



## **Understanding the rebirth of Equity Building Society in Kenya**



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## Understanding the Rebirth of Equity Building Society

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### Executive Summary

#### **Introduction**

This study started with the assumption that it would be easy to explain Equity's success. However, we found the opposite to be true. This is both a function of the integrated nature of factors underlying success, and the fact that we are describing success (and challenges) from the perspective of a range of different stakeholders. Our perception of success factors led to a construct with which to assess the causes, working on the premise that successful institutions must be market focused. Thus, the report starts with Equity's market and how that translates into a product range and delivery system. Once one knows the market and what it demands from one's organisation, it is time to capitalise the organisation and work out issues of ownership and governance.

Thereafter, we turn to the aspect of management, as the governance level directs and focuses the institution while the management level must implement. This is followed by a section on the measurement of management and institutional performance. The last part of the report relates to human resource issues and how these can contribute to success. However, it is of the utmost importance first to look at the context within which Equity operates. Without knowledge of the context, most of the success factors will not mean much. Please note that all information and data used in this report are dated May 2002.

#### **Context**

In an interview with a current Board member, the remark was made that Equity is successful notwithstanding the state of the economy. This is indeed true. During Equity's initial years, the Kenyan economy grew, albeit in a repressive climate of too much control and regulation. In the early 1990s, the economy was liberalised and many controls were removed. At that time, however, the economy started a slow decline, and now it is quite stagnant. Kenya's change in the early 1990s to a multiparty democracy coincided with the liberalisation of the economy and the financial markets. Equity benefited tremendously from the latter, as did the microfinance sector in general.

The Building Societies Act and the situation of building societies have also changed considerably over the last 10 years. This resulted in the minimal difference today between the Banking Act and the Building Societies Act. The changes in the Building Societies Act were the result both of the market liberalisation drive (which was partly a product of the World Bank/International Monetary Fund's financial sector reform requirements) and the way in which building societies, and particularly Equity, conducted their business and pushed the boundaries of the legislation.

Why was Equity spared liquidation by the Central Bank of Kenya (CBK) in 1992? What influence did the operations of building societies (and specifically Equity) have on the subsequent amendments to the Building Societies Act to bring it closer in line with the Banking Act? We put these questions to both Equity and the CBK, and what emerged is a picture of Equity management greatly valuing CBK supervision and of the CBK having developed a rational respect for Equity as a "financial institution that has touched many Kenyans in a special way". While continuing to raise concern about areas of operation in which Equity is seen to contravene the law, the CBK has opted to apply rational judgement recognising that the Building Societies Act does have limitations.

#### **The market**

Although Equity has gradually evolved from a product-driven to a market-driven approach, the institution's focus on low-income clients and their needs must be traced back to the day it opened its doors. From the start, Equity's minimum opening balance for saving accounts has given credence to the institution's sustained focus as a microfinance provider for the last 18 years and is one of the success

factors this study has identified. The resolute mission “shift” from mortgage financing to microfinance in 1994 is an additional success factor.

Equity’s aggressive marketing campaign, fuelled by a revitalised mission, is yet another success factor. The institution’s commitment to provide an innovative and diversified product menu for its clients, and not to bind itself and its clientele to the traditional microfinance products, is commendable. Equity’s market-driven approach has increased its understanding of its clients and the competition. The list of success factors would not be complete without including Equity’s excellent service delivery to its clients. The lesson here is an uncompromising focus on the market and on client service. Client service pulled the institution through its early years, and a better understanding of the market and a client-focused rather than a product-focused approach resulted in the explosion of the portfolio over the last few years.

### ***Ownership and governance***

An important point is that Equity’s stakeholders consider the shift in focus from mortgage finance to microfinance to have been a major factor in the success story of the society. Though registered under the Building Societies Act, it is evident that Equity has never really been a fully-fledged mortgage financier. Registration under the Act was a convenient and legal means for going into banking. Equity found itself limited from entering serious mortgage financing due to its own under capitalisation. On the other hand, it could not openly enter the microsector or any other form of lending business due to stringent regulations and administrative barriers then in place.

Right from the start, the Board Chairman, Peter Munga, has given the Board an element of continuity and presence. His commitment to, and support of, the organisation are inspirational to the management and newer Board members.

Equity stakeholders uniformly indicated that leadership is one of the most significant factors that has contributed to the success of the institution. Two names were consistently mentioned as having provided the leadership: John Mwangi, Chief Executive Officer, and James Mwangi, Finance Director. In many instances, the stakeholders, especially staff, were unable to distinguish between the roles played by these two persons. When James Mwangi, the young, dynamic and very competent Executive Finance Director joined the Board and management team, a new leadership style emerged as John supported and encouraged James to assume leadership of operational management. John assumed the role of an executive chairman while James led operational management. As we shall see, James has had a profound influence on Equity. Three aspects of his leadership stand out. The first is that of having created a challenge, achieved by redefining the mission and vision of Equity and then promoting it to a creed. A compelling vision and drive were thus created that began to move others from their comfort zones. The second is the provision of training to build technical skills and to boost confidence for achieving the vision. The third aspect of his leadership style has been to delegate responsibility, creating incremental challenges and rewarding performance.

The success factors may be summarised as the focus on a specific market segment, uncompromising leadership, and a benevolent CBK.

### ***Management***

In this section of the report, we emphasise management’s ability to, and performance in, managing the changes it effected in Equity and in the perceptions and aspirations of different stakeholder groups. Classical organisational management literature identifies eight key points for bringing about changes in organisations. We decided to use this framework as it is well tested and a good measure of the key steps in organisational change. We found that Equity comprehensively implemented the management of change process according to international best practice.

Financial institutions need to win the confidence of clients and authorities. Unless they do so, they will not succeed in building large savings portfolios and in gaining customer loyalty. Equity is fiercely focused on creating and containing customer loyalty and on doing everything in its power to gain and

strengthen clients' confidence in it as a financial institution. All its activities and actions are weighed in terms of the impact they will have on customer loyalty and trust.

### **Measurement**

We see this as the area in which management gathers information, analyses it, makes decisions based on the analysis, and then implements and monitors these decisions. Information gathering must be purposeful and include the systems used. The challenge to management here is to work back from the ultimate goal with information gathering and analysis, to ascertain which will be the most appropriate methods and systems and, most importantly, what kind of information is needed. Is it appropriate to their market, to their control and reporting systems, and for expanding their client base and product range? Do they use what they have gathered?

For over 16 years, Equity survived under the growing difficulties of a manual information system, which were amplified at every level of growth. Both customers and staff members felt the strain of the manual system as Equity expanded its volume of business over the years. Equity launched its computerised management information system in June 2000, completing the process of computerisation in a record of four months. Equity's efficiency in collecting and giving data and its service delivery to customers improved greatly thereafter. With the new system Equity managed to improve its customer turnaround time from 30–40 minutes to about five minutes at the counter. Although Equity's growth is partly attributed to its marketing and customer-focused efforts, it is clear from the high growth spurt in 2001 figures that the new computerised system has been a major contributing factor.

Equity conducts a general analysis of its performance based on certain key indicators. This study concluded that, beyond the basic analysis of these indicators, there is inadequate data mining from the system. For instance, there is a need to extract a profile of the different types of clients (e.g. successful clients, clients who are most profitable to Equity, risky clients, clients who consistently run into repayment problems), in order to cross-sell products and target research at further product development. This profiling of clients requires more socio-economic information to ensure a combination of the different data sets and to build up adequate profiles of clients. In addition, profiling is an integral part of scoring techniques, something that Equity should also consider. Automation, therefore, has brought positive results and has contributed to an increase in productivity and an expansion of the portfolio. However, we highlighted that, with regard to information and measurement, there is much scope for improvement.

### **Human resources**

When we asked Equity stakeholders to identify the key factors that have led to the success of the institution, seven out of the top 12 factors related to the quality and status of human resources. Both management and staff trace the start of the turnaround to the self-awareness and management skills training provided by the two consultants, James Mwangi and Nancy Nyambici, in 1993/94. The training created in the staff and in Equity as a whole a new awareness of their ability to make a change and of the great potential in the microfinance market. To make the turnaround, Equity needed to acquire relevant human resources, as well as train and reorient existing resources.

There is a tradition of recruiting young, educated people with little or no experience at entry points. A recruitment committee comprising senior managers in Nairobi branches and at Head Office interviews and selects the most suitable candidate for a given position. On the few occasions that Equity has needed to recruit senior managers with experience from outside the organisation, this has been done by headhunting. The committee prefers to fill management positions from within. In the last 18 months, however, it has sourced a number of experienced people for management positions from outside Equity.

The initial training by the consultants led to the consideration of further strategic issues, culminating in the work on formulating a vision and mission for Equity. The initial vision and mission took a while to work out but, in the process, two things fell into place. Firstly, everybody contributed, thus creating a sense of teamwork and joint responsibility for the future of Equity. Secondly, the process highlighted many areas in which training was needed before the mission could be implemented to reach the stated

vision. It showed the importance of receiving training in marketing, in client services and in the many aspects of banking which, until then, had not been internalised by the staff.

Equity's development partners have been particularly useful in helping to build its human resource capacity and therefore contributed to its success, especially in recent years. In particular, recent assistance by *MicroSave-Africa* and Swisscontact in training Equity's staff in market research for product refinement and development has played a significant role in strengthening the institution's customer-oriented strategy and focus.

### **Focus**

Equity's focus on its microfinance customers must be regarded as an important success factor since 1995. This focus, which is embodied in the mission of the organisation, drove most of the activities of Equity. Staff have internalised this focus – which is clear when interacting with any staff member. The focus on the management of client perceptions is an embodiment of the importance attached to clients. Lastly, the impeccable attention to client service must be seen as one of the most important success areas of all. All staff members are extremely focused on client service and this has been ingrained as part of the Equity culture.

### **Challenges**

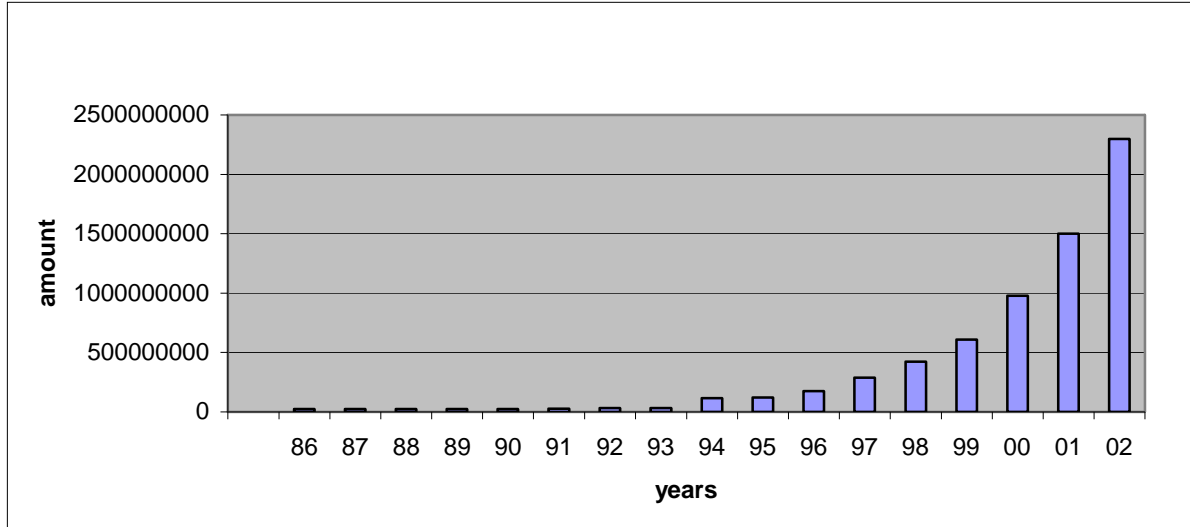
In the discussion to identify factors that have led to Equity's success, we also encountered remaining challenges. Equity's management and the Board concur with these challenges, many of which are reflected in its 2002–2006 Strategic Plan. We mention the most prominent challenges and follow the same structure as for the success factors:

- Maintaining the client-focused culture, even with growth
- Maintaining a quality loan portfolio and a satisfied customer base
- Continually training its staff in the management of risk
- Continuing to monitor its competition
- Introducing frictionless inter-branch banking services and automated teller machines
- Addressing the need for commercial banking capacity in staff and systems
- Addressing clients' concern that it would be difficult for Equity to maintain its culture if it converted to a bank
- Extending its services to other parts of the country
- Changing clients' perceptions of the pricing of products
- Conducting continued market research to track and react to changing client needs and demands
- Addressing the fact that a greater public offering of shares could lead to mission drift
- Further strengthening internal audit and control systems
- Maintaining the current management culture, even though Equity is growing fast
- Performing a deeper and wider analysis and profiling of Equity's clients
- Establishing the human resource function, headed by a senior professional
- Ensuring that staff members are clear on the functioning of the comprehensive incentive system

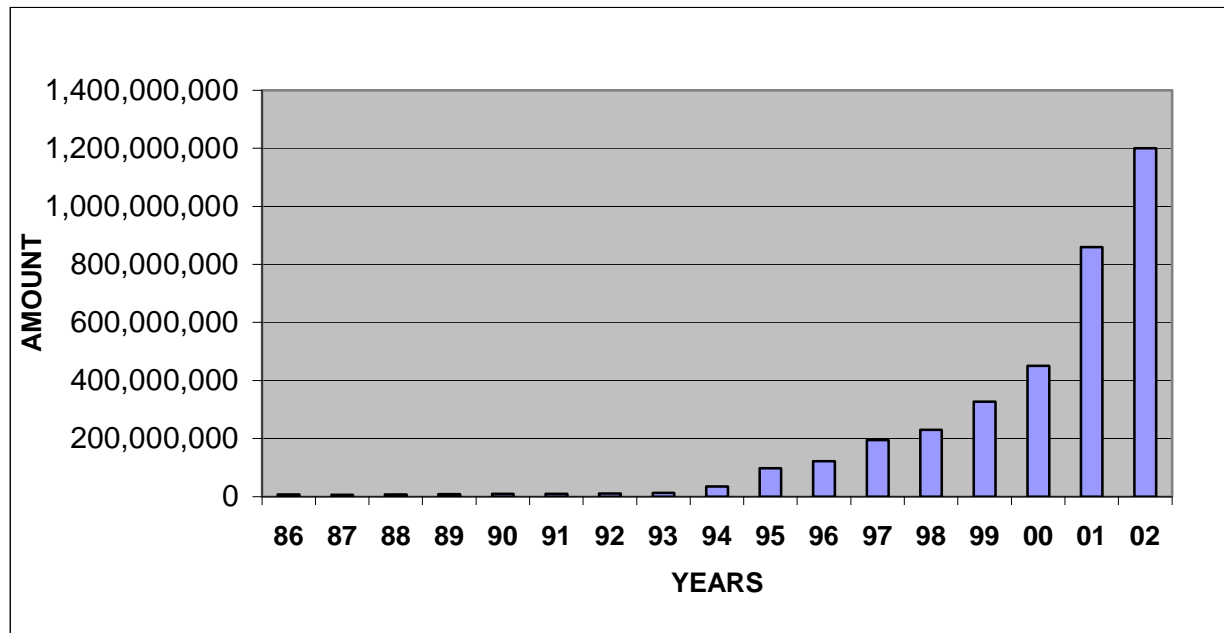
We show that Equity's success is due to a combination of different factors in different periods during its lifespan. It starts with the establishment of Equity at a time when the founding members saw opportunities, but where competition and failure in the environment had a profound impact. It started in an environment that provided but a small window for innovation, as the economy was largely controlled at the time. The initial euphoria turned into despair and survival became paramount. What pulled Equity through? It has been the establishment of a culture of client service and staff teamwork, right from the start, as well as the absolute determination not to give up or simply to survive. Circumstances changed and the environment became more conducive to success. Leadership prevailed and mobilised the right resources that have catapulted Equity into its current growth spurt. During this time the culture of teamwork and staff dedication was revised, improved and entrenched. The culture of client service and client focus was also strengthened. This led to many staff and management innovations, as well as a complete focus on growth and success. Many challenges remain, but we are confident in the leadership's ability to meet these.

## EBS PERFORMANCE GRAPHS

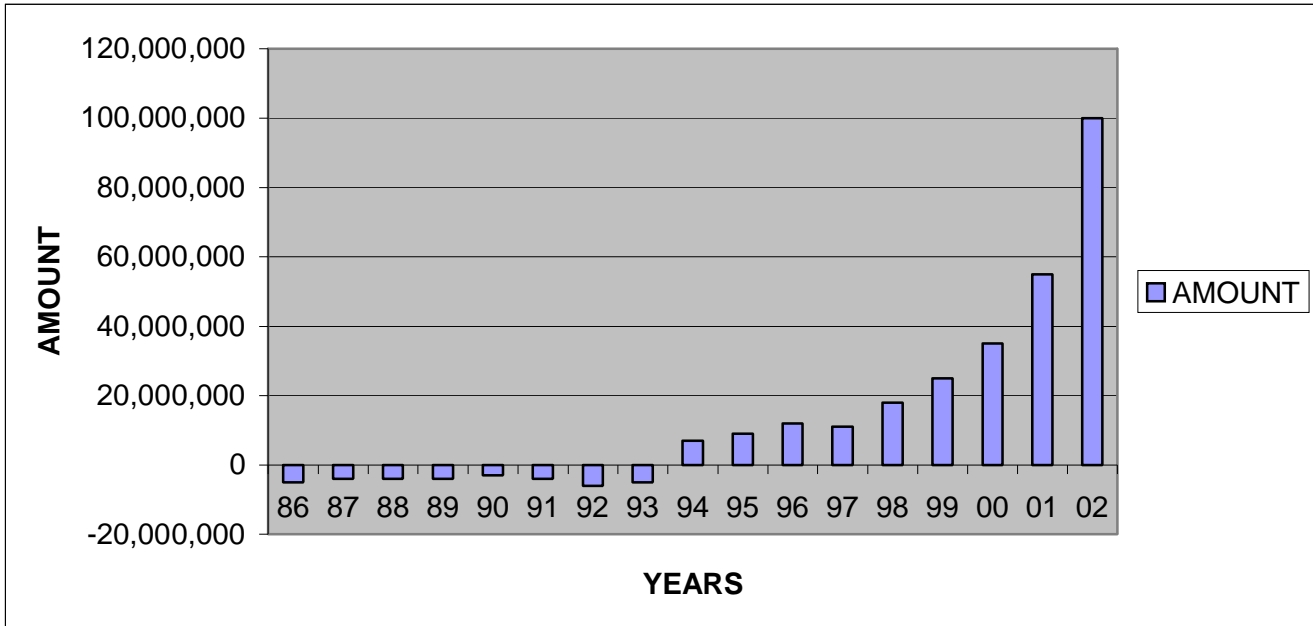
### CUSTOMER DEPOSITS In Kshs.



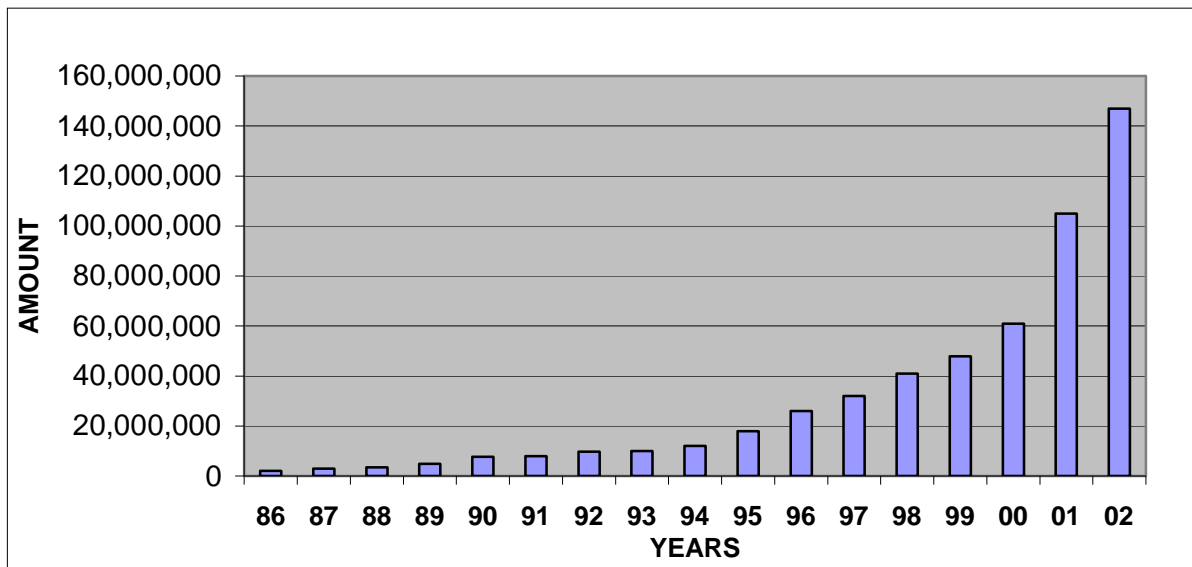
### LOANS & ADVANCES Figures in Ksh.



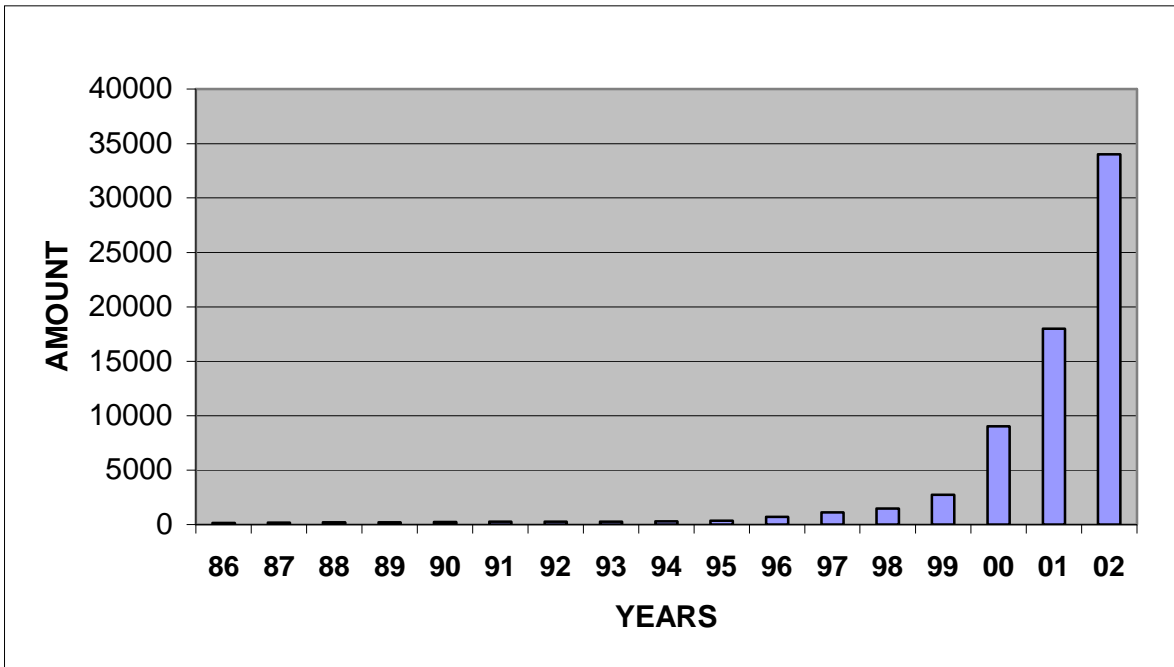
### PROFITS AND LOSS Figures in Ksh.



### No. of Depositors in Thousands



### No. of Outstanding Loan Accounts



### NO. OF STAFF 1994-2002

