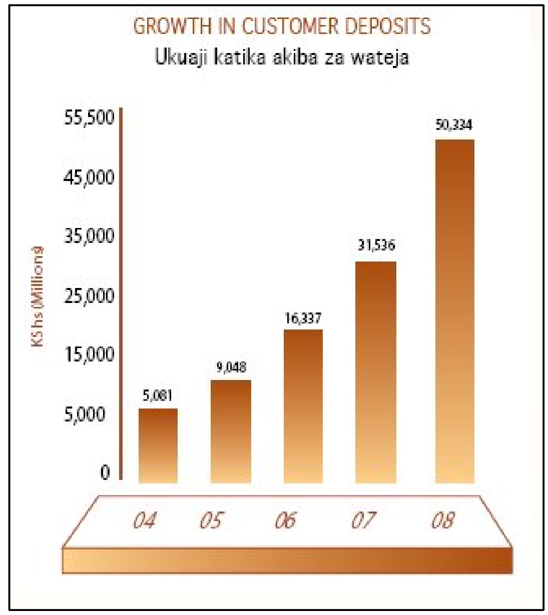
Exhibit 4 Equity Bank Organization Structure 2004



Source: Equity Bank Prospectus 2006.

Exhibit 5 Growth in Number of Customers and Deposits 2004 – 2008





Source: Equity Bank 2008 Annual Report and Financial Statements

Exhibit 6 Growth in Staff Numbers over time

Growth in Numbers of Staff at Different Levels in Equity 1995-2006

	`95	**`96**	**`97**	**`98**	**`99**	**`00**	**01**	**`02**	**`03**	**`04**	**`05**	**`06**
Board Level	3	3	3	3	3	7	7	7	8	7	10	9
Executive Management	2	2	2	2	2	2	2	2	3	12	14	15
Branch/assistant branch managers	6	6	10	13	15	18	22	24	30	49	61	71
Senior managers at Head Office	2	2	2	1	1	2	3	3	7	10	23	63
Administrative support staff	4	4	1	5	5	4	7	15	22	24	24	152
Credit staff	6	8	10	12	16	17	36	28	51	86	149	297
Savings staff	25	34	31	47	72	72	81	108	205	360	591	692
Management information systems staff	1	1	-	1	1	1	3	5	8	13	33	48
Finance/accounting staff	3	2	1	3	1	4	6	7	11	7	14	17
Marketing staff	-	-	-	1	-	-	5	10	12	10	10	22
Internal audit staff	-	-	-	-	-	-	2	3	5	4	5	9
Total	**50**	**62**	**60**	**86**	**116**	**124**	**176**	**210**	**360**	**530**	**884**	**1395**

Source: MicroSave 2007

Exhibit 7 Mission and Vision Statements 2008

Purpose

We exist to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximize their opportunities.

Our Vision

To be the champion of the socio-economic prosperity of the people of Africa.

Mission Statement

We offer inclusive, customer focused financial services that socially and economically empower our clients and other stakeholders.

Positioning Statement

Equity provides Inclusive Financial Services that transform livelihoods, give dignity and expand opportunities.

Tagline

Your listening, caring partner.

Our Motto

Growing together in trust.

Exhibit 8a Income Statement and Balance Sheet 2004 - 2008

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER

In millions of Kenya Shillings	2008	2007	2006	2005	2004
Interest income	7,169	3,155	1,635	948	459
Interest expense	-1,217	-495	-127	-82	-64
Net interest income	**5,952**	2,660	1,508	866	396
Fee and Commission income	1,308	562	1,863	937	640
Net fee and Commission income	1,308	562	-	-	-
Trading income	734	246	-	-	-
Other operating income	3,562	2,353	-	-	-
Total operating income	**11,556**	5,821	3,371	1,803	1,036
Impairment loss on financial assets	875	-25	-	-	-
Personnel expenses	2,584	1,469	1,856	1,040	563
Operating lease expenses	357	182	-	-	-
Depreciation and amortization	712	423	280	138	84
Provision for bad and doubtful debts	-	-	133	124	171
Other expenses	2,271	1,409	-	-	-
Total Expenses	**6,799**	3,458	2,269	1,302	818
Profit before Tax	**4,757**	2,363	1,103	501	218
Share of profit of associate	34	15	-	-	-
Profit before income tax	4,791	2,378	-	-	
Income tax expense	-1,038	-488	-350	-156	-82
Profit for the year	**3,753**	1,890	753	345	136
Earnings per Share (KShs)	10.25	7	8	3.8	5.43
Dividend per share (KShs)	3	2	-	2	2

Source: Equity Bank Annual Reports (2003-2008)

Exhibit 8b Balance Sheet 2004 – 2008 - *BALANCE SHEET* AS AT 31 DECEMBER

In millions of Kenya Shillings	**2008**	**2007**	**2006**	**2005**	**2004**
Assets					
Cash and cash equivalents	12,018	11,996	2,691	13,061	790
Loans and advances to customers	40,857	21,836	10,920	5,524	2,874
Government securities	-	-	1,651	1,254	-
Treasury bonds	-	-	-	-	578
Investment securities	12,151	13,543	11	11	11
Placement and balances with other banking institutions	-	-	2,023	2,094	1,914
Investment associate	1,156	442	-	-	-
Tax recoverable	-	-	-	-	-
Property and equipment	4,259	2,603	1,470	1,045	408
Prepaid lease	4	4			4
Intangible assets	348	224	161	90	8
Investment in subsidiary companies	2,976	-	-	-	-
Amount due from group companies	182	-	-	-	-
Other assets	3,184	2,428	1,088	126	120
Deferred tax	-	-	-	4	-
Total Assets	**77,135**	**53,076**	**20,025**	**11,457**	**6,707**
Liabilities					
Deposit from customers	48,977	31,536	16,337	9,048	5,082
Current Tax	514	209	147	168	12
Deferred tax liabilities	67	45	11	-	9
Other borrowed funds	6,167	4,521	486	-	297
Other liabilities	1,751	1,848	843	647	-
Total liabilities	**57,476**	**38,159**	**17,824**	**9,863**	**5,398**
Equity					
Share capital	1,851	1,811	452	452	91
Share premium	12,161	10,543	-	-	843
Available for sale reserve	(112)	13	-	-	-
Statutory loan reserve	308	253	-	-	-
Other reserves	-	-	1,748	1,141	(12)
Revenue reserves	-	-	-	-	299
Capital reserve	-	-	-	-	51
Retained earnings	4,340	1,754	-	-	-
Proposed dividends	1,111	543	-	-	38
Total equity	**19,659**	**14,917**	**2,201**	**1,594**	**1,309**
Total liabilities and equity	**77,135**	**53,076**	**20,025**	**11,457**	**6,707**

Source: Equity Bank Annual Reports (2003-2008)

Exhibit 9 Organizational Structure 2007