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Understanding the Re-birth of Equity Building Society in Kenya

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PREAMBLE

Understanding success is often more difficult than one would expect at first glance. When things are going well, it is easy to notice profit, productivity, expansion and satisfied clients. Success is even more vivid when it contrasts strikingly with many other local, regional and international experiences.

Then the process of investigation starts, and it becomes quite clear that it is, in fact, no easy task to understand and pinpoint the causes of success. In this report we followed a logical approach to understanding these causes, and we have come to realise that a combination of many factors is involved. We have attempted to identify what we have called the "leverage points", those moments or processes that, we argue, have led to Equity's success. In the process of investigation and deliberation we became more than the team appointed by ***MicroSave***. Our team was expanded to include all the people we interacted with, from government stakeholders, development partners, board members, management and staff, to those people we simply met in the street, the taxi driver, the person serving us lunch.

Our core team does not consist of organisational development specialists. We are all microfinance people, coming from different backgrounds and different experiences. We have combined these backgrounds and approaches to create this report. It is a joint effort and a joint result. We have enjoyed this assignment, as it has given us a glimpse into an institution that has a sense of energy. It has shown us people with commitment, who have succeeded in quite difficult circumstances. This is the story of Equity – its life story.

This report not only tells a story of success and achievement, it also portrays the stark reality of the risk of growth, the risks inherent in the management of people, the protection of a culture, and the many challenges that remain for Equity.

For us it has been a privilege to work on this assignment, and we believe that it has produced certain lessons for others, and also for Equity.

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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 undercapitalisation. 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*** 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 interbranch 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.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACP-EBAS	African Caribbean Pacific – Enterprise Business Assistance Scheme
AFC	Agricultural Finance Corporation
ARP	Action Research Partner
ATM	automated teller machine
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poorest
DFID	Department for International Development
EU	European Union
FDCF	Financial Deepening Challenge Fund
FINCA	Foundation for International Community Assistance
IMF	International Monetary Fund
Ksh	Kenyan shilling
LAN	local area network
MESP	Micro Enterprise Support Programme
MFI	microfinance institution
MIS	management information system
MSE	micro- and small enterprise
NGO	non-governmental organisation
SACCO	Savings and Credit Cooperative Society
SME	small and medium enterprise
STG	pound sterling
SWOT	strengths, weaknesses, opportunities, threats
UNDP	United Nations Development Programme
VSAT	Satellite based communication system
WAN	wide area network

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1. INTRODUCTION

1.1 TERMS OF REFERENCE AND BACKGROUND

Equity Building Society (hereafter Equity) is an action research partner of *MicroSave*. Between 1984 and 1993, Equity experienced a stagnant deposit base, stagnant loan base, a deteriorating loan portfolio and continuing losses. As at 31 December 1993, Equity received a Central Bank of Kenya (CBK) rating as technically insolvent. The rating noted that supervision by the Board was poor, management supervision was inadequate, asset quality was unsatisfactory, Equity's capital was fully eroded by accumulated losses, and that deposits were being used to meet operating expenses. At the time a decision was made to turn Equity around and refocus the institution.

As from 1994, Equity began to transform from a building society that focused on savings and mortgage loans, to one that focused on "the mobilisation of savings and term deposits and other funds to promptly and efficiently provide loan facilities to the microfinance sector in order to generate sufficient and sustainable profits for the welfare of all stakeholders". In essence, the result was a complete refocusing of the institution. Since then Equity has experienced consistent growth of 40–50% per year in terms of profitability, deposit base, loan portfolio investment portfolio and asset base. It has received support from a range of development partners. It has also received a high rating by the CBK and PlaNet Finance.

The objective of this assignment is to document Equity's process of transformation, and to understand and record the reasons for its success, as seen through the eyes of its management, staff, clients and competitors, and to highlight areas in which it still needs to improve.

1.2 CONCEPTS OF SUCCESS AND INNOVATION

1.2.1 Evaluations, ratings and success

In recent years, and in reaction to the growth in and commercialisation of the microfinance sector internationally, the concept of rating and appraisal methodology (and standardisation) has come to the fore. Investors want to know what risks they have to manage and accommodate, and the microfinance fraternity wants to know the success factors that need to be monitored and internalised. At first, the emphasis in this study fell on the concept of "international best practice". This was obtained from the early success stories in microfinance, notably the Bank Rakyat Unit Desa in Indonesia, Bancosol in Bolivia and, in some ways, the Grameen Bank in Bangladesh. It was also based on the success stories of many smaller institutions, mostly those that had been commercialised and could demonstrate financial sustainability (and financial self-sufficiency) and outreach, where one measure of outreach was the poverty profile of the clients.

These "best practices" were applied as the measuring and rating benchmark. Many institutions that were measured fell short of this standard. In most of these earlier assessments, the concept of contextualising international best practices was not entertained. In recent developments there has been a specific emphasis on the link between best practices and context, with most rating reports including the socio-economic and political context within which institutions operate. These reports, however, rarely provide

the link between performance measured in best practice measurements, and the context within which the institutions operate.

The use of these rating approaches[1] and the resultant reports are thorough and also give a comprehensive indication of an institution's performance in specific areas.[2] They do not, however, cover the actions that have led to good performance in much detail. Each rating element is discussed and some qualitative assessment is linked to quantitative measurements. Although our approach in this report uses the rating results as part of our argument, we essentially concentrate on those activities done by individuals or collectively by groups that directed or redirected institutions on the road to success. Such an endeavour is difficult to quantify and in many cases is the product of perceptions. It is also difficult to measure or conclude on, as perceptions of success and contexts within which we measure differ in most situations. We therefore are challenged, first to outline those elements of success and levels of achievement that will indicate success.

1.2.2 Success concepts specific to Equity

This section provides the background to our later discussion on areas of success and how these were implemented. The identification of success areas is a product of industry thinking and the perceptions of stakeholders. It called for an analysis of areas to which microfinanciers need to give special attention to ensure that institutions are sustainable and reach many clients. Over and above the normal banking considerations, such as cost efficiency and volume of transactions, specific areas relating to interactions with poor clients and their money must also be considered. In terms of industry thinking we identified the following areas of success:

- Understanding of the market and its reaction in terms of product design and delivery, structuring systems and access reflecting market realities, and related issues
- Capitalisation, ownership and governance issues, looking at the ability to focus and to adjust over time, also the relationship between governance and operational management
- Management and its role in Equity's performance and, most importantly, the ability of management to manage change and the aspirations of the different stakeholders
- Information and management tools, including loan and savings tracking systems and control systems, and linking these to management reporting and management activities, culminating in overall measurement of efficiency, performance and measurement and acting on results of measurement, identification of risk and management of risk areas
- Human resource considerations, capacity building and technical assistance
- In addition, we will add to this section the perceptions of success of the stakeholders in Kenya. This will illuminate the context and reflect how it links to success.

Note that we have identified these areas as a preliminary framework, and that our discussions and investigation will lead us to a final framework of success factors. In essence, we wish to identify the combination of factors that led to Equity's success, as well as the real leverage points that led to Equity's success.

[1] Note that many standardised rating approaches do exist; in the case of Equity, PlaNet Finance rated it in 2001 using the Girafe rating.

[2] That is, areas conforming to international best practice and also to good banking and institutional management practices.

1.3 OUTLINE OF THE REPORT

Since we consider context and the understanding of context of paramount importance, we start the discussion with this aspect, and base most of our information on secondary data and on interviews with key stakeholders (Section 2). This is followed by what we consider should be the primary point of departure for any analysis, namely the market (Section 3). In this section we try to understand the market in which Equity operates, and reflect the link between the market profile and what Equity offers its clients. We then turn to how Equity is capitalised and owned (Section 4), describing the link between ownership and governance, followed by the relationship between governance and management. In Section 5 we emphasise management's ability to, and performance in, managing the changes it effected in Equity and the perceptions and aspirations of different stakeholder groups. The concept, source and implementation of innovation are also addressed in this section. Thereafter, in Section 6, we investigate the measurement of Equity's activities and performance, and management's reaction to these measurements. Then we turn to human resource aspects (Section 7) and reflect on investment in training and improvement of resources, the selection and appointment of resources, and the link between human resource quality and performance. We also look at specific interventions from outside, and the effect these have had on Equity. This is followed by Section 8, which contains findings, conclusions and some recommendations.

2. HISTORY AND CONTEXT

2.1 EQUITY FROM 1984 TO 1993

In the early 1980s, the present Chairman of the Board, Peter Munga, was a senior government employee. He had an in-depth understanding of the government's rural development policy and the socio-political circumstances in the country. Around 1982, rules were relaxed and for the first time opportunities arose for Kenyans to start formal, licensed financial institutions. This was indeed an opportunity to bring financial services to the person in the street, to those who hitherto had had no access to the formal banking sector. It was also clear to Peter Munga, and a few like-minded individuals (including the current Chief Executive Officer of Equity, John Mwangi), that profitable financial opportunities may also exist in the formation and operation of a financial institution. John Mwangi had experience of commercial operations and saw the profit opportunities. The market for the provision of small loans and savings services to the poorer strata of the people of Kenya was underserviced at the time. This had led to the mushrooming of a multitude of locally owned small financial operations. It was also a time of a controlled and heavily regulated, but growing, economy.

Equity opened its doors in 1984 as a registered building society. The choice of the legal format was a function of what was available at the time and what could be afforded, both in terms of licence fees and capitalisation. Competition for clients was fierce and, in time, many of the smaller societies were closed, with the concomitant effect of diminishing client confidence in these smaller institutions. John Mwangi, a B.Com. (Banking) graduate, was appointed as CEO in 1986 after a long stint in the private sector in several senior positions. The market was then stagnant and the competition even more severe. By then Equity had opened five branches. Note that at this time, many employers, and especially the government, insisted that clients open accounts for salary deposits in government-controlled banks only. Many of the smaller financial institutions took institutional deposits from government departments and parastatals to boost their capital base. Quite often these deposits were obtained at a price from people with influence. Equity, however, mobilised customers by hard one-on-one marketing. After Equity opened, staff members would often drive people to branches by car to open an account. They started by selling to family members and acquaintances. At the end of 1984, they had 1 000 customers, they opened on the fifth floor of the current Head Office building and also where the current loan department operates, on the ground floor. It is quite evident that Equity had entrenched its culture of client service right from the start. It was the only basis on which the institution could compete in the market.

These were hard years for Equity. For the first decade, no staff member received an increase in salary. Long hours were worked to retain clients. Equity had about 20 staff members, who worked as a unit and who encouraged each other that good times would soon come. All around, many other institutions were being closed. In some cases, costs simply became too high, combined with the loss of clients and increasing levels of non-repayment of loans. Others succumbed as parastatals called in their deposits from institutions whose clients defaulted on loans. The confidence in the market turned completely away from these small institutions. The lack of decent road infrastructure, of communication systems and of transport were further aggravating factors. Equity branches in the rural areas were largely "on their own", operating mostly as small, nearly independent units.

The building society legislation influenced Equity towards offering savings services and mortgage loans. However, Equity realised that it was servicing a microfinance market and that the loans were rarely used for housing. The structuring of longer-term loans in such a market implied a higher risk. Little time and effort were devoted to market studies and product development. The goal was survival, right from the

start.

The pressure on Equity took its toll. The initial group of five Board members shrunk to two. The confidence problem now extended beyond the clients. Two Board members, the present CEO and the Chairman, steered the bank towards survival. It was very difficult to find the motivation to continue the operations of Equity, as all the odds were against it. In the years leading to 1990, Equity started to slide and turned into a loss-making operation. By 1992, the final bell tolled with the negative but realistic report by the CBK that Equity was a loss-making operation that was also insolvent, and had a deteriorating loan portfolio and a volatile deposit base.

The CBK rating report of December 1993 stated that Equity was technically insolvent. The supervision by the Board was poor and management was inadequate. Non-performing loans stood at 54% of the portfolio and accumulated losses totalled Ksh 33 million, as against a capital investment of Ksh 3 million. At this stage, deposits were being used to meet operating expenses. The liquidity ratio stood at 5,8%, way below the required 20%. The CBK did not request the closure of Equity as the Central Bank was merely the inspection function, and only the Registrar of Building Societies had the power to close the institution. It was argued that since there were no complaints from clients, Equity should be given the chance to turn around.

2.2 EQUITY FROM 1994 TO 2002

During the early 1990s, a new atmosphere took hold in Kenya. The country was moving away from a one-party political system, and more freedom was evident. Equity succeeded in mobilising deposits from the church, and the government relaxed its requirement that state employees should bank at the government-controlled banks. This resulted in a flood of new deposits. Still, Equity needed more capital.

At this time, the Chairman was speaking to a young friend, who had just finished his career at Trade Bank, an innovative commercial bank. The friend was James Mwangi, now Finance Director of Equity. James Mwangi was a respected financial controller, well known for his academic pursuits and meteoric achievements with earlier employers. He was ready for a new challenge and started consulting for Equity. Equity also engaged a training specialist, Nancy Nyambici. The Board realised that if it wanted to turn Equity around, it needed to bring in new thinking, train staff to meet the challenges of the new environment, expand its marketing and, on the whole, to enhance its efforts.

These bold moves took place in a new period of liberalisation in Kenya. As mentioned, it moved towards a multiparty political system and the financial sector was redefined. Many foreign banks converted from retail to corporate banks, and this left a vacuum in the retail sector. In the same process many banks closed their rural branches and rationalised urban branches. Non-governmental (NGO) financial organisations emerged and more emphasis was placed on cooperative financial ventures, an organisational format well known in the country as Savings and Credit Cooperative Societies (SACCOs). At the same time, the country moved into an economic decline, and the prolonged recession still continues today.

Although Equity could not afford to pay its two main consultants a normal rate, and could only afford to use the training consultant over weekends, it implemented a focused approach to staff training and marketing. The original culture of good client service and teamwork was revived and a new wind started blowing through Equity. The deposit base grew by 40–50% per year from 1995 until the present. Board members and senior management worked over weekends shoulder to shoulder with staff in training and marketing sessions. Equity was one of the first financial institutions that went to the customers. It organised meetings through family members, church members, producer cooperatives, schools and local dignitaries. These meetings were held in people's homes, in public areas and at places of work and worship. It became something of a crusade and, little by little, people started to react favourably. Here was a "bank" that made them feel important, one that was owned by Kenyans. Their confidence was slowly won and the number of deposits grew.

The training sessions led to an emphasis on Equity's objectives, which introduced the concept of having a mission statement, a particular focus. The first mission statement took nearly two years to complete. It was wordy, but provided a goal that could be pursued:

> We, Equity Building Society, will mobilise 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 recognises the importance of staff members and their contribution to the institution and will avail them of opportunities for growth and job security.

This mission statement focuses on activities aimed at reaching Equity's vision. The vision has changed considerably since 1995, when it was first formalised:

- 1995–2000: To become the biggest microfinance provider in Kenya in terms of funding, loan portfolio and profitability
- 2001–2005: To be the dominant microfinance provider in Kenya by the year 2005
- 2005–2020: To become the microfinance provider of choice in Kenya and the region

Note the overt use of the concept of microfinance. This may reflect one of the biggest changes in the organisation, from thinking like a building society (but with the knowledge that most clients were not using the loan funds for housing), to an open, honest emphasis on the provision of microfinance services. The die was cast. Staff members lived and breathed the stated mission and vision. When we asked staff members what these were, they would recite it there and then.

Deposit mobilisation increased and profits grew. In 1999, Equity started to interact with international partners, initially with EU-MESP and UNDP-MicroStart. Thereafter interaction with Swisscontact and ***MicroSave*** followed and, more recently, with the British Department for International Development

(DFID). Swisscontact and ***MicroSave*** brought a focus on services and product design based on client demand. This led to a redesign of products and a move from a product-focused to a client-focused approach. A marketing department was structured, which would eventually spend a great deal of its time on market research.

International development partners also played a role in the computerisation of the management information system, and this has had a tremendous impact on Equity's turnover and portfolio growth. Typical of the focused approach this effort was completed in record time, and the responsible consultant is now an Equity employee.

A fitting way to illustrate the rebirth and turnaround of Equity is to consider the newest rating by the CBK. The overall rating shortly after the 1993 rating moved to marginal, then to fair and today it is satisfactory. The Board and management are considered appropriate to govern and manage a financial institution. Capital adequacy is fair and asset quality is satisfactory. So are earnings and liquidity, which are rated as strong. Another testimony of Equity's success is an extremely positive rating by PlaNet Finance, an internationally recognised rating agency. Indeed, Equity takes pride in the fact that, as at 30 June 2001, it was the best rating ever granted under the Girafe methodology. This is indeed an achievement, and a far cry from the dark days of the early 1990s.

The profile at the time of writing[3] is that of an institution that is highly profitable, operates through 12 branches and 18 mobile units, has 107 000 depositors amounting to deposits of Ksh 1,6 billion, and a loan portfolio of 18 000 borrowers, worth Ksh 1 billion. It is fully computerised, and has 190 staff members, seven directors and 2 367 shareholders.

The story is impressive and the growth was, and still is, meteoric. This story unfolds in the rest of the report, where we concentrate on different aspects, based on our perception of success, starting with the market and the clients, ownership and governance, management and measurement, and closing with a focus on the staff. Note that each of these sections culminates in a subsection on remaining challenges. This is the final part of the history – the remaining challenges. There are exciting challenges in terms of growth and market penetration, but also challenges to manage the risk that accompanies success, fast growth, the aspirations of staff, and keeping a culture of closeness and teamwork while staff numbers explode. This is the next phase in Equity's story, starting from establishment and survival, to growth, and now to consolidation and stability.

We attempt to show that success, in Equity's case, has been due to a combination of different factors in different periods throughout the institution's life. 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 a small window for innovation, as the economy was largely being controlled. This initial euphoria turned into despair, and survival was of paramount importance. What pulled Equity through? It was the establishment of a culture of client service and staff teamwork, right from the start, as well as their absolute resolution 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 total staff dedication was revised, improved and entrenched. The culture of client service and client focus was also strengthened. Many staff and

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[3] All information provided by Equity and obtained in the interviews relate to published and unpublished information during the fieldwork stage, i.e. May 2002.

management innovations followed, leading to a period of complete focus on growth and success.

2.3 CONTEXT

2.3.1 Economic

In an interview with a current Board member, the remark was made that Equity is successful despite the state of the economy. This is indeed true. During the institution's initial years, the economy grew, albeit in a repressive climate of overcontrol and overregulation. In the early 1990s, the economy was liberalised and many controls were removed. However, the economy started a slow decline, and now it is quite stagnant, with approximately 56% of the population living below the poverty line. Kenya is currently experiencing near-to-negative economic growth and the economic outlook is generally bleak. The budget speech of June 2002 confirmed the decrease in capital expenditure, the lack of foreign investment and the extremely low general savings ratio. Kenya's debt equals its gross domestic product and general prospects for turning this around are not good.

2.3.2 Social and political

In the early 1990s, the political system in Kenya changed to that of a multiparty democracy. This coincided with the liberalisation of the economy and led to a sense of freedom in the country. However, the same party is still in power and the lack of serious competition has caused complacency. Equity kept a distance from politicians and refrained from using political influence to further its business. An early example is Equity's refusal to obtain institutional deposits from parastatals and government departments. A recent example is Equity's postponement of the opening of a new branch during the elections, since it did not want to risk the function being misused by politicians, which could create the perception that Equity was affiliated to a specific political party.

2.3.3 Regulation and supervision

The country functioned in a repressed state of government control of all facets of the economy until early July 1991, when liberalisation changed the situation dramatically. Since then, many changes have culminated in the creation of a regulatory environment that adheres to international best practices, is focused on the stability of the financial sector and has an underlying market development objective.

The Building Societies Act and the situation of building societies have also changed considerably over the last 10 years. Of the many building societies created in the 1980s, only three are still in existence today: the East African Building Society, Equity Building Society and Family Finance Building Society. At first, the CBK's supervisory department focused on the inspection of building societies, whereas the Registrar of Building Societies had the jurisdiction on the opening and closure of societies. This brought about a dichotomy between inspections and the monitoring of the implementation of corrections suggested. Moreover, the Registrar of Building Societies was not all that active and efficient in the oversight function.

In addition, many of the building societies did not function as such, but rather like banks. Many aspects of their activities were unacceptable, and the CBK made an effort to change and adjust the Building Societies Act so that these institutions increasingly resembled banks. Also, building societies like Equity constantly pushed back the boundaries of the legislation through innovation, client-responsive services, product development and adjustment. As a result, there is a minimal difference today between the Banking Act and the Building Societies Act. Examples are the regularisation of normal deposit taking in

1999, and the changes in minimum capitalisation requirements. It must be noted that these changes in the Building Societies Act were a product both of the market liberalisation drive (which was partly a product of the World Bank/International Monetary Fund financial sector reform requirements) and the way in which building societies, and particularly Equity, conducted their business, testing the limits of the legislation.

Upon studying the Board papers of Equity, it is quite evident that a very active interaction exists between the CBK and Equity. Since the CBK report indicating the bad state of the institution at the end of 1993, Equity has ensured that nearly all the recommendations of the CBK received attention. In many instances, the CBK's recommendations preceded crucial and strategic changes in Equity. Examples are the recommendation on internal auditing, leading to the strengthening of this function in Equity; the suggested expansion of the Board, which led to the increase in Board members in the middle of 2000; the mention of the difficulty of handling administration and portfolio management and thereafter the computerisation of Equity's systems. Note that we do not argue that Equity took these actions only after receiving the CBK's inspection reports – the point is that there is a healthy interaction between the supervision reports and Equity's strategic decisions and their implementation.

The Supervision Department also understands the challenges awaiting Equity, especially in terms of the considered transformation into a commercial bank. It is stated that there could be further changes to the legislation on building societies, which may alleviate some of the current constraints on Equity to offer services that are only provided by the commercial banks. Equity should note that once it is registered as a commercial bank, this will not automatically lead to its rendering of all the services provided by commercial banks. The commercial banks themselves may even keep Equity out of, for example, clearing activities, as they control the clearing activities through the CBK. Membership of the Association starts only after a minimum capitalisation of Ksh 500 million, and there are even more requirements.

In recent years, the two aspects of financial legislation that have received attention are the infamous Donde Bill and the Microfinance Regulation, which is currently under discussion. It appears as if the Donde Bill will not resurface, especially not without a major effort from the sector to get it off the law books. The Microfinance Regulation may result in competition for Equity, as more institutions will then qualify to take deposits.

2.3.4 Financial market and microfinance situation

As mentioned in the previous section, Equity started at a time when many indigenous financial institutions were established, and struggled through a period when most of these institutions failed. Towards the end of the 1980s and the early 1990s, the microfinance sector started to grow in Kenya. As we will point out later, Equity was not regarded as part of this portion of the financial sector until much later. Even until as recently as 2000, it was still not included in market assessments pertaining to microfinance. Equity benefited tremendously from the financial market liberalisation, as did the microfinance sector.

3. FROM MARKET TO PRODUCT

3.1 INTRODUCTION

In searching for success factors we start with the market in which Equity operates and the way in which it reacts to market realities. Conventional approaches to product development and the focus of microfinance institutions tend to emphasise the product, rather than the market and clients' needs and demands. As a result, some microfinance institutions have experienced high dropout rates, ranging from 25% to 60%.[4] Those institutions that subsequently focused on market research, reacting to market needs, registered improved performance and lower client dropout rates.

Equity began its operations with a narrow product focus – the typical savings product complemented by a loan product. This study revealed that one of the factors that ranked highest in contributing to Equity's success is its gradual shift from this product-driven focus to a market-driven and customer-oriented culture. Prior to 1993, Equity had packaged its savings and loan products with features similar to those of products of commercial banks. The era of the two-product offering was characterised by dismal performance with stagnated deposits, a poor-quality loan portfolio, and company losses. Equity's declining performance was punctuated by a CBK inspection in 1993, which declared the institution technically insolvent.

In 1994, Equity changed its mission from mortgage financing to microfinance targeting the small and micro-enterprise sector. This shift in mission was in recognition of the fact that the local financial services market had responded poorly to mortgage financing, and that the building society's long-term debt instruments had accumulated non-performing loan portfolios.

Although Equity's stakeholders view this as a shift in mission, close scrutiny reveals that the society had always targeted the low-income clientele. Since 1984, when Equity first opened its doors for business, the minimum deposit account opening balance for the public had always been Ksh 400, and Ksh 1 000 for customers operating microbusinesses. This differentiation in the minimum opening balance was an early realisation that Equity would be serving the lower (retail) end and, at the same time, serve the corporate clients at the upper end of the microfinance market. The "mortgage lending business" Equity was supposed to be carrying out was in small amounts and for short repayment periods (e.g. as little as Ksh 5 000 for as short a period as six months). In essence, Equity had been practising microfinance since its inception. The shift in mission in 1994 was really a resolve to be a more aggressive and deliberate microfinance provider. This Equity did by, first of all, putting down on paper a mission statement stating what it had always been about, albeit in a product-driven rather than a market-driven fashion.

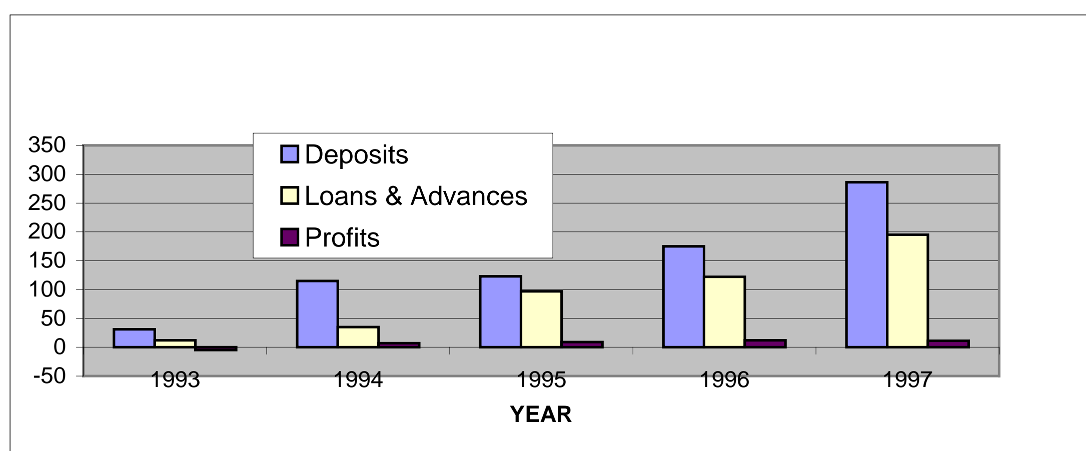
Equity's "new" mission: *"We at Equity Building Society mobilise and utilise resources to maximise value to the microfinance and missing middle sectors and shareholders by offering superior financial services."*

[4] In East Africa, ***MicroSave*** confirmed in several of its studies that the client dropout rate ranged between 25% and 60% per annum for different institutions. A careful analysis of the reasons for client exits pointed to products whose design reflected a lack of understanding of the clients and their needs in the particular context of operation.

3.1.1 Aggressive selling

With a revitalised mission, Equity embarked on an aggressive selling campaign. Staff members were mobilised to conduct a personal door-to-door campaign, which included selling the society's products to family members and friends. Armed with individual targets, staff members covered different geographical areas within Nairobi and Central Province. In addition to mobilising staff members, Equity persuaded influential customers to promote the institution. Equity's Board members, executive directors, management and staff 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. The performance results in terms of the growth of deposits and loans, as well as the institution's profitability, were remarkable. Between 1993 and 1997, deposit and loan portfolios grew by 823% and 1 525% respectively, while Equity's profitability improved by 323% over this period. (See Figure 1.)

FIGURE 1: EQUITY'S IMPROVED PERFORMANCE, 1993–97 (KSH MILLION)



Meanwhile, the local microfinance industry (as in the rest of the world) was beginning to see poor people demonstrate their ability to use and pay for financial services. Committed to improving the plight of the poor, NGO microfinance institutions (MFIs) had begun serving microfinance clients with increasing success. The level of success experienced by microfinance institutions in general had proved that poor people were valuable clients of specially designed financial services, and that such services could be financially viable.

3.1.2 Equity's position in the microfinance provider's landscape

By 1998, Equity had already begun to recognise the threat of other microfinance players within its target market. Apart from the NGO MFIs (such as K-Rep, KWFT, Faulu Kenya, WEDCO, Pride and SMEP), some of whom had begun to pursue legal structures more conducive to the financial services domain, the SACCOs topped the list in terms of their formidable grassroots operations and sheer volume of business. A few SACCOs boasted of volumes of assets much bigger than those of some of the commercial banks. Despite the fact that the local microfinance industry was still unaware of Equity's forte as a microfinance player, Equity itself was not going to ignore the threat posed by these players. It had already earmarked as threats in the industry those commercial banks that were responding to the deteriorating economic situation in the country, and were seeking to downscale and diversify their

businesses to include microfinance. Some of these banks, which had begun setting up microfinance departments, were the Cooperative Bank, the National Bank, Kenya Commercial Bank and Post Office Savings Bank.

TABLE 1: MICROFINANCE (LOAN) MARKET SHARE ANALYSIS, DECEMBER 2000

Institution	Active loan clients	Ksh '000	Market share in volume
Commercial banks			
K-Rep	15,451	369,710	2%
Co-op MCU	722	35,273	0%
Limited liability companies			
Faulu Kenya	14,965	231,211	1%
WEDCO	9,915	155,991	1%
NGOs/Companies Ltd by guarantee			
KWFT	19,618	265,210	1%
SMEP	13,508	208,416	1%
BIMAS	3,869	43,617	0%
ECLOF	5,800	78,464	0%
K-Rep Development Agency	6,947	38,421	0%
Cooperatives			
SACCOs	1,046,412	22,859,607	94%
Totals	1,137,207	24,285,920	100%

Interestingly, as late as the year 2000, Equity would still not feature in the competition analysis of the industry. An industry performance table prepared periodically totally ignored the institution, revealing either a total lack of competitor intelligence or the bias of excluding institutions that seem to offer non-enterprise or consumer microfinance. This is despite the fact that Equity had a sizeable and growing microenterprise finance portfolio, even then. In Table 1, K-Rep emerges as the microfinance market leader (excluding SACCOs). Table 2 shows the market share analysis adjusted to include Equity, which emerges as the microfinance market leader ahead of K-Rep (excluding SACCOs). Thus, on the eve of the new millennium (and unbeknown to the competition), Equity had achieved its five-year (1996–2000) vision of becoming the largest microfinance institution in Kenya, in terms of outreach, volume of deposits, outstanding loan portfolio and profitability.

TABLE 2: MICROFINANCE (LOAN) MARKET SHARE ANALYSIS, DECEMBER 2000 – ADJUSTED TO INCLUDE EQUITY

Institution	Active loan clients	Ksh '000	Market share in volume	Market share excl. SACCOs
Building societies				
Equity Building Society	9,033[5]	502,991	2%	26,1%
Commercial banks				
K-Rep	15,451	369,710	1%	19,2%
Co-op MCU	722	35,273	0%	1,8%
Limited liability companies				
Faulu Kenya	14,965	231,211	1%	12,0%
WEDCO	9,915	155,991	1%	8,1%
NGOs/Companies Ltd by guarantee				
KWFT	19,618	265,210	1%	13,7%
SMEP	13,508	208,416	1%	10,6%
BIMAS	3,869	43,617	0%	2,3%
ECLOF	5,800	78,464	0%	4,1%
K-Rep Development Agency	6,947	38,421	0%	2,0%
Cooperatives				
SACCOs	1,046,412	22,859,607	92%	
Totals	1,146,240	24,788,911	100%	100%

The logic behind the exclusion of SACCOs or cooperative unions as legitimate and formidable microfinance players may increasingly become questionable. Microfinance providers, especially in Kenya, may not write off SACCOs for long, especially if the move by some key players in the industry succeeds in getting the government to bring SACCOs under some form of supervision. Such supervision would exact compliance with prudent management and financial practices, if only for consumer-protection purposes. This move would take care of the unfair advantage currently enjoyed by SACCOs, and set the stage for a level playing field for all microfinance providers. It would also give the supervisory body the mandate to address the governance weaknesses currently bedevilling some SACCOs. Once the leadership issues have been addressed, SACCOs may emerge even stronger as the preferred microfinance providers.

Equity has been at the forefront in recognising SACCOs as being formidable competitors. It is working on a market research and product development exercise that will tackle this particular competitor head on.

3.1.3 Choosing a diversified product menu over the "Grameen-FINCA cage"

Despite the popular trend by MFIs to force borrowed financial models like the Grameen Solidarity

[5] Whereas the rest of the microfinance institutions would boast of no additional "savings" clients, Equity had 70 902 savings clients – a clear leader in terms of outreach among the microfinance players, excluding SACCOs.

Group and the Foundation for International Community Assistance (FINCA) village banking methodologies on fundamentally different local cultures and societies, Equity was fortunate not to be sucked into the "Grameen-FINCA cage". Instead, Equity has deliberately sought to increase the selection of its financial products and services and amend delivery mechanisms to suit its clientele. Equity was aware of the fact that the commercial microfinance entrants, in particular, would potentially be able to offer a varied menu of products and services to the low-income client.

The commercial banks' use of print and electronic media and their computerised processing systems were in stark contrast to Equity's inefficient and slow manual processing and management information system. Equity therefore seriously considered investing in computer technology and market research as the industry approached the 21st century. Equity's public image vis-à-vis that of the commercial players in the banking industry added to the list of challenges facing this emerging microfinance leader. Equity was still viewed as a "small, unstable and crude" bank.

True to its corporate culture, Equity responded to the signs in the market with typical speed, fearing that the competition would allow it no time to follow through a series of time-consuming, market-driven, customer-focused interventions. The institution chose to immediately create a wider menu of its products to satisfy assumed needs, if only as a stopgap to future customer-focused interventions. The two-product menu was now to be marketed as six savings products and five loan products (Table 3).

Needless to say, the new product menu did not really reflect different products. In essence, Equity was offering the same savings and a loan product, but with different names. The new menu was, nonetheless, a reflection of the client needs Equity wanted to meet. In effect, however, Equity's approach was still product driven and as the institution would find out from market research at a later stage, clients had vastly different views. Worse still, the clients saw through the facade and took Equity staff to task regarding their product menu, which they figured out, was not differentiated in terms of the product design and price.

TABLE 3: EQUITY'S NEW PRODUCT MENU (1998–2000)

Savings products	Interest rate p.a.	Credit products	Interest rate p.a.
Business Savings Account	5%	Emergency Loans	28%
Children Savings Account	5%	Business Loans	28%
Group Savings Account	5%	Household Loans	28%
Save As You Earn Account	5%	Group Loans	28%
Call and Fixed Deposit Account	5–10%	Business Development Loans	28%
Old Age Savings Account	5%		

3.2 MARKET PROFILE OF EQUITY, ITS PRODUCTS AND DELIVERY MECHANISMS

In order to position itself as a leader in the increasingly competitive field of microfinance, Equity re-examined its product offering against the needs of the microfinance clientele, thus adopting a "market-driven" as opposed to a "product-driven" approach. According to ***MicroSave***, this move would place Equity among the desperately few and unique microfinance providers who were determined to join the rest in the commercial world who had already abandoned the product-driven approach in favour of the

market-driven approach.[6]

Early in 2001, Equity entered into a partnership with Swisscontact to receive technical and financial support to carry out a process of product refinement and development. As a first step in this process, Equity conducted a thorough survey of its rural market. The survey entitled *"Opportunities to Increase Market Penetration through Product Refinement and Development"* was carried out in September 2001, with the following objectives in mind:

- To determine the potential of the existing market segments
- To establish Equity's effectiveness in penetrating these markets
- To analyse the competition
- To re-examine the suitability of the existing products and services in serving the markets

The survey established that Equity could deepen its market penetration by refining its products to match the needs of its clientele.

3.2.1 Economic potential of Equity's markets

This survey analysed the market environment of eight rural branches located in five districts of Central Province: Maragua, Muranga, Nyeri, Kirinyaga and Thika. The population of the five districts is close to 10% of the entire Kenyan population. In addition, 10% of the country's economically active population live in the five districts. The survey report also outlined three main segments of Equity's microfinance market that could be targeted for deeper market penetration:

- Small and medium enterprises (SMEs)
- Commercial smallholder farmers
- Salaried employees

The survey recommended that Equity embark on a deliberate strategy to target the informal traders among the SMEs, and to develop products for private sector employers and employees. The survey further showed that Equity targeted only tea and dairy farmers, who constituted only a small proportion of commercial smallholder farmers. Equity found that there are many other commercial farmers, such as those dealing in horticulture, in the regions of its operations. The report analysed the economically active population of the five districts and that of Central Province in relation to the entire economic population of Kenya (Table 4).

[6] "The microfinance sector is unique. It is probably the only remaining 'product-driven' business in the world. All other industries have long since moved from producing something and then trying to sell it to a 'market-driven' approach under which they identify and meet customers' needs on a profitable basis." – *Graham A.N. Wright – Market Research and Client-Responsive Product Development, **MicroSave**.*

TABLE 4: ECONOMICALLY ACTIVE POPULATION

	Economically active	Work for pay	%	Work in family business	%	Work on family farm	%
Five districts	1,154,134 (10%)	341,834	30	125,527	10	686,773	60
Central Province	1,683,099 (15%)	532,258	32	190,043	11	960,798	57
Kenya	11,537,671	3,446,833	30	1,661,364	14	6,429,474	56

Source: Population and Household Census (1999).

Sourcing information from the 1999 Population and Household Census, Equity extracted data on the economically active population that worked for pay, the section that worked in a family business and the section of the population that worked on a family farm. This was done to gain a better understanding of the three main market segments.

The distribution of the population in the three main market segments among the economically active persons within the five districts, Central Province and the country in general is roughly the same, with the commercial smallholder farmers taking up the bulk of the economically active population (56–60%). The salaried population took up 30–32%, while the small and medium business represented the smallest percentage (10–14%) of the economically active population.[7]

3.2.2 Understanding Equity's customers

The survey analysed Equity's records from the eight branches: a total of over 47 000 active customers consisting of more than 95% ordinary savings and remittance account holders, while 5% of the customers held business savings accounts. Table 5 shows that smallholder farmers are the majority in these branches, accounting for 56% of all accounts. Salaried employees held 18% of the accounts, while entrepreneurs accounted for 26%.

TABLE 5: EQUITY CUSTOMERS ANALYSED IN THE SURVEY, JULY 2001

	Total	Farmers	%	Salaried	%	SME	%
Kangari	6 031	2 790	46	950	16	2 256	37
Murarandia	4 670	2 885	62	413	9	1 351	29
Kiria-ini	6 736	2 889	43	1 259	19	2 478	37
Kangema	8 577	5 057	59	1 428	17	2 051	24
Karatina	9 478	7 042	74	1 877	20	465	5
Othaya	4 387	2 400	55	1 100	25	842	19
Kerugoya	1 115	207	19	361	32	532	48
Thika	6 701	1 832	27	713	11	4 130	62
Total	47 695	25 102	53	8 101	17	14 105	30

Source: Equity branch records.

[7] For detailed findings of the three main segments, refer to the Equity's survey report: *"Opportunities to Increase Market Penetration through Product Refinement and Development", September 2001.*

3.2.3 Competitor analysis

As part of the survey, Equity divided its competitors into four categories based on their legal structures. The institution identified a total of:

- Seven commercial banks
- Two non-bank financial institutions (including Postbank)
- Non-governmental organisations. (NGOs)
- Ten savings and credit cooperative societies (SACCOs)

Kenya Commercial Bank, Family Finance, Muramati tea farmers and Murata farmers' SACCO were identified as Equity's major competitors.

3.2.4 Market penetration

Equity's survey results presented some rough estimates of its market penetration in the eight regions and for the period under review. The conclusion was that the penetration of the market for commercial smallholder farming was generally quite high. The smallholder market segment is highly competitive, being flooded with SACCOs and other formal financial institutions. Equity's concentration on the tea and dairy sectors has limited its penetration in areas where coffee and horticulture are the main cash crops (e.g. in Othaya, Thika and Kiria-ini). While the difficulties in the marketing channels for coffee farmers would caution Equity away from the sector, there seemed to be potential for the financing of horticultural produce.

The survey revealed that Equity's strategy of targeting teachers and employees in the public sector had been rewarded with great results. However, while private sector employment was very high in these regions, Equity's penetration of this subsector was significantly lower. An analysis of Thika, in particular, underscored this fact, revealing a huge potential for the expansion of the salaried portfolio.

The survey report recommended that Equity move towards having a portfolio of truly differentiated, market-led products. The institution embarked on an effort that would increase its market penetration by targeting new markets and by differentiating existing products. To achieve these objectives, the survey recommended that a market research be conducted during the last quarter of 2001.

Jointly sponsored by both Swisscontact East Africa and ***MicroSave***, the market research involving approximately 1 000 clients from both rural and urban branches sought to:

> *"Examine client perceptions of the current loan menu for the various market segments as identified in the market survey, and seek their suggestions for improvements."*

The research was preceded by a capacity-building exercise that took a group of 30 staff members – comprising marketing officers, branch managers, credit officers, accounts and audit officers – through ***MicroSave's*** **"**Market Research for Microfinance" course. This group included the Finance Director, James Mwangi. From this large group, a team of seven persons was identified to form Equity's Marketing and Research Department, which had been equipped with qualitative research techniques using focus group discussion and participatory rapid appraisal tools developed by ***MicroSave***.

3.2.5 Products

To Equity directors, management and staff, the market research represented a crucial milestone in the growth, development and success of the institution. It was the first deliberate attempt to gain an accurate client perspective of the institution and its products.

The market research made it clear that Equity would need to address the *perceived exorbitant price and attendant charges of the loans*. Equity would seek to reprice and repackage its loan products if it were to counter and overcome the threat from SACCOs and other competitors.

The priority, it would seem, was to do something that would contain the negative emotions of clients in the market, while giving management time to think through the whole process of product development.

In the short term, the company would carry out a quick product differentiation in the various features of the loan products to address the needs of each market segment. Once again, this was done with remarkable speed, while the marketing and research team prepared itself to complete the entire product development cycle for one or two products based on the needs identified in the market research. The research team prepared a list to be acted on immediately, including reviewing the interest rates and restating them in client language printed brochures outlining the product changes, displaying bank tariffs in the banking halls, reconstituting a professional marketing team to carry out the changes and transform Equity's image in the market – all these were formulated out of client responses as a result of the market research.

Tables 6 and 7 show the refined savings and loans product menu that Equity presented to its clientele after the market research. Table 6 includes the Premium Savings and Credit Scheme – a new product Equity was keen to launch, primarily to address the threat posed by the SACCOs. At the time of carrying out this study, Equity's marketing and research team had made progress in further refining the Premium Savings and Credit Scheme concept.

The results of this initial product refinement were marked by an overwhelming client response towards Equity as an institution and towards its products and services.

Comment by a prospective client to a branch manager: *"What am I doing in Barclays Bank ... If I knew what services you offer, I would have moved to your institution."*

To test the effect of the market research, Equity decided not to market the new refinement measures aggressively, but instead to see what responses would ensue that could be attributed solely to the market research exercise. Soon after the market research, the number of accounts opened in a day jumped from an average of 20–30 to about 200.

3.3 DELIVERY AND CLIENT SERVICE

Equity's success has also been attributed to the sheer efficiency of its service delivery and its exemplary customer service. Since its inception, Equity had already determined to be close to its customers. Numerous positive comments from customers, staff and other stakeholders confirm that, to Equity, the customer is truly the king or queen! Equity's commitment to its customers was also evident when it changed from the traditional banking hours of 09:00 to 15:00 to opening at 08:30 and closing at 16:00.

TABLE 6: EQUITY'S REFINED SAVINGS PRODUCT MENU

Product	Purpose	Key features	Other features
Ordinary Savings	To provide a secure channel for saving today's income for personal growth, future investment and security for old age.	• Opening and minimum operating balance: Ksh 400 • No ledger fees • No limit on the frequency of withdrawals • No limit or notice on the amount of withdrawals • No transaction charge for deposits • 5% interest • Interest credited annually	• No passport-size photographs • Free electronic photo captured • Free internal standing order • Free half-yearly statements
Business Savings	To provide affordable, flexible and easily accessible financial services to support entrepreneurship.	• Opening and minimum operating balance: Ksh 1 000; Ksh 5 000 for corporate clients • No ledger fees • No limit on the frequency of withdrawals • In-house cheque book, 200/= • 5% interest • Interest credited annually	• No passport-size photographs • Free electronic photo captured • Free internal standing order • Free quarterly or (full page) statements
Super Junior Savings	To provide the family with an avenue for saving to cover education plans and future start-up funds for dependants.	• Opening balance: Ksh 400 • No ledger fees • Withdrawal conditions not specified • No transaction charge for deposits • Interest? • Interest credited annually	• No passport-size photographs • Free electronic photo captured • Free internal standing order from other accounts • Free half-yearly statements

TABLE 6: EQUITY'S REFINED SAVINGS PRODUCT MENU (CONTINUED)

Premium Savings (and Credit Scheme) (new product)	A unique account that easily provides both savings and credit components, while still accumulating the much-needed pension for old age and financial solutions to all social and economic needs.	• Opening balance: Ksh 400 • No ledger fees • Three months' notice for withdrawal before maturity date • Premium interest up to 2% points above ordinary savings account • Interest credited annually • No guarantors • Security: lien on premium savings and others • Self-determined maturity date • Immediate processing and disbursement of loans	• No passport-size photographs • Free electronic photo captured • Free half-yearly statements • Up to 36 months 15% p.a. loans of up to twice the balance in the account after saving for six months • No additional charge on borrowing (no ledger fees, no LACE, no administration charges, no loan repayment s/o charges)
Call and Fixed Deposit	To provide a secure saving for matching maturing assets with maturing obligations, while maximising value through premium interest earnings.	• Minimum deposit not specified • No penalties or loss of interest earned for premature withdrawals • Interest?	• Automatic rollover • Free statement of account at rollover or uplift of deposit • Immediate borrowing of up to 80% of the deposit

TABLE 7: EQUITY'S REFINED LOANS PRODUCT MENU

Product	Purpose	Key features	Other features
Education loans	To build the society by providing financial solutions of investing in education; the wisest way of empowering the family. The education loans cover primary, secondary, college and university education.	• Interest rate of 1,5% p.m. • LACE of 500/= or 3% of amount borrowed • Up to 12-month term, repayment monthly • Flexible security	• No additional charge (no ledger fees, no administration charges, no loan repayment s/o charges) • Free half-yearly statements
Business loans	To support the private enterprise financially, the engine of growth in Kenya to prosper and create wealth. The business loans take the form of working capital loans and overdrafts.	• Interest rate of 2% p.m. • LACE of 500/= or 3–5% of amount borrowed • Up to 12-month term, repayment monthly • Flexible security • Interest discount of 0,5% p.a. for every subsequent loan after the third on-time repayment (max. 2%)	• No additional charge (no ledger fees, no administration charges, no loan repayment s/o charges) • Free half-yearly statements
Medical loans	To build mutual and lasting partnerships in both good and bad times.	• Interest rate of 1,5% p.m. • No LACE • Up to 12-month term, repayment monthly • Flexible security	• No additional charge (no ledger fees, no administration charges, no loan repayment s/o charges) • Free half-yearly statements

TABLE 7: EQUITY'S REFINED LOANS PRODUCT MENU (CONTINUED)

Development loans	To provide financial support to make cherished dreams of increasing stock of durable assets for security and comfort a reality. The durables may include the purchase of a plot or farm, house construction or renovation, expansion or purchase of a business, purchase of a motor vehicle, etc.	• Interest rate of 2% p.m. • LACE of 500/= or 3–5% of amount borrowed • Up to 36-month term, repayment monthly • Flexible security • Interest discount of 0,5% p.a. for every subsequent loan after the third on-time repayment (max. 2%)	• No additional charge on (no ledger fees, no administration charges, no loan repayment s/o charges) • Free half-yearly statements
Salary advance (new product)	To enable salaried clients meet unexpected financial needs.	• Interest rate of 1,75% p.m. • LACE of 500/= or 3% of amount borrowed • Up to 3-month term, repayment monthly • Security – employer's undertaking for direct salary remittance • No guarantor	• No additional charge (no ledger fees, no administration charges, no loan repayment s/o charges)
Farm input advance	To support agriculture – the mainstay of the economy – by offering financial solutions to the farmers so as to boost farm output and productivity. The loan may be for weeding, picking, pruning, wages, purchase of farm inputs such as fertilisers and seeds, fencing, animal husbandry and farm improvements.	• Interest rate of 1,75% p.m. • LACE of 500/= or 3% of amount borrowed • Up to 12-month term, repayment monthly • Flexible security	• No additional charge on (no ledger fees, no admin charges, no loan repayment s/o charges) • Free half-yearly statements

Another feature of Equity's customer service efforts is its client training programme, which attempts to equip clients with basic business skills. This has been a very popular programme, which has contributed to customer loyalty and provided Equity with an excellent forum for promoting its products and services.

> *"We do business with a human face."*
>
> *"Customer service drove out KCB and Barclays in Kiria-ini."*
>
> *"Customer care should be first. He is the essence of our being there. If you have no customer, you have no business."*
>
> *"Customers love our long opening hours. It became nonsense to tell a woman from* Gikomba *who came in with a million shillings after 3 p.m. to go back and come again the following day."*
>
> *"Staff treat all customers the same regardless of the amount of money in your account."*

Equity computerised its manual operations in 2000, a move that has contributed tremendously to its efficiency and improved service delivery. A comparison of end-of-year figures for 2000 and 2001 shows a massive increase of 75% in the number of savings accounts, the highest annual increase ever. That notwithstanding, the steady increase in the number of savings and loan accounts since 1995 points to Equity's growing focus on market-oriented and client-focused initiatives, as pointed out above.

> In the words of a client, *"Equity is one of the first banks to call its customers for business training – that training was very important; it really had an impact."*

Excluding the Head Office, Equity has established 12 branches, nine of which are in rural areas. The three Nairobi branches are Corporate, Fourways and Tom Mboya, while in Central Province Equity has branches in Thika, Kangari, Murarandia, Kangema, Kiria-ini, Kerugoya, Karatina, Othaya and Nyeri. In addition to this, Equity's delivery system includes 18 mobile units designed to serve clients in more rural locations.

3.4 EQUITY'S MARKET-DRIVEN AND CLIENT-FOCUSED SUCCESS

In summary, although Equity's approach has gradually evolved from a product-driven to a market-driven one, the institution's focus on the low-income client can be traced back to the day it opened its doors to customers. Equity's minimum savings account opening balance then, already gives 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.

> *"We remained focused on our target customers – Jua kali, farmers, salaried employees, and the missing middle."*

Following its dismal performance in mortgage financing, Equity refocused itself to what really was its

original mission, but this time publicly declaring its position as a microfinance provider. *The resolute mission "shift" from mortgage financing to microfinance in 1994* qualifies as an additional success factor.

Equity's *aggressive selling campaign, fuelled by a revitalised mission,* is yet a third 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 and a factor that has been identified as contributing to Equity's success.

Although Equity's actual *evolution as a market-driven institution from a product-driven one* came only later (2001), we consider this a success factor, because within a span of a few months of conducting the survey and the market research, the impact of this evolution had already been felt. Equity's market-driven approach to business has enabled it to increase its understanding of both the clients and the competition.

This list of success factors would be incomplete without mentioning Equity's *excellent service delivery to its clients.*

3.5 REMAINING CHALLENGES

In the study we identified challenges related to market issues that Equity is facing as it advances into the future.

3.5.1 Maintaining a customer focus

Equity is expected to maintain its client-focused culture, even with growth and possible conversion into a commercial bank. Some of the corporate clients would like to see Equity introduce the concept of personal bankers, who would come to offer services at clients' offices.

3.5.2 Managing credit risk

As Equity grows, it faces the challenge of maintaining a quality loan portfolio and a satisfied customer base. The institution will continually need to recruit and train staff in the management of risk. With innovation comes risk, and as Equity develops new products it must stay focused on reducing risk. There is a need to improve and harmonise debt management procedures in all branches, and to review and streamline lending policies.

3.5.3 Quick service and queues

Although since computerisation Equity can boast of a quick customer turnaround time of five minutes, the Fourways Branch in Nairobi in particular still experiences long queues during end-of-month peak times. This will remain a challenge to Equity's image and quality of customer service. In addition, Equity needs to enhance the capacity of its front office cashiers to deal with multiple services (payments, receipts, etc.) at one counter.

3.5.4 The challenge of competition

Equity will need to continue to manage its competition, especially from SACCOs and Family Finance. Other competitors include Co-op Bank, with its microsavings product *Haba na Haba* and the *Biashara*

Plus business loan. Co-op Bank has proven its ability to offer a microcredit product with very flexible collateral requirements. Barclays Bank has recently intensified its marketing campaign to salaried clients. Legislation on microfinance that is soon to be tabled in Parliament will open the door for more players in the market.

3.5.5 Computer technology

Standard Chartered Bank has set the technological pace in the banking industry, establishing itself as a market leader with its automated teller machines (ATMs). Customers are also expecting Equity to install ATMs. The expectations of branchless banking are also mounting, compelling Equity to hasten its plans for implementing a wide area network (WAN) that would allow customers to be served at any of its branches.

3.5.6 Conversion to a commercial bank

The demand for services, such as current accounts, the use of cheques, international and trade finance, strengthens the need for Equity to seek commercial bank status. Clients feel that Equity should pursue collaborative arrangements with some commercial banks to enable it to offer money transfer/payment services across the country.

The challenge of converting to a commercial bank comes with the need to strengthen the commercial banking capacity of staff and systems. Clients are also eager for Equity to remain a responsive and customer-focused institution. Some even expressed the fear that the institution might find it difficult to maintain this culture after having converted to a commercial bank.

3.5.7 Extending the geographical coverage

The fact that Equity is operating mostly in Central Province and in Nairobi – regions with the highest agricultural and economic potential – is both a strength and a drawback, as it is viewed as a *Kikuyu bank*. Equity faces the challenge of extending its services to other parts of the country.

3.5.8 Competitive pricing

Equity's clients still view the interest rates and charges levied on products and services as being very high. Clients appreciate the products that meet their needs and the excellent service they receive from Equity, but are quick to state that they are made to pay a high price for these products and services. In reality, Equity's products are competitively priced – clients' perceptions regarding pricing therefore need to be changed.

3.5.9 Product development

Equity will need to continue with the product development process, based on a growing understanding of changing client needs and demands. Equity is under pressure to strengthen its Super Junior Account to compete with the Co-op Bank's Jumbo Junior Account, which is a clear market leader in building a customer base for the future by offering a very well-marketed product for children.

4. OWNERSHIP, GOVERNANCE AND LEADERSHIP

4.1 INTRODUCTION

In looking at the performance of microfinance institutions, the role of ownership and its contribution to governance and leadership are often underplayed, mainly because most microfinance institutions have evolved from development organisations with no real ownership or governance and leadership bodies that have a financial stake in the organisation. This is not the case with Equity. The founders of Equity saw an opportunity to do banking business and went ahead to structure and capitalise it. Owing to his extensive exposure to parastatal financial institutions while working for the Kenyan government, Peter Munga became fascinated by the way these institutions mobilised deposits and offered the same as credit. This triggered his entrepreneurial mind and he soon began noticing gaps in the access to financial services, especially for small-scale farmers.

The Agricultural Finance Corporation (AFC), the then leading financial institution for subsidised supply-led agricultural credit, introduced the "Seasonal Credit Scheme" in the early 1980s. Under the scheme, a farmer's loan, or part of it, could be written off in the event of a crop failure. However, to qualify for this soft arrangement, one needed to own at least 30 acres of land. Given the severe scarcity of land in Central Province, where Munga comes from, he realised that such a requirement excluded the majority of the people in his community. However, Munga saw more than this – he saw a business opportunity to provide a financial service to people who are financially so "small" that they are excluded. Munga shared his dream with four friends, who teamed up with him to start Equity Building Society. Thus, Equity's beginning was inspired by an entrepreneurial vision of a potential demand for financial services in an underserved section of the market. The five friends pooled their individual resources to capitalise Equity and to drive its operations in order to maximise returns on their investment. Though embedded in management, these five persons constituted the first governance body of Equity and determined its leadership. While the composition of ownership in Equity has changed over the years, its governance and leadership have continued to be determined by its core investors.

As we talked to Equity stakeholders ranging from staff to management, Board, customers and development partners, leadership was among the most frequently mentioned success factors. In this section we look at how Equity is owned, how ownership is linked to governance, and how Board level leadership has impacted on the institution's performance.

4.2 OWNERSHIP AND GOVERNANCE

We sought to understand who owns and controls Equity and how the Board of Directors is appointed. Does the Board support management without abdicating its role of governance? We considered that governance is an "outsider's role", holding management to high standards of performance, ethical practice and accountability. The supportive role of the Board helps management to get the job done; governance often makes the job harder. To understand how the successive Boards have provided governance over the period of their evolution, we analysed their role against basic governance criteria. We recognised that to be able to govern effectively, a Board would need to:

- Set the direction and objectives of the organisation.
- Be independent of the executive staff and have access to independent information to monitor the performance of the executive staff.
- Be thoroughly familiar with the nature of the organisation's core business; in the case of Equity,

banking and specifically microbanking.

- Be discerning, critical minded and prepared to hold executive staff to task even when such a step may cause tension.
- Uphold the values of integrity, professionalism and accountability.
- Be committed and have the time to attend to the organisation's affairs.

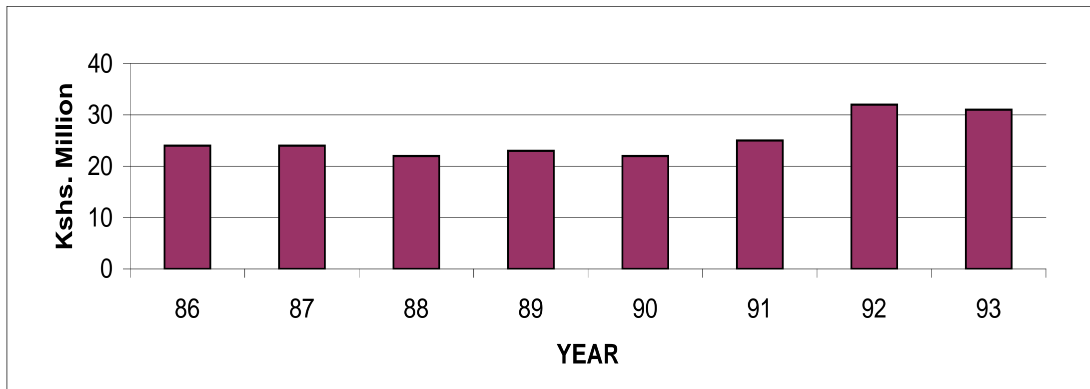
4.2.1 The inception and formative phase (1983–92)

During this phase, Equity's Board was characterised by informality. Five friends came together to set up a building society in the hope of doing big business in banking. This Board was fully embedded in management and preoccupied largely with administrative and set-up matters. While this Board started off actively, the harsh realities of the survival stage led to the gradual decline in interest and involvement in the affairs of the building society by three of the founding owners/directors. In 1986, the founder CEO and Director withdrew and even threatened with legal action should his name be associated with Equity. A second Board member deserted and formally forfeited his shares in the society in an apparent move to avoid retribution in the event of liquidation. A third covertly communicated his formal resignation to the Registrar of Building Societies in March 1989, but continued to serve on the Board until this was discovered in December 1995. Meanwhile, the Board became irregular in its meetings and thus left the control of the organisation in the hands of the executive management. According to the CBK inspection report of April 1992, no Board meeting had been held since 1989 and the last annual general meeting was held in 1987. Management supervision was also inadequate. Equity was by then technically insolvent and required a capital injection of about Ksh 30 million.

> *"Initially the Board was very active up to around 1988. Then some started feeling there was nothing in it. There was literally nothing to look after as a Board. We were technically insolvent."* J.K. Mwangi, CEO

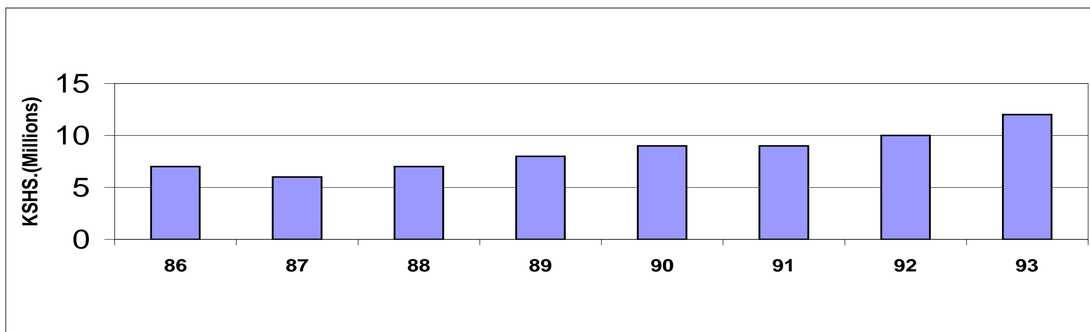
This period of apparent Board inactivity corresponds with the stagnation and decline in the organisation's performance. Customer deposits grew by only Ksh 1 million from Ksh 24 million in 1986 to Ksh 25 million in 1991. Loans and advances grew by only Ksh 2 million, from Ksh 7 million to Ksh 10 million between 1986 and 1991, while accumulated losses grew steadily from Ksh 5 million in 1986 to Ksh 22 million in 1991.

FIGURE 2: CUSTOMER DEPOSITS, 1986–93



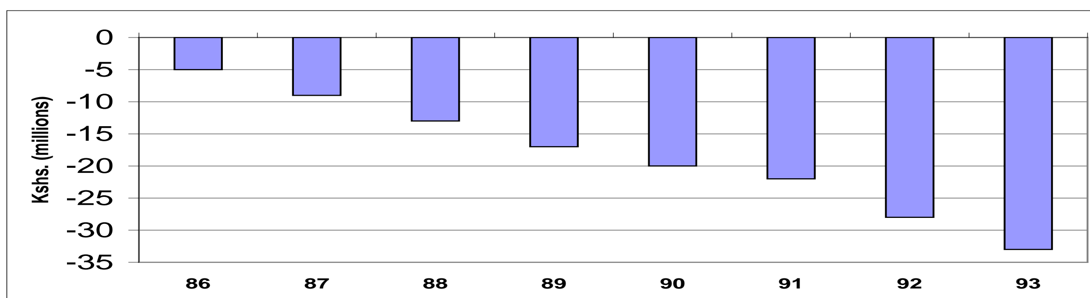
Source: Equity records.

FIGURE 3: LOANS AND ADVANCES, 1986–93



Source: Equity records.

FIGURE 4: ACCUMULATED REVENUE, 1986–93



Source: Equity records.

While this dismal performance cannot entirely be attributed to poor governance or indeed any one single factor, we observe that the actions that began to turn the institution around were sanctioned by a Board reawakened to its role by the CBK inspection report and demand for action.

4.2.2 The turnaround phase (1992–95)

During the Board meeting called to discuss the CBK inspection report in April 1992, the three directors developed an action plan that included injection of capital, aggressive marketing, a review of branch networking, compliance with the Act, recovery of non-performing debts and strengthening of internal controls. Henceforth, the Board met regularly on a quarterly basis. While its role continued to be that of providing management support, and hardly governance, its meetings increasingly discussed operational and strategic issues concerning the turnaround of the institution, capitalisation and compliance with CBK requirements.

As in the previous phase, the Board was not distinct from executive management and its governance role was hardly exercised. This was the period during which the institution began to turn around. While favourable changes in the external socio-political and regulatory environment made a significant contribution to the turnaround, management – with Board support – made important decisions that enabled Equity to take advantage of these environmental changes.

- James Mwangi, through his contacts with the CEO, deposited Ksh 3,4 million with Equity and an additional Ksh 4 million from his associates, which saved the building society from eminent collapse due to cash flow problems.
- A two-person consultant team of James Mwangi, a management and financial systems specialist, and Nancy Nyambici Macharia, a management and human resource specialist, was hired to conduct a needs assessment and provide management with a strategy for meeting the identified needs. The team provided invaluable training and technical assistance in streamlining systems and procedures, and in defining and popularising a mission and vision for Equity.
- The Board responded positively to the CBK inspection report and undertook to address the concerns raised.
- The Board set itself a regular quarterly meeting schedule in which the CEO presented quarterly management reports and used the forum to review and gain support for the turnaround efforts.
- The Board co-opted James Mwangi, the management consultant, to attend Board meetings in an advisory capacity.
- On 2 August 1995, during the second Board meeting, the Board passed a resolution to turn the institution around and make it a profitable venture.
- An ambitious action plan to increase share capital, and a marketing plan to promote savings and term deposits were drawn up.
- A monitoring plan for deposit mobilisation, capitalisation and performance was drawn up, with targets for each Board member. A new monthly Board meeting schedule was set to review progress and monitor performance.
- The CBK issued a licence in 1996, on condition that Equity would raise the core capital to Ksh 5 million.

During this phase, the Board learned that one of its directors had resigned in 1989 without notifying the Board – he had lodged resignation papers with the Registrar but instead had continued to participate in the Board's activities. This is an indication that, even though there were plans for the institution's rebirth, not everybody believed that it could be done. It must be remembered that the same people who had managed and governed Equity during its bad times were also those people planning its revival. However, this event turned into an opportunity for bringing James Mwangi onto the Board and executive management. He would continue the financial and operations management style he had

already started as a consultant, and would take Equity to unprecedented heights of success.

4.2.3 The executive management Board phase (1995–2000)

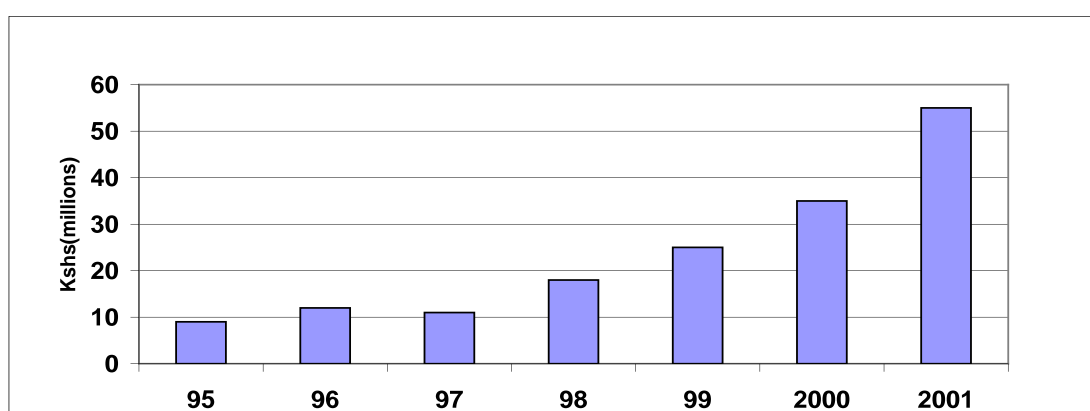
The next phase in the evolution of the organisation was an important one. With the appointment of James Mwangi as Board member and Finance Director, the executive management took over full control of the organisation. While they fulfilled the statutory requirements for a Board, they were effectively an executive management/Board committee. Due to their composition, they could not be expected to exercise governance on themselves.

Despite the absence of effective governance, the executive directors exercised prudence, imposing on themselves and the entire management performance and reporting standards far beyond what any previous Board ever did. In an effort to build on the gains of the turnaround then achieved, issues of operations management, staff development, marketing strategies, expansion, performance monitoring and reporting, and capitalisation were among the primary matters of importance.

The rewards of all the hard work, discipline, technical competence and professionalism in management came in 1998. The overly ambitious operations plan was successfully implemented, resulting in impressive growth, profitability and unprecedented growth in savings and term deposits.

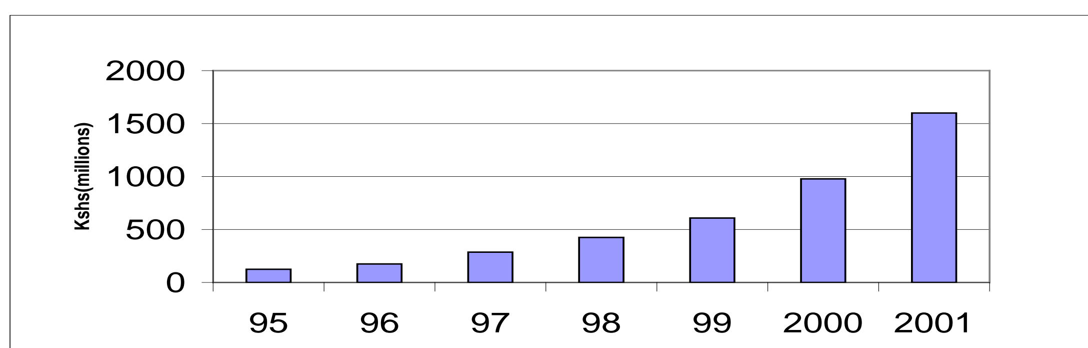
Despite the impressive performance, there was a realisation both within the Board and the CBK that an institution cannot be said to be strong if it does not have a strong, independent and competent governance body able to hold management to high standards of performance, ethical practice and accountability at all times. Beyond these key governance issues, the directors recognised the need to bring in diverse representation and resources at the Board level. This would enhance the Board's capacity to manage a fast-growing institution, a view that was shared by the CBK. The three directors subsequently developed selection criteria and started a process to recruit suitable candidates.

FIGURE 5: CUSTOMER DEPOSITS, 1995–2001



Source: Equity records.

FIGURE 6: PROFITS FROM 1995 TO 2001



Source: Equity records.

4.2.4 The governance Board phase (2000 – the present)

Equity's turnaround also entailed capitalisation by broadening ownership through share offers to its customers, staff and directors. To date, Equity has a share capital of Ksh 50 million and is owned by 2 363 shareholders coming from the areas in which Equity operates. Governance is in the hands of a Board of seven directors who, together, own 37% of the shares. The public – principally Equity clients – owns 54%, while staff owns 9,4% of the shares.

The current Board of seven members has been drawn from a diversity of personal and professional backgrounds on the basis of their expected contribution to governance. The Chairman and the CEO are founder members who have served on the Board for 19 years since its inception. The Finance Director has served for eight years. The four new directors were nominated by the three existing directors, approved by the CBK and later elected at the annual general meeting. Fredrick Muchoki, one of the earliest clients and a successful businessman who grew his business with Equity loans, brings a client and business perspective to the Board. The diversity of strengths in Benson Irungu Wairegi's professional corporate management, Earnest Kahiro Kimani's legal expertise and Professor Mwangi Kimenyi's academic credentials and international relations experience enhances the Board's conceptual capacity. These selected strengths generate the creative tensions necessary in the governance and strategic leadership of a fast-growing institution.

Our discussions with the new Board members and our reviews of the proceedings of the meetings of the new Board since July 2000, reveal that a new dynamism has been infused into the governance of the institution. At the very first meeting of the broadened Board, issues of governance took prominence. The Board raised its concern about insider lending and its reflection on the image of the Board. Management was asked to keep the Board informed of the steps being taken in this regard. The agenda and proceedings of the second Board meeting shifted from management to strategic issues, namely the organisational vision, mission, SWOT analysis and business plan. For the first time, Board minutes reported: "There was heated debate on the projections (presented by the 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.

TABLE 8: CURRENT DIRECTORS OF EQUITY

Profile of current directors	Qualifications	Experience
Peter Kahara Munga (Chairman)	Cambridge School Certificate Certified Public Secretary	25 years in Public Service Commission of Kenya
John Kagema Mwangi (Executive and CEO)	Bachelor of Commerce (Banking)	Management of companies for approx. eight years, and 16 years in banking at management level
James Njuguna Mwangi (Executive and Finance Director)	Bachelor of Commerce (Accounting) CPA(K)	13 years in banking in Finance and management positions
Benson Irungu Wairegi	Bachelor of Commerce (Hons.) CPA(K)	Managing Director, British-American insurance company
Earnest Kahiro Kimani	Bachelor of Law (Hons.) and Diploma in Law, Kenya School of Law	20 years' experience as an advocate of the High Court of Kenya
Fredrick Mwangi Muchoki	Cambridge School Certificate	Medium-size businessman Executive Director of Presta Office Equipment
Professor Mwangi S. Kimenyi	M.A. in International Affairs; Ph.D. in Economics, University of Virginia	Professor in Economics, currently Executive Director of Kenya Institute of Public Policy Analysis (KPPRA)

Clearly, the destiny of Equity at this stage of its transformation is in the hands of a capable, independent and professional Board able to support management without abdicating its governance and leadership roles.

4.3 FOCUS AND ADJUSTING FOCUS

In the eyes of Equity stakeholders, especially the staff and management, the shift in focus from mortgage finance to microfinance has been a major factor in the success story of the institution. 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 undercapitalisation. 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.

> *"With very small deposits of Ksh 10 000 from short-term depositors, we have never been into serious mortgage finance ... We have been 'infringing' on the societies Act since inception by lending very small amounts for different purposes and continuing to lobby CBK about this."* J.K. Mwangi, CEO

The question, then, is what had changed and why was this change so important? While Equity had always been inclined towards the "microsector", it was not until the liberalisation era of the early 1990s when a series of amendments to the Building Societies Act enabled Equity to pursue business in the microfinance market without infringing on the law. With the liberalisation, Equity became open and aggressive in targeting the small and micro-entrepreneurs, farmers and salaried individuals. The real

change in focus then seems to be in the area of marketing strategy and choice of products, all aimed at the microsector and the "missing middle". Note that the liberalisation era also brought the relaxation of rules prescribing where state employees should keep accounts. Equity experienced a large influx of teachers and other government employees as clients in the early 1990s. These were not people saving up to buy a house or borrowing housing finance, as they were far more inclined to seek advances on salary cheques – thus representing a complete move away from mortgage finance. The refocusing on the microsector coincided with the Board's decision to invite James Mwangi to join the team as a Board member and Finance Director. He contributed towards emphasising the focus on microfinance.

Equity's current strategic objectives for 2002–2006 revolve around increasing its market share, applying technology to enhance operational efficiency, maximising return on assets, maintaining high asset quality and improving staff productivity and welfare. The focus is now firmly on microfinance. Until recently, Equity had not really been known as a microfinance institution, as it was excluded from a sector review of microfinance institutions in 2000.

4.4 LEADERSHIP

4.4.1 Board level

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 leadership: John Mwangi, CEO, and James Mwangi, Finance Director. In some cases the stakeholders, especially staff, were unable to distinguish between the roles played by these two persons.

> *"These two have worked very closely, but I am not quite able to separate their roles. The CEO has been a stabiliser and the FD the driver".* Equity staff member

At the governance level, the presence of the Board Chairman, Peter Munga, in the bad times and now also in the good times, has given the Board the element of continuity and presence. His commitment to, and support for, the organisation are inspirational to management and the newer Board members. Given that management has driven Equity for most of the time, it was on John Mwangi, CEO, that the institution relied for leadership. In the initial phases of the institution's evolution, John provided leadership at both the governance and operational management levels. During the difficult times, his persistence and resilience stood out.

> *"John Mwangi sacrificed his lucrative job as Marketing Manager of EAO and risked the welfare of his own family by sticking with the institution as the Executive Director, even at its brink of collapse during the banking crises of the late 1980s and early 1990s. He concentrated all his efforts on managing the institution and if it failed he could have been exposed to the extent that he could have found it difficult even to feed his family."*
> P.K. Munga, Board Chairman, reported in the Board minutes of 10/12/96

Driven by courage and determination, and with no safety nets, John Mwangi risked all to lead Equity through the trying times. How did he manage to retain his management and operational team for the first 10 or so years without even a salary increment? It is the result of the culture he built – a culture of

commitment, caring, hard work and fairness for all.

The turnaround and growth phases of Equity were equally challenging times for the CEO. This was a period when the executive management was effectively also the governance authority; a time when emerging success could tempt a CEO to be imprudent and unaccountable. What we see, is a CEO who imposed on himself performance and reporting standards far beyond what his Board would ask. As the institution turned around, John Mwangi introduced and maintained a self-imposed system of quarterly performance reporting and used the Board to monitor performance and gain support for action plans.

In 1995, James Mwangi, a 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 will see, James has had a profound influence on Equity.

4.4.2 Operations management level

James Mwangi, a finance executive with skills and experience in running modern banking institutions, joined Equity as Finance Director in 1995, having worked for the institution as a consultant in management and finance. He blended in well and led the institutional culture of hard work, caring, team spirit and customer focus. He was, however, confronted by major challenges. When he joined the team as consultant, the institution was technically insolvent. The staff morale was low and professional banking discipline poor. 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. As staff gained more confidence in and acceptance of the new way of working, his leadership style become more consultative and indeed facilitative, with the eventual formation of a central management committee comprising the executive managers and the branch managers. The next step is currently being implemented, namely that of expanding the senior management cadre to include senior managers for human resource management, systems and information management, credit control and financial management.

James Mwangi succeeded in changing his management style to suit each development phase of the organisation – indeed the sign of an accomplished manager. Three aspects of his leadership style 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 created that began to move others from their comfort zones. The second was that of providing training to build technical skills and to boost confidence in order to achieve the vision. The third aspect of his leadership style has since been to delegate responsibility, creating incremental challenges and rewarding performance.

4.5 THE CBK, REGULATION AND SUPERVISION

Why was Equity spared liquidation by the 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 was 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".

> The Central Bank of Kenya in a joint meeting with the Equity Board defined its objectives for the meeting as follows: *"To create cooperation in a win-win situation between the regulatory and investment needs to ensure achievement of a mutual mission, and to offer the Central Bank and the Board of Equity a forum for gaining support from each other."*

Statutory amendments in the 1990s empowered the CBK to supervise building societies registered under the Building Societies Act. In 1992, the CBK conducted one such inspection of Equity and found the institution to be technically insolvent and in violation of the Act. The CBK did not call for Equity's liquidation, but rather recommended conditions to be complied with regarding capitalisation, asset quality, insider lending and management supervision. In retrospect, the action of the CBK seems partial, given that many indigenous financial institutions were being liquidated for similar reasons. However, the correct position is that, at the time, only the Registrar of Building Societies, and not the CBK, could consider such action.[8] Since no complaints had been filed with Registrar, such action was never contemplated. For Equity, this inspection report served as a wake-up call and marked a turning point in its evolution and in its relationship with the CBK. Equity's positive response to the concerns raised and quick action in developing an action programme for addressing the issues must have given the CBK – by then certainly apprehensive of collapsing financial institutions – great hope of an alternative mechanism for ensuring the health of institutions.

> *"It gives a warm feeling in the heart. They are touching that person who needs just a little money. But when you add up all those monetisations, it leads to the development of very poor people. Your economic heart also becomes warm in seeing these many people being touched, even when they do not appear on the GDP. We are very supportive of Equity – not emotionally but rationally."* Central Bank of Kenya

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. In Table 9 we capture some of the ways in which Equity has moved the boundaries of the Act, and the rational response of the CBK.

[8] Only recently have changes in the Act lent more powers to the CBK in this respect.

4.6 CHALLENGES

We asked the stakeholders what they thought the remaining challenges for Equity were as far as ownership, governance and leadership of the institution are concerned. While they agree that a great deal has been achieved, some challenges remain, while others are already being addressed.

TABLE 9: EQUITY'S BOUNDARY-MOVING ISSUES, AND THE CBK'S RESPONSE

Boundary moving issues	**CBK response**
Operating as a "bank" without converting into one	The CBK is now looking for the possibility of an exit clause for building societies to convert into banks.
Lending on securities other than land	"Keep them alive. What they are doing is an essential service and though bending the law, it is not injurious. We decided to accommodate them for the mutual benefits of the society and the banking community." Indeed, this has not been seen as a risk to the system.
Initially having a low liquidity ratio	"What is most important is maintaining the prudential ratios."
Low capitalisation: Ksh 5 million, rising to Ksh 50 million and then to Ksh 150 million	There has been debate in favour of low capitalisation. The performance of microfinance institutions has been very high and therefore risks are low.
Taking deposits beyond core capital	Not prudent – it is allowed to take deposits up to core capital (as reflected by the volume of ordinary shares issued). The institution should capitalise to the required level.

4.6.1 Capitalisation

The search for a strategic partner and the offering of shares to the public could shift the focus of control and has the potential to cause a mission drift, as new owners could go for pure profit maximisation. Capitalisation needs to be carried out cautiously.

4.6.2 Internal audit and control systems

These need strengthening, and should be headed by a senior professional with adequate autonomy and direct access to the Board. This also links to credit control and control systems, as the fast growth of banks always increases the risk of fraudulent practices or slack portfolio control.

5. MANAGEMENT

5.1 INTRODUCTION

In this section we emphasise management's ability to, and performance in, managing the changes it effected in Equity and the perceptions and aspirations of different stakeholder groups.

5.2 MANAGEMENT OF CHANGE

Classical organisational management literature identifies eight key points for bringing about changes in organisations. We decided to use this framework[9] as it is well tested and a good measure of the key steps in organisational change. Tables 10 and 11 summarise Equity's performance measured against these steps.

TABLE 10: EIGHT STEPS TO TRANSFORMING AN ORGANISATION

Step 1	Establish a sense of urgency	Examine the market thoroughly, identifying and discussing crises, potential crises and potential opportunities.
Step 2	Form a powerful guiding coalition	Assemble a group with enough power to lead the change effort and encourage the group to work together as a team.
Step 3	Create a vision	Create a vision to help direct the change effort and develop strategies for achieving that vision.
Step 4	Communicate that vision	Use every vehicle possible to communicate the new vision and strategies, teaching new behaviour by the example of the guiding coalition.
Step 5	Empower others to act on the vision	Get rid of obstacles to change; change systems and structures that seriously undermine the vision; encourage risk taking and non-traditional ideas, activities and actions.
Step 6	Plan for and create short-term wins	Plan for visible performance improvements; create those improvements; recognise and reward employees involved in the improvements.
Step 7	Consolidate improvements and produce still more change	Use increased credibility to change systems, structures and policies that do not fit the vision; hire promoting and developing employees who can implement the vision; reinvigorate the process with new projects, themes and change agents.
Step 8	Institutionalise new approaches	Articulate the connection between the new behaviour and the success of the organisation, and develop the means towards leadership growth and succession.

[9] These are steps by Kotter (1995), as quoted by Coetzee, G.K. & Graham D.H. 2002. Restructuring agricultural development banks in South Africa. In Coetzee, G.K. (Ed.), *Agricultural development banks in Africa: the way forward.* Nairobi: African Rural and Agricultural Credit Association.

TABLE 11: EQUITY'S PERFORMANCE

Step 1	Equity engaged in an analysis of its market and its client demands, and also carried out a competitor analysis – these culminated in a business plan.
Step 2	In Equity this group was, for most of Equity's existence, the CEO and the Chairman, later strengthened by the Finance Director, who provided new impetus. The group then expanded to include a more senior management echelon as well as influential development partners. In a way, the CBK team was also part of this group.
Step 3	This is the effort from 1993 to 1995, and culminated in an extreme focus in Equity.
Step 4	All staff members, Board members and supporters of Equity internalised the vision. Executive directors and managers took the lead and taught by example; Board members became part of the marketing drive.
Step 5	Equity took the strategy of appointing young people, making them part of the culture. It improved systems that increased productivity and improved control systems and audit measures.
Step 6	Although slow in starting, mostly due to affordability reasons, performance is being visibly rewarded in Equity, e.g. visits to Mombasa and a bonus system.
Step 7	This is an ongoing process. Employees are carefully selected – strategic considerations are for young and educated employees; every promotion opportunity is exploited; partnership with development partners is being promoted.
Step 8	This is now in process. The leadership style has changed over the last 10 years from being quite command driven, to participative management and leading by example, to more remote interaction, facilitative leadership and the creation of a new cadre of people.

In effect, Table 11 illustrates that Equity has done everything "by the book". Note, for example, the concept of changing Equity's management style to suit its changing circumstances. In the process of gathering information we initially considered the CEO and Finance Director as being indispensable to the institution. We were constantly reassured by the Finance Director that they were working on succession planning and capacity building to fill the gap between executive management and the rest of the management core. However, it was only when we saw the rest of the management core in action that we recognised the solid process in action to ensure succession and continuity.

Over time, the management style changed from being largely autocratic and command driven in the early 1990s, when the organisation needed to be turned around. The existing staff then were the same people that had been part of the organisation's survivalist culture in the late 1980s. The autocratic management style made way for a more participative style in the middle to late 1990s, while a more remote style of management, more facilitative than participative, is evident now.

5.3 MANAGEMENT OF STAKEHOLDER PERCEPTIONS

5.3.1 Introduction

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 foster 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.

According to the Board papers, the directors of the Board gave the go-ahead to use the PlaNet Finance rating as a marketing tool to highlight Equity's good performance. Management approached the Board to overturn this decision, as it did not want to create the perception that the institution was gloating over this achievement. The Board agreed and withdrew its instruction. This is an indication of the many activities that get filtered in terms of the perception they could create with stakeholders and clients.

All members of management are realistic in their assessment of the possible effect their activities may have on clients and other stakeholders. There is also a clear understanding of incentive frameworks. Each stakeholder group is managed according to the perception of the incentives driving that specific group. Note that most of our observations in this section are based on our interviews with the Finance Director. It is clear that the Finance Director lives and breathes Equity, and therefore there is a strong drive and focus in his activities. He realises that people must be managed in terms of their perceptions, specifically those perceptions regarding personal gains or losses due to the actions of other stakeholders.

5.3.2 Board and senior management

It is interesting to note that, at Board level – where, for a long time, the Board consisted of three people, the Chairman, the CEO and the Finance Director – the Chairman played the role of bringing realism to targets. Once targets were decided on, the Board closely monitored their fulfilment. One example of a well-constructed strategic move to both gain from expertise and create the right perceptions in the eyes of the public, is the choice of recent appointees to the Board. It is very difficult to differentiate between the incentive frameworks of the Board and senior management, as they were largely the same group of people until 2000. Thus they were responsible for the management of the perceptions of all the stakeholders, and what we discuss in this section therefore pertains to the perceptions of the rest of the stakeholders.

5.3.3 Branch management

Here, financial rewards and recognition are the two main motivators and management mechanisms. Equity uses a monthly based incentive scheme, recently reviewed as part of ***MicroSave***'s study of incentive schemes in microfinance institutions. Recent branch winners were sent to Mombasa for a weekend, courtesy of Equity. Branch managers form part of the central management committee of Equity. Some interesting aspects were observed at the management level. When a new branch is opened or a specific marketing drive is launched, all branch managers come to assist with the effort. They work hard and enthusiastically, although their efforts will benefit the performance of that particular branch only.

The CEO and the Finance Director succeeded in creating an atmosphere of commitment within the management cadre. The new organisational structure is currently under discussion, and there is a clear understanding that there will soon be announcements in terms of the choice of a select group that will be trained and tested for the new senior positions. It is clear from the interviews that two groups exist within the management cadre. While both are committed to Equity, one group is more in support of senior management, while the second (smaller) group questions decisions and actions to a far greater extent. This is a normal occurrence in any institution, and in a way represents a healthy balance in the management cadre. However, it needs to be managed carefully and Equity must ensure that all managers are accommodated in an incentive framework.

5.3.4 Focus on clients and stakeholders

All activities of Equity are weighed in terms of the impression they will create with clients. Many

activities are designed to accommodate clients. The shared value of caring for clients and ensuring that they have a good perception of Equity has been evident as a focus area at all levels. A recent cocktail function to accommodate client networking drew over 700 participants. A branch manager will visit a sick client and provide a loan in the hospital to pay for medical expenses if necessary.

> *"Equity has very friendly staff – they treat the customers we bring so well."*
>
> *"Equity staff keep their promises ... they are reliable ... their word is truth."*
>
> *"Management and staff are very accessible to clients."*
>
> *"Equity ni mama ya kila mtu ('mother of all') ... Equity has a very unique way of serving clients; they listen, whether you have money or not. They serve all categories of people."*
>
> *"They have really capitalised on the insensitivity of commercial banks."*

Everything is done to create a good impression among all stakeholders. Support by development partners is widely publicised, mainly to support the notion that Equity is a substantial and solid financial institution. It is clear that Equity still remembers clients' lack of confidence in the failing indigenous financial institutions of the last decade, and the institution deems it important to counter this notion. Equity's management clearly understands the role perceptions can play in financial markets, and that the management of these perceptions is an important responsibility that must be well executed with good results.

5.4 CHALLENGES

5.4.1 Management of change

The biggest challenge here is to consolidate and to keep up the excitement. The excitement of success and growth does pull people along and create a sense of real achievement. However, unmanaged growth in any institution can lead to serious long-term problems. Thus, the current emphasis of the Board (as discussed in an interview with the Board Chairman) on consolidation is positive. However, when the initial excitement tapers off and is replaced by routine, it is more difficult to keep staff motivated. The culture at the moment is that of a small organisation, although Equity is no longer small. The easy communication on a person-to-person basis will, of necessity, change, which will bring new problems and challenges. Thus, it is crucial that Equity establishes an internal system of communication that better reflects its current and anticipated level of growth.

5.4.2 Management of perceptions

There is a fine balance between what clients would regard as a fair price to pay for superior service. At the moment it seems as if Equity has succeeded in finding this balance, but it is also clear that clients are acutely aware of the cost increment that they need to pay to bank with the institution.

5.5 CONCLUDING REMARKS

The management of change and of the perceptions of stakeholders is extremely important for growing financial institutions. Equity has succeeded in refining its products, expanding its branches, installing

new systems, increasing productivity and holding the attention and the excitement of staff members. Most of this has been driven from senior management level and with very good Board support. There is an easy relationship between staff, management and Board, as the latter two are visibly part of the efforts to grow Equity. The Board has only recently kept a more formal distance between itself and management and staff. This, too, is appropriate for the current phase of Equity's development.

6. SYSTEMS, MEASUREMENT AND REACTION

6.1 INTRODUCTION

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 to expand their client base and product range? Do they use what they gathered?

6.2 INFORMATION GATHERING

Prior to the installation of *Bank 2000,* Equity operated a manual system. *Bank 2000* is an integrated loan and savings tracking and accounting software, which also interfaces with a MS Access database for payroll purposes. Judging from the level of efficiency that has resulted from operating with the new system, the computerised management information systems have contributed to the success of the organisation and took it to a higher level of productivity than would have been possible with the manual system. Indeed, Equity's client base had expanded to a level where there was no choice but to automate the system.

For over 16 years, Equity survived under the growing difficulties of using a manual 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. The banking halls became increasingly congested; the speed of serving customers deteriorated and staff frustrations became obvious as their desire to provide customers with good service was limited by the system of operation. The morale of staff deteriorated as they worked long hours, over weekends and during holidays to cope with the increased volume of business under the manual system. In addition, the institution faced increasing risk of fraud.

With the manual system, it was more difficult to compile accurate reports. The production of special statutory and legal reports required on a weekly, monthly and yearly basis added more pressure. As some commercial banks began targeting customers in the SME sector, their computerised systems gave them a clear competitive advantage over institutions like Equity, which were still using manual systems.

Equity launched *Bank 2000* in June 2000, completing the process of computerisation in a record of four months, which included the installation of local area networks (LANs) in eight branches. Equity's efficiency in collecting and giving data and its service delivery to customers improved greatly thereafter. End-of-year results show that the number of active savings accounts per staff grew by 59% between 2000 and 2001. In 1999 and 2000, the annual growth in the number of savings accounts per staff was 11% and 3% respectively. Although this growth is partly attributed to Equity's 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 to the institution's efficiency. With the new system Equity managed to improve its customer turnaround time from 30–40 minutes to about five minutes at the counter.

Equity is able to make available information from each of its branches on a monthly basis. Some information is still prepared manually at the branches, although this could be because the capacity of the system is not fully exploited. Head Office requires each branch to send weekly and monthly information

on both hard and soft copy, which is then manually consolidated to provide information on the institution as a whole. Soon this will no longer be necessary as Equity plans to install a wide area network (WAN) system that will provide access to information from any one branch. Equity will also be able to serve its customers from anywhere in the WAN. There is still a great deal that needs to be done to improve the provision of reports for various users in management positions.

After experiencing the positive effects of a computerised system, Equity sought to further upgrade to *Bankers Realm,* which is a more advanced version of *Bank 2000* and runs on Microsoft Windows. However, even though systems are being upgraded, it is clear that the current information base is not being used to the full. For example, client profiling for more focused loan decisions and marketing efforts is possible, but not being done. In addition, staff members do not obtain adequate socio-economic information from clients at the time of opening accounts.

6.3 ANALYSIS, MEASUREMENT, DECISION MAKING AND IMPLEMENTATION

Equity conducts a general analysis of its performance based on certain key indicators. This information has to be prepared manually from data obtained from *Bank 2000*. Examples of the type of analysis done include profitability, number and volume of savings and loans, operating income and expenses, operational self-sufficiency, interest income and expenses, financial self-sufficiency, and total assets. This information is used to compile financial statements and calculate standard financial ratios, such as return on assets and return on equity. It is not clear, however, whether this information is being made available to, and analysed by, managers at different levels. This seemingly underutilisation of information is typical of most institutions using automated systems. This is more so when the institution is in a steep growth curve – little time is spent on interrogating databases and analysing data, and most resources are used to keep the growth process going. As will be seen later, this is indeed one of the risk areas that Equity needs to address, as growth may conceal a number of crucial underlying risks.

Moreover, beyond the basic analysis of these indicators, the study concluded that there is inadequate data mining from the system. For instance, there is a need to extract from the system 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. Such profiling requires that more socio-economic information be available to enable the combination of different data sets. These profiles are necessary for marketing, for risk analysis and for implementing scoring systems. It is important that credit scoring be given more formal attention by Equity, as this will take the institution to a higher level in the use of appropriate data. Scoring changes how microlenders think, fostering a culture of analysis in which managers regularly seek to mine their databases for information that addresses business questions (Schreiner, 2002). In addition, the information in the data system can be used profitably to decide on issues like resource allocation and costing.

6.4 CHALLENGES

Bank 2000 generates quality information. However, accounts are still being consolidated manually on spreadsheets, a slow and time-consuming process. It is expected that the WAN will alleviate this problem. It will also allow for interbranch electronic transactions and provide its customer base with "branchless banking".

With the exception of gender profiling, the system's reports do not provide detailed analyses of the profiles of different types of clients. There is a need to exploit the capacity that is currently available

in the system, which will mean having to obtain more information from clients during loan applications and the opening of savings accounts. The data system should also be used fully and effectively for the purposes of credit scoring, costing, resource allocation and so forth.

Equity's Fourways Branch is still experiencing difficulties during end-of-month peak periods, due to the large number of salaried employees from the Nairobi City Council it serves. As this is one of Equity's main target markets, the institution would need to invest in more innovative systems such as ATMs in order to reduce the long queues and increase the speed of service delivery.

Equity will continue to face the challenges of managing information as the institution grows. It will need to address its future needs as a commercial bank and begin to prepare its systems for handling commercial banking products and services, such as international trade finance and current accounts.

Finally, as mentioned earlier, institutions in steep growth phases may tend to neglect the close monitoring of clients. Combined with control systems that operate on a weekly or monthly basis, underlying weak points in the system may be concealed. Often when portfolios grow this rapidly, inadequate attention is given to portfolio ageing analysis and portfolio quality monitoring in general. Equity should, therefore, address this concern.

As our data gathering and analysis were primarily focused on identifying success areas, we did not detect underlying problems other than an inadequate mining of available data.

7. HUMAN RESOURCES, CAPACITY BUILDING AND TECHNICAL ASSISTANCE

7.1 INTRODUCTION

The transformation of Equity, as seen in its impressive performance since 1995, is also reflected in the quantitative and qualitative growth of its human resources. For the first 10 years of its existence, Equity had about 20 staff members. Of these, only the CEO had university-level education, and the majority of staff had neither prior experience nor professional training in banking and finance. While they remained very dedicated, working long hours to serve the customers and to keep the organisation going against all odds, Equity could not afford to increase their salaries in the first 10 years. During this period, customer deposits were very low and stagnant. Equity had a non-performing loan portfolio of 54% at the end of 1993, and losses accumulated steadily each year, reaching Ksh 22 million in 1991. It is possible that among the many factors that contributed to Equity's poor performance then, poor quality of staff and poor remuneration could have been causative factors, as well as the effects, of the poor performance.

The period since 1995 is marked by phenomenal growth in the quality and quantity of Equity's performance on the one hand and its staff on the other. While performance and human resources are two sides of the same coin, it is clear that quality staff has driven Equity's quality performance.

In this section we consider – through the eyes of the stakeholders – how the infusion of quality staff, coupled with training, energised the institution and set it on a success path. We also looked at how the resultant success has driven the development of human resources.

7.2 OBTAINING 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 (see Figure 7 in Section 8). 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. Later, in 1995, James joined Equity as Finance Director and, instilled in staff a culture of customer focus, hard work, sacrifice and teamwork. He rallied them around a shared vision, and introduced a professional banking discipline, astute management and intensified staff training.

These well-managed activities began to bear fruits as early as 1995. Customer deposits rose from Ksh 31 million in 1993 to Ksh 124 million in 1995. The loan portfolio grew from Ksh 12 million in 1993 to Ksh 97 million in 1995, and profits went from a loss of Ksh 5 million in 1993 to Ksh 9,7 million gross in 1995.

To make the turnaround, Equity needed both to acquire relevant human resources and train and reorient the existing ones. Thereafter, the growth in the number and capacity of the staff was driven by growth of the business and changes in technology (Table 12).

TABLE 12: GROWTH IN NUMBERS OF STAFF AT DIFFERENT LEVELS IN EQUITY, 1995–2001

	1995	1996	1997	1998	1999	2000	2001
Board level	3	3	3	3	3	7	7
Executive management	2	2	2	2	2	2	2
Branch/assistant branch managers	6	6	10	13	15	18	22
Senior managers at Head Office	2	2	2	1	1	2	5
Administrative support staff	4	4	1	5	5	4	7
Credit staff	6	8	10	12	16	17	36
Savings staff	25	34	31	47	72	72	81
Management information systems staff	1	1		1	1	1	3
Finance/accounting staff	3	2	1	3	1	4	6
Marketing staff	–	–	–	1	–	–	5
Audit staff	–	–	–	–	–	–	2
Total	50	62	60	86	116	124	176

How did Equity acquire its human resources? Although not formally entrenched, there is a tradition of recruiting young people with little or no experience at entry points. The executive secretary, who doubles as personnel officer, keeps a database of all unsolicited applicants and whenever a position arises, a shortlist is developed from this list. A recruitment committee comprising senior managers in the Nairobi branches and at Head Office interviews and selects the most suitable candidate for a given a position. Equity prefers to fill management positions from within; however, in the last 18 months it has needed to recruit some experienced people from outside the institution for senior management positions. This has been done by headhunting.

7.3 IMPROVING RESOURCES

How does Equity improve its human resources? During the first phase of its transformation, Equity hired consultants to train staff over the weekends, mostly because it could not afford to pay full rates to consultants and negotiated for lower rates over weekends. It was clear that the improvement of resources was one of the strategic concerns of the executive management (and thus the Board). The initial training 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 training in marketing, in client services and in the many aspects of banking which hitherto had not been internalised by the staff.

The initial approach of appointing from within necessitated a great deal of training, not necessarily to strengthen corporate culture, but rather to strengthen banking skills. The emphasis has recently shifted more towards ensuring the continuance of the corporate culture, as many newcomers are young, but well educated. In a way, the selection of staff was not so much aimed at bringing skills into the bank, but to mould inexperienced graduates to the culture of the bank. This has worked exceptionally well, and it is

fascinating to see the work ethic and culture emanating from the activities of the entire staff complement.

The vast majority of training takes place on the job. Young newcomers work under the leadership of experienced managers, and in the process pick up many and varied skills. Training also takes place through the daily interaction of the Finance Director with all the teams working on the different aspects of expanding Equity's portfolio. An example that illustrates the ongoing training and the building of the corporate culture is a recent decision by branch management to double Equity's set portfolio target. Although outsiders see this as a very ambitious goal, Equity's full team has been joined together in strategising to meet this target. The overall target was broken down to branch level and eventually to staff level. Even the staffs appointed as drivers are assisting with marketing, having their own targets.

Given the tradition of hiring young people with little or no experience, coupled with the institution's rapid expansion and growth, the demand for training has grown beyond what can be provided internally. This demand has been met through a range of both generic and specialised short courses offered by local institutions, in-house training by consultants, on-the-job peer training, and technical assistance arrangements made with development partners. Equity values training highly, and does not hesitate to provide such opportunities for all staff. It is also clear that Equity should keep its focus on training, especially sourced from outside, as its procedures and documentation evolve with new products and systems.

7.4 THE EFFECT OF TECHNICAL ASSISTANCE

7.4.1 Introduction

Since 1999, Equity has benefited from the interest international development partners have shown in the institution. We set out to establish to what extent the relationships with these partners had contributed to Equity's success. A short overview of each development partner's contribution, as well as our view of the result or impact thereof, is given. One aspect that has been efficiently exploited by Equity is the prestige of being affiliated with internationally renowned development partners. Information about partnerships is used in press releases and promotional material to illustrate that Equity can be trusted.

7.4.2 European Union

The European Union's (EU) contribution as a development partner has been directed through two institutions: the Micro Enterprise Support Programme (MESP) and the African Caribbean Pacific – Enterprise Business Assistance Scheme (EU-ACP-EBAS).

The MESP is a project of the EU and the government of Kenya to provide financial services for micro-enterprises in Kenya. Under the MESP programme, Equity acquired a total of Ksh 70 million for on-lending to support start-ups and the expansion of micro-enterprises. The loan was awarded in two phases, the first being a one-year loan of Ksh 20 million in August 1999, at a 6% flat rate per annum, to be on-lent at a reducing rate of 32% per annum. The second loan was for Ksh 50 million for a period of two years.

Judging from Equity's growing deposit capacity, it would seem that the loan it acquired from the MESP was not for want of loan capital. Equity's relationship with the EU was primarily a promotional opportunity that would be exploited as proof of Equity's attractiveness to international development partners. The association with the EU was advertised in the media to promote Equity as an institution

growing in stability and capacity to provide financial services to the microfinance sector.

Equity has also benefited from the MESP's institutional capacity building support in the form of staff training and development. Under this programme, Equity received a loan to finance its Staff Development Programme, while Equity itself contributed 43% of the total cost of the project (amounting to Ksh 5,5 million). Equity organised study tours for six of its managers to the Centenary Rural Development Banks in Uganda and Tanzania, as part of this programme.

The rating of microfinance institutions in Kenya conducted by PlaNet Finance International, in which Equity took part, was also financed entirely by the MESP.

In September 2000, Equity was awarded an EU-ACP-EBAS grant of 49 316 Euros for the pilot project "Cultivating Customer Loyalty". Equity planned to use the funds to train its clients and build their business capacity. Ideal Business Link Limited, a business training and consulting firm, was hired to train Equity's clients at three branches: Othaya, Kiria-ini and Karatina. Clients received training in aspects of business start-up, management and development, which included such topics as entrepreneurship, business success, strategic and business planning, feasibility and viability studies, financial management and control, funding sources, marketing, and customer service. In addition to training, Ideal Business Link spent a week in each of the branch locations, providing clients with business advice and counselling. An estimated 600 clients received business training and counselling.

Sensing overwhelming client satisfaction, Equity applied for additional support from the EU to train a further 400 customers at the Kerugoya and Nyeri branches. An amount of 20 324 Euros was awarded towards the project.

Graduation ceremonies organised at the end of the training sessions contributed to the overwhelming publicity, as Equity used the forum to promote the institution and its products and services. Equity has attracted remarkable customer loyalty as a result of this programme. The positive publicity is perceived to have contributed to the overall growth of the institution. In fact, the opening of two additional branches – at Kerugoya and Nyeri in 2001 – has been partly attributed to this publicity.

7.4.3 Swisscontact East Africa

Since 1998, Swisscontact has worked together with altogether five financial institutions in East Africa, to improve their services to micro- and small enterprises (MSEs). Based in Nairobi, Swisscontact implements projects that contribute to the foundation's objectives of poverty reduction through private sector growth and employment creation. The promotion of sustainable financial services to MSEs is a major component of Swisscontact's private enterprise promotion in East Africa. At the time the project was started, microfinance NGOs in East Africa focused exclusively on either the Grameen Bank or FINCA group-based models and, as such, microfinance product replication was a standard approach to the deepening of financial services. Swisscontact sought to encourage its partners (including Equity) to introduce solidarity group lending and village banking. However, the development foundation's strategy changed within a very short time to pursue the more pragmatic market-driven, client-focused product development policy, with partner banks.

Since April 2001, Swisscontact and Equity have been collaborating to improve the institution's financial services, as well as its institutional capacity to provide these services. The current memorandum of understanding between Swisscontact and Equity foresees cooperation until December 2002 to tackle the following objectives:

- Refine Equity's product portfolio
- Develop and implement a human resource concept
- Analyse, improve and document Equity's procedures

A major component under the objective of refining Equity's product portfolio was to differentiate Equity's products to target three market segments (MSEs, commercial farmers and salaried employees) more effectively. A market survey of all Equity's rural branches, sponsored by Swisscontact, identified a huge potential for differentiated products. The survey was designed to analyse the potential in all three of Equity's market segments. The recommendations of the survey report included the training of staff in market research and product development.

In October 2001, Swisscontact hired ***MicroSave*** to conduct its Market Research for Microfinance Course for 30 members of Equity's staff and management. This course was delivered by ***MicroSave*** trainers and focused on tools for developing and refining products using customer research. Following the market research training, Equity established a product development team of seven staff members. The market research training revealed that Equity faced immediate difficulties with its loan products, which were perceived unfavourably by its clients. A phase of initial refinement followed to improve the basic features of the loan products.

Swisscontact and Equity have largely focused on the objective of refining Equity's products. Rather than providing technical assistance in refining and developing products, greater emphasis was placed on building Equity's internal capacity to undertake this process independently. This internal capacity is evidenced by the fact that, at the time of this study, Equity's Marketing and Product Development Department was actively involved in developing two financial products using knowledge and skills learned from the partnership assistance from ***MicroSave*** and Swisscontact.

In 2001, Equity's Finance Director visited Switzerland to observe some of the banking and finance systems of the successful Swiss model. The visit, supported by Swisscontact, led to the piloting of a new instrument of Swisscontact: know-how transfers between Swiss and local banks. As a first exchange, Alfred Geiger of Raiffeisen Bank in Switzerland visited Kenya and assisted Equity in the revision of their Strategic Plan for 2002–2006.

At the time of this study, Swisscontact and Equity were in the early stages of initiating the process of analysing and documenting Equity's procedures. This will be done using the ISO 9001:2000 approach of establishing quality management systems, which will lead to an international quality management systems audit and certification.

Swisscontact and Equity are also working on the modalities of developing the human resource concept, central to this being the identification of a qualified human resource manager who will take the lead in developing the concept.

7.4.4 *MicroSave*

The ***MicroSave*** initiative was started as a result of the Consultative Group to Assist the Poorest (CGAP) Savings Mobilisation Working Group's Africa Conference on "Savings in the context of microfinance", held in February 1998 in Kampala. The Conference led the UNDP and DFID to launch ***MicroSave*** to promote savings services for poor people in Africa.

MicroSave's strengths are in the areas of research and training, especially using participatory rapid

appraisal and focus group discussion methodologies to increase understanding of the clients' voice in microfinance, and expanding its coverage to spread this message beyond East Africa. ***MicroSave*** is helping the microfinance field as a whole to understand how to implement a client-centred approach. It has now broadened its range to include credit and other products, although still retaining its primary emphasis on savings.

The collaboration with Equity began when Swisscontact hired ***MicroSave*** and its consultants to conduct their Market Research for Microfinance Course for Equity's 30 staff members. The course, which included field-level research, trained Equity's staff in conducting extensive interviews with their clients and greatly assisted them in understanding clients' financial behaviour and their perception of Equity as a microfinance services provider in the industry.

Since then, Equity has joined ***MicroSave's*** pool of Action Research Partners (ARPs). In the ARP programme, ***MicroSave*** works with a selected group of MFI partners to conduct market research and develop client-oriented products. In this process, ARPs engage in a "learning-by-doing" exercise of changing paradigms and attitudes towards clients, and designing products and services that meet the clients' needs. Equity's partnership with ***MicroSave*** is aimed at assisting it to refine existing products and examine options for additional products to be identified.

In addition to market research and product development, ***MicroSave*** has facilitated Equity staff through a product-costing exercise. Equity adopted allocation-based costing in November 2001. Less than three months after the costing exercise the following tangible benefits were reported:

- Increased mining of strategic data, with key activity rates being tracked daily
- Performance benchmarks established using activity rates
- Increased standardisation in accounting for costs
- Changes in the method of appraising staff performance
- Reallocating staff resources (e.g. in one branch the number of cashiers was reduced from 12 to 8)
- Changing the interest rate on fixed deposits
- Tracking the interest rate margin on a weekly basis
- Studying in detail the costs of the mobile banking operation
- Adjusting the chart of accounts to reflect income and costs on a product-by-product basis
- Changing the fee structure on salary accounts (mainly a result of market research, but the impact of any change was validated using data from the costing exercise)
- Attributing an increased range of direct costs to branches (Equity is looking at the implications of fully allocating costs to branches)

As a direct result of the market research for microfinance training and the consequent field research, Equity reviewed its charging structure. In many cases its charges were considerably revised. In addition, Equity completely revised the structure and marketing of its loan products, splitting them up into 11 distinct products.

While it is too soon to determine the full impact of these changes, for the first time in the history of Equity deposits actually increased during the months of January and February, and despite lowered charges income remains strong. At the time of this study, ***MicroSave*** and Equity were working on

marketing plans for two newly developed products.

7.4.5 UNDP-MicroStart

The United Nations Development Programme (UNDP) launched a global initiative – MicroStart – in February 1997 to address capacity-building requirements of MFIs in 25 countries, including Kenya. The agreement to launch the programme in Kenya was signed between the UNDP and the government of Kenya in November 1998. The goal of MicroStart is to build the capacity of local organisations to start or expand their microfinance services. A grant capital of up to US$ 150 000 per institution is awarded for up to a maximum of five to six organisations in each country. UNDP Kenya engaged K-Rep Advisory Services to provide technical assistance for the capacity building of institutions successful in acquiring the MicroStart grant.

Equity applied for, and was successful in obtaining, the MicroStart grant for US$ 150 000 for a period of two years covering September 2000 to August 2002. In the institution's Strategic Plan for 2000–2006, management information systems (MISs) had been identified as Equity's greatest weakness. The primary activity in the first year of implementing the Micro-Start project was the identification of an appropriate MIS, the purchase of computer hardware and software, and the computerisation of Equity's operations.

Equity successfully and efficiently computerised its operations in a record of four months. The computerisation has been underscored elsewhere in this report as a major contributing factor to Equity's success since 2001. The implementation of the MIS considerably enhanced the institution's efficiency and management. The rapid increase in savings and loan clients, improved monitoring of loan delinquency and increased efficiency are directly attributed to the implementation of the MIS. PlaNet Finance International granted Equity's MIS an "A" rating, confirming its successful implementation.

In its assessment of its MicroStart project, the UNDP has acknowledged Equity as a major player in the microfinance industry in Kenya and in the region, commending the institution for its good progress. With just 58% of the total grant utilised, Equity recorded a tremendous increase in its client and resource base and was able to reach most of its targets under the grant agreement. While the projection for the number of active clients for the end of the grant agreement period was 15 000, Equity achieved a figure of 21 730 by September 2001 – already surpassing the original target by 45% midway through the project.

7.4.6 DFID-Financial Deepening Challenge Fund

Britain's Department for International Development (DFID) launched the Financial Deepening Challenge Fund (FDCF) in Kenya as part of a policy to create effective linkages with the private sector in order to help stimulate economic development in selected emerging economies. In August 2001, Equity succeeded in obtaining a grant of STG 277 500 under the FDCF, over a period of two years, starting October 2001.

Under this Fund, Equity proposed to enhance its outreach using mobile village banking centres. This initiative will fill in the niche left by mainstream banks, which have discontinued mobile banking, leaving expansive rural areas unserved. When fully utilised, the FDCF will enable Equity to link its mobile units to full-time branches via VSAT communication facilities. This will facilitate the transmission of both data and voice messages between a mobile centre and the branch it is linked to.

7.4.7 Conclusions

It is right to conclude that Equity's relationship with its development partners has contributed significantly to its success, especially in recent years. However, as the oldest of these relationships is only about three years, it is probably too early to determine the ultimate impact of these partner collaborations. It may be safer to conclude that Equity's development partners sought association with it, precisely because it was already successful and as such had better chances than others of sustaining or even enhancing its prosperity. The development partners, like most donors, were attracted by the institution's success; their contribution served only to strengthen an already successful organisation.

In terms of quantitative and visible impact, perhaps MicroStart's partnership in helping to establish Equity's MIS could have had the greatest impact. This particular development assistance could be seen as a truly strategic contributor to Equity's overall, albeit recent success. It would also be safe to conclude that the recent assistance by ***MicroSave*** and Swisscontact with market research for product refinement and development has played a significant role in strengthening Equity's customer-oriented strategy and focus. However, since this intervention is relatively recent, its full impact cannot be ascertained.

7.5 CHALLENGES

Human resources management constitutes one of the most sensitive issues to both the staff and management of Equity. "Equity has been built through our sacrifice," say staff. While human resources are Equity's biggest strength, human resource management is its biggest challenge. Asked to state what the remaining challenges for Equity are, the staff raised major concerns about the management of human resources. These challenges are well known to the management and plans are under way to address many of them.

7.5.1 Human resource management

Equity thus far has managed its human resources well and kept staff morale and commitment high. Management has achieved this largely by maintaining a personal touch with virtually every member of staff, and by dispensing with the need for a senior line manager to oversee the function. However, Equity is no longer a small organisation. With a staff of over 190 operating in a network of 13 branches and strategies for expanding to new areas, the present system and style of managing personnel are constrained. Equity's management is aware of this and a major headhunt is under way to identify a suitable person to lead the function.

The challenge for Equity is to institutionalise a fully-fledged human resource function and, given its importance and sensitivity, to ensure that it is led by a senior manager who will command the respect of the staff as being professional, competent and empowered to take independent and objective decisions on personnel matters.

7.5.2 Incentive system and staff development

Equity has a comprehensive incentive and remuneration scheme that seeks to recognise and reward high performance, dedication and long service. It has also invested significantly in human resource development and continues to do so. In its current strategic plan, a budget of Ksh 12 million is provided for staff training, while the EU-MESP grant has provided Ksh 3,2 million in support of staff development. A key objective in Equity's strategic plan is to improve the productivity and welfare of staff members by creating cohesiveness and an enabling environment, providing training and regularly

reviewing personnel policies and procedures. Further, Equity seeks to increase a sense of ownership and belonging through the sale of shares and other assets to staff.

However, when talking to staff, we found that issues of the functioning of the benefit system, recognition for working long hours, award of training opportunities and reimbursement of training costs did not seem clear to them and constituted a concern.

The challenge for Equity is to refine internal communication systems and to handle the administration of the incentive/benefit system and award of training opportunities with greater transparency.

7.5.3 Management succession

Turning Equity around from a loss-making, insolvent institution to a profitable and leading microfinance institution, required a persevering, clear-minded visionary with hard-nosed driving skills and the ability to tune up, and indeed to drive, every aspect of the institution. The combination of John Mwangi (CEO) and James Mwangi (Finance Director) provided this leadership during the turnaround and take-off stages of Equity.

With growth and expansion, issues of management succession become of great concern to all Equity stakeholders. The executive management has made significant progress in this respect and feels confident that succession training is on course:

- For the last five years, the CEO has been training his deputy through coaching, mentoring and increased delegation of operational management.
- The Finance Director has been preparing a team of senior managers through coaching, delegation and allocation of institutional-level assignments.
- A planned restructuring will open up five positions for senior managers to bridge the gap between the executive directors and the managers. The staff members to occupy these positions have already been identified internally and a headhunt to recruit a human resource manager is on.
- The next cadre of managers is assured through the appointment of assistant managers and a recent recruitment of 13 university graduates currently undergoing training and development.

While these are major and commendable efforts in the right direction to ensure the succession and steady supply of competent managers, the challenge for Equity lies in the implementation of the succession plan:

- The first challenge is to develop systems that treat all managers in fairness and operate objectively. At the moment, a healthy blending of two camps of senior managers exists at Equity, with one camp strongly supporting management decisions and the other often being critical. It will be challenging to ensure that staff development opportunities, promotions and the administration of the succession plan are not perceived to be punitive to those managers who often take opposing and/or unpopular independent views on critical institutional matters.
- Secondly, while it boosts staff morale and loyalty when persons are recruited from within the institution for senior positions, Equity will need to strike a balance between internal promotions and the need to acquire resources from the broader market. This is particularly important where positions call for high-profile managers with commensurate educational, professional and practical skills, who must command the respect of peers and business associates.
- Lastly, we have studied the current "senior" management corps, and are not convinced that all

the senior positions can be filled from within at the moment. Some of the managers should be given the opportunity to grow more and obtain the level of expertise and experience to meet the challenges of the senior-level jobs, especially in a "commercial bank" environment.

8. EXPLAINING SUCCESS

8.1 SUCCESS AREAS

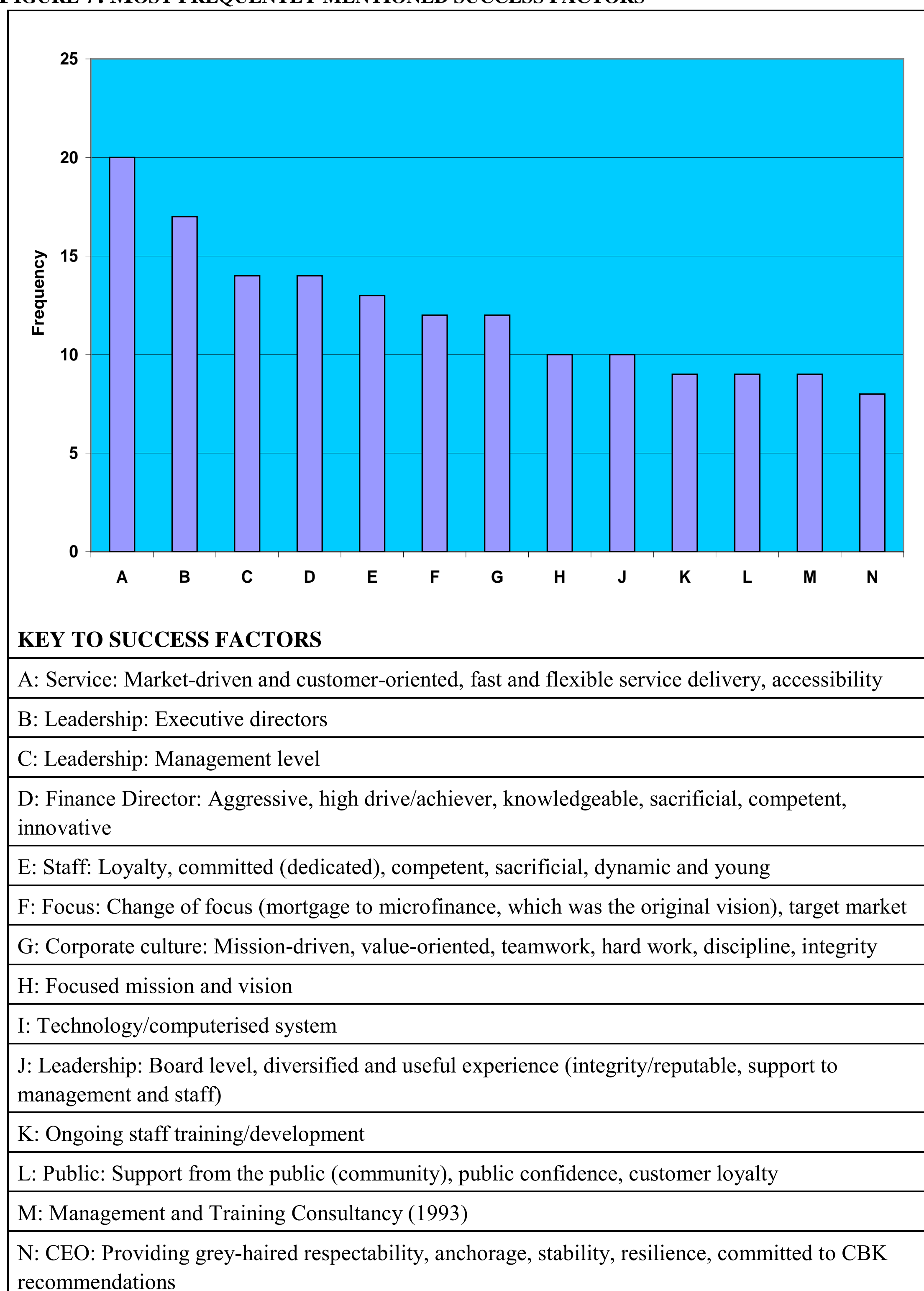
8.1.1 Introduction

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 the stakeholders. We studied a wide range of secondary information sources and thus we do not intend to reflect these in detail (see Annexure II for a complete list of secondary data sources and references). The difference between our approach and a rating is that we have to track the cause of success and its influence on the organisation, while a rating merely evaluates in terms of the current situation. How do we define success? We looked at Equity's expanding portfolio, the quality of the portfolio and the contribution to Equity's sustainability. We looked at people's perceptions of Equity and the way in which staff see and speak about their institution.

Our initial perception of success factors led to a construct for assessing the causes, and this section of the report follows this construct. It started with the premise that successful institutions must be market focused. Thus, we start 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 matter 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 could have contributed to Equity's 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.

We start our discussion with a summary of the results of the interviews and focus group discussion conducted with a wide range of stakeholders, ranging from clients, non-clients, staff, management and Board members, to broader stakeholders like the CBK. Figure 7 and its key summarise the views held, and interestingly start with a perceived focus on customer service, thus the market. It also covers the important role of leadership and training, and staff commitment. We find this an interesting and valid perception of success, and in the next sections these aspects are explained.

FIGURE 7: MOST FREQUENTLY MENTIONED SUCCESS FACTORS



KEY TO SUCCESS FACTORS
A: Service: Market-driven and customer-oriented, fast and flexible service delivery, accessibility
B: Leadership: Executive directors
C: Leadership: Management level
D: Finance Director: Aggressive, high drive/achiever, knowledgeable, sacrificial, competent, innovative
E: Staff: Loyalty, committed (dedicated), competent, sacrificial, dynamic and young
F: Focus: Change of focus (mortgage to microfinance, which was the original vision), target market
G: Corporate culture: Mission-driven, value-oriented, teamwork, hard work, discipline, integrity
H: Focused mission and vision
I: Technology/computerised system
J: Leadership: Board level, diversified and useful experience (integrity/reputable, support to management and staff)
K: Ongoing staff training/development
L: Public: Support from the public (community), public confidence, customer loyalty
M: Management and Training Consultancy (1993)
N: CEO: Providing grey-haired respectability, anchorage, stability, resilience, committed to CBK recommendations

8.1.2 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 economy grew, albeit in a repressive climate of overcontrol and overregulation. 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. In general, the economic outlook is bleak. The political system in Kenya changed in the early 1990s to a multiparty democracy. This created a sense of freedom and coincided with the liberalisation of the economy and financial markets. As mentioned in the previous section, Equity was established in a period when many indigenous financial institutions were started, and it struggled through a period where most of these failed. At the end of the 1980s and in the beginning of the early 1990s the microfinance sector in Kenya started to grow. Equity was not regarded as part of this portion of the financial sector until much later – to be specific, until as recently as 2000 it was excluded from market assessments pertaining to microfinance. Equity benefited tremendously from the financial market liberalisation, as did the microfinance sector.

The Building Societies Act and the situation of building societies have also changed considerably over the last 10 years. Of the many building societies created in the 1980s, only three are still in existence today, being the East African Building Society, Equity Building Society and Family Finance Building Society. Many of the building societies did not function as such, but rather like banks. The CBK made an effort to change and adjust the Building Societies Act, so that these institutions resembled banks more and more. Also, building societies like Equity constantly pushed the boundaries of the legislation through innovation, client-responsive services, product development and adjustment. This resulted in the minimal difference today between the Banking Act and the Building Societies Act. Examples are the regularisation of normal deposit taking in 1999 and the changes in minimum capitalisation requirements. Further, it must be noted that these changes in the Building Societies Act were a product both of the market liberalisation drive (which was partly a product of the World Bank/IMF financial sector reform requirements) and the way in which building societies (and particularly Equity) conducted their business, testing the boundaries of the legislation.

Two aspects of financial legislation that have been receiving attention are the infamous Donde Bill and the Microfinance Regulation, which is currently under discussion. The Microfinance Regulation may result in competition for Equity, as more institutions will then qualify to take deposits. Equity has therefore benefited tremendously from a favourable market situation since the early 1990s, and from a benevolent central bank.

8.1.3 The market

Although Equity has gradually evolved from a product-driven approach to one that is market driven, the institution's emphasis on low-income clients must be traced back to the day it opened its doors to customers. From the start, Equity's minimum savings account opening balance 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. Following the dismal performance of mortgage financing, Equity refocused itself to what really was its original mission, but this time publicly declaring its position as a microfinance provider. The resolute mission "shift" from mortgage financing to microfinance in 1994 qualifies as an additional success factor.

Equity's aggressive selling campaign, fuelled by a revitalised mission, is yet a third 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 and one that has been identified as contributing to Equity's success.

Although Equity's actual evolution from a product-driven to a market-driven institution occurred only in 2001, we identify this as a success factor, because within a span of a few months of conducting the survey and the market research, the impact of this evolution had already been felt. Equity's market-

driven approach to business has enabled it to increase its understanding of the clients and the competition. The list of success factors would be incomplete if Equity's excellent service delivery to its clients is not included.

The lesson here is an uncompromising focus on the market and 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, have resulted in an explosion of the portfolio over the last few years.

8.1.4 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 into 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.

Equity stakeholders uniformly indicated that leadership is one of the most significant factors that has contributed to the success of the institution. John Mwangi, CEO, and James Mwangi, Finance Director, were consistently mentioned as having provided remarkable leadership. In many instances, the stakeholders, especially staff, were unable to isolate the individual roles played by these two persons.

At the governance level, the presence of the Board Chairman, Peter Munga, both in the hard times and now the better times, has given the Board an element of continuity. His commitment to, and support for, the management and the organisation are inspirational to management and newer Board members.

When, in 1995, 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. 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 bolster confidence in achieving the vision. The third aspect of his leadership style has been to delegate responsibility, creating incremental challenges and rewarding performance.

Why was Equity spared liquidation by the 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 has its limitations.

We summarise the success factors here as the focus on a specific market segment, uncompromising leadership and a benevolent central bank.

8.1.5 Management

Here we emphasise management's ability to, and performance in, managing the changes it effected in Equity and in the perceptions and aspirations of the different stakeholder groups. Classical organisational management literature identifies eight key points for bringing about changes in an organisation. 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. We summarise the important notions in the table overleaf.

Financial institutions need to win the confidence of both 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 foster 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.

8.1.6 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?

SUMMARY OF EQUITY'S PERFORMANCE

Step 1	Equity engaged in an analysis of its market and its client demands, and also carried out a competitor analysis – these culminated in a business plan.
Step 2	In Equity this group was, for most of Equity's existence, the CEO and the Chairman, later strengthened by the Finance Director, who provided new impetus. The group then expanded to include a more senior management echelon as well as influential development partners. In a way, the CBK team was also part of this group.
Step 3	This is the effort from 1993 to 1995, and culminated in an extreme focus in Equity.
Step 4	All staff members, Board members and supporters of Equity internalised the vision. Executive directors and managers took the lead and taught by example; Board members became part of the marketing drive.
Step 5	Equity took the strategy of appointing young people, making them part of the culture. It improved systems that increased productivity and improved control systems and audit measures.
Step 6	Although slow in starting, mostly due to affordability reasons, performance is being visibly rewarded in Equity, e.g. visits to Mombasa and a bonus system.
Step 7	This is an ongoing process. Employees are carefully selected – strategic considerations are for young and educated employees; every promotion opportunity is exploited; partnership with development partners is being promoted.
Step 8	This is now in process. The leadership style has changed over the last 10 years from being quite command driven, to participative management and leading by example, to more remote interaction, facilitative leadership and the creation of a new cadre of people.

For over 16 years, Equity survived under the growing difficulties of using 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. The banking halls became increasingly congested, the speed of serving customers deteriorated and staff frustrations became obvious as their desire to provide customers with good service was limited by the system of operation. With the manual system, it was more difficult to produce accurate reports. The requirement of producing special statutory and legal reports on a weekly, monthly and yearly basis added more pressure. As some commercial banks began targeting customers in the SME sector, their computerised systems gave them a clear competitive advantage over institutions like Equity, which were still using manual systems.

Equity launched *Bank 2000* in June 2000, completing the process of computerisation in a record of four months, which included the installation of local area networks in eight branches. Equity's efficiency in collecting and giving data, and its service delivery to customers improved greatly thereafter. Although the concomitant growth is partly attributed to Equity's marketing and customer-focused efforts, it is clear from the high growth spurt in 2001 figures that the new computerised system was a major contributing factor to the institution's efficiency. With the new system Equity managed to improve its customer turnaround time from 30–40 minutes to about five minutes at the counter.

Equity conducts a general analysis of its performance based on certain key indicators. The 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 from the system 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 that a combination of the different data sets is possible and to build up adequate profiles of clients.

These profiles are necessary for marketing, for risk analysis and for implementing scoring systems. It is important that scoring receives more formal attention from Equity, as this will take the institution to a higher level in its use of appropriate information. Scoring changes how microlenders think, fostering a culture of analysis in which managers regularly seek to mine their databases for information that addresses business questions, such as resource allocation and costing.

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.

8.1.7 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.

Though not formally entrenched, 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. However, in the last 18 months, it has sourced some 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 training in marketing, in client services and in the many aspects of banking, which hitherto had not been internalised by the staff.

Most of the training takes place on the job. Young newcomers work under the leadership of experienced managers, and in the process pick up many and varied skills. It also happens through the daily interaction of the Finance Director with all the teams working on the different aspects of expanding Equity's portfolio. An example illustrating the ongoing training and the building of the corporate culture is the recent decision by branch management to double the set portfolio target of Equity. Although outsiders see this as a very ambitious target, the full Equity team has been unified and are strategising to fulfil this target. The overall target was broken down to branch level and eventually to staff level, and even the staff appointed as drivers are assisting with marketing, reaching their own targets.

The expansion and rapid growth, together with the tradition of hiring young people with little or no experience, has led to the demand for training growing beyond what can be provided internally. This demand has been met through a range of both generic and specialised short courses offered by local institutions, in-house training by consultants, on-the-job peer training and technical assistance

arrangements made with development partners. It is clear that Equity values training highly, and does not hesitate to provide training opportunities for its entire staff.

Equity's development partners have been particularly useful in helping to build its human resource capacity and have therefore contributed to its success, especially in recent years. In particular, recent assistance by ***MicroSave*** 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 emphasis.

8.1.8 Focus

Equity's overt 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 all internalised this focus, and in interacting with any staff member it is clear that this must have contributed to Equity's success. The emphasis on the management of client perceptions is an embodiment of the importance attached to clients. Lastly, the impeccable attention to client service must be considered 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.

8.2 CHALLENGES FACING EQUITY

In the discussion to identify factors that have led to Equity's success, we also encountered remaining challenges for the institution. Equity's management and 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.

8.2.1 Market

Maintaining a customer focus

Equity is expected to maintain its client-focused culture, even with growth and possible conversion into a commercial bank. Some of the corporate clients would like to see Equity introduce the concept of personal bankers, who would come to offer services at clients' offices. Although, since computerisation, Equity boasts of a quick customer turnaround time of five minutes, the Fourways Branch in Nairobi in particular still experiences long queues during end-of-month peak times. This will remain a challenge to Equity's image and quality of customer service. In addition, Equity needs to enhance the capacity of its front office cashiers to deal with multiple services (payments, receipts, etc.) at one counter.

Managing credit risk

As Equity grows, it faces the challenge of maintaining a quality loan portfolio and a satisfied customer base. The institution will continually need to recruit and train staff in the management of risk. With innovation comes risk, and as Equity develops new products it must stay focused on reducing risk. There is a need to improve and harmonise debt management procedures in all branches, and to review and streamline lending policies.

Challenge of competition

Equity will need to continue to manage its competition, especially from SACCOs and Family Finance. Other competitors include Co-op Bank with its microsavings product *Haba na Haba* and the *Biashara*

Plus business loan. Co-op Bank has proven its ability to offer a microcredit product with very flexible collateral requirements. Barclays Bank has recently intensified its marketing campaign to salaried clients. Legislation on microfinance that will soon be tabled in Parliament will open the door for more players in the market.

Computer technology

Standard Chartered Bank has set the technological pace in the banking industry, establishing itself as a market leader with its automated teller machines. Customers are also expecting Equity to install ATMs. The expectations of branchless banking are also mounting, compelling Equity to hasten its plans for implementing a wide area network (WAN) that would allow customers to be served at any of its branches.

Conversion to a commercial bank

The demand for services, such as current accounts, the use of cheques, international and trade finance, strengthens the need for Equity to seek commercial bank status. Clients feel that Equity should pursue collaborative arrangements with some commercial banks to enable it to offer money transfer/payment services across the country.

The challenge of converting to a commercial bank comes with the need to strengthen the commercial banking capacity of staff and systems. Clients are also eager for Equity to remain a responsive and customer-focused institution. Some even expressed the fear that the institution might find it difficult to maintain this culture after having converted to a commercial bank.

Extending the geographical coverage

The fact that Equity is operating mostly in Central Province and in Nairobi – regions with the highest agricultural and economic potential – is a strength on the one hand and a drawback on the other, as it is viewed as a *Kikuyu bank.* Equity faces the challenge of extending its services to other parts of the country.

Competitive pricing

Equity's clients still view the interest rates and charges levied on products and services as being very high. Clients appreciate the products that meet their needs and the excellent service they receive from Equity, but are quick to state that they are made to pay a high price for these products and services. In reality, the pricing is quite competitive, and thus Equity needs to change clients' perceptions in this regard.

Product development

Equity will need to continue with the product development process, based on a growing understanding of changing client needs and demands. Equity is under pressure to strengthen its Super Junior Account to compete with the Co-op Bank's Jumbo Junior Account, which is a clear market leader in building a customer base for the future by offering a very well-marketed product for children.

8.2.2 Ownership and governance

We asked the stakeholders what they thought the remaining challenges for Equity were as far as ownership, governance and leadership of the institution are concerned. While they agree that a great

deal has been achieved, some challenges remain, while some are being addressed.

Capitalisation

The search for a strategic partner and the offering of shares to the public could shift the focus of control and has the potential to cause a mission drift, as new owners could go for pure profit maximisation. Capitalisation needs to be carried out cautiously.

Internal audit and control systems

These need strengthening, should be headed by a senior professional and have adequate autonomy with direct access to the Board. This also links to credit control and control systems, as the fast growth of banks always increases the risk of fraudulent practices or slack portfolio control.

8.2.3 Management

Management of change

The biggest challenge here is to consolidate and to maintain the excitement. The excitement of success and growth does pull people along and create a sense of real achievement. However, unmanaged growth in any institution can lead to serious long-term problems. Thus, the current emphasis of the Board (as discussed in an interview with the Board Chairman) on consolidation is positive. However, when the initial excitement tapers off and is replaced by routine, it is more difficult to keep staff motivated. The culture at the moment is that of a small organisation, although Equity is no longer small. The easy person-to-person communication, will, of necessity, change, which will bring new problems and challenges.

Management of perceptions

There is a fine balance between what clients would regard as a fair price to pay for superior service. At the moment it seems as if Equity has succeeded in finding this balance, but it is also clear that clients are acutely aware of the cost increment that they need to pay to bank with the institution.

The management of change and of the perceptions of stakeholders is extremely important for growing financial institutions. Equity has succeeded in changing its products, expanding its branches, installing new systems, increasing productivity and holding the attention and the excitement of staff members. Most of this has been driven from senior management level and with very good Board support. There is an easy relationship between staff, management and Board, and the latter two are visibly part of the efforts to grow Equity. The Board has only recently introduced a more formal distance between itself and management and staff. This, too, is appropriate for the current phase of Equity's development.

8.2.4 Measurement and information

The current MIS system, *Bank 2000,* generates quality information. However, accounts are still being consolidated manually on spreadsheets, and the process is slow and time-consuming. It is expected that the WAN will alleviate this problem. It will also allow for interbranch electronic transactions and provide its customer base with "branchless banking".

With the exception of gender profiling, the system's reports do not provide detailed analyses of the profiles of different types of clients. There is a need to exploit the capacity that is currently available in the system to perform a deeper and wider analysis and profiling of Equity's clients. For this purpose,

more information will have to be obtained from clients during loan applications and the opening of savings accounts. The data system should also be used fully for activities such as credit scoring, costing and resource allocation.

Equity's Fourways Branch is still experiencing difficulties during end-of-month peak periods, due to the large number of salaried employees from the Nairobi City Council it serves. As this is one of Equity's main target markets, the institution would need to invest in more innovative systems such as ATMs in order to reduce the long queues and increase the speed of service delivery.

Equity will continue to face the challenges of managing information as the institution grows. It will need to address its future needs as a commercial bank and begin to prepare its systems for handling commercial banking products and services, such as international trade finance and current accounts.

Finally, as mentioned earlier, institutions in steep growth phases may tend to neglect the close monitoring of clients. Combined with control systems that operate on a weekly or monthly basis, underlying weak points in the system may be concealed. Often when portfolios grow this rapidly, inadequate attention is given to portfolio ageing analysis and portfolio quality monitoring in general. Equity should, therefore, pay more attention to this concern. As our data gathering and analysis were primarily focused on identifying success areas, also as seen through the eyes of the stakeholders, we did not detect underlying problems other than an inadequate mining of available data. This is, however, highlighted as a risk area.

8.2.5 Human resources

Human resources management is one of the most sensitive issues to both the staff and management of Equity. "Equity has been built through our sacrifice," say staff. While human resources are Equity's biggest strength, human resource management is its biggest challenge. Asked to state what the remaining challenges for Equity were, the staff raised major issues in the management of human resources. These challenges are well known to management and plans are already under way to address many of them:

- The human resource function needs to be established and be headed by a senior professional. In the staff's opinion, the department would not function effectively if headed by, or established under, the executive staff. They are proposing an independent human resource function. Although the Finance Director largely takes responsibility in this area, they feel that this does not result in an independent function.
- Although a comprehensive incentive system exists, staff are not all too clear about its functioning. This is an interesting observation. It is quite clear that the staff feels that long and above-normal working hours are acceptable but must be acknowledged.
- There is a need to pay attention to issues of management succession and training. We are of the opinion that not all the envisaged senior positions can be filled from the current cadre of managers at this point. Many managers still need to grow more in experience and expertise, especially to operate in a "commercial bank" environment.

ANNEXURE I: LIST OF INTERVIEWS

Board members

1.	Mr Peter Munga	Chairman
2.	Professor Mwangi Kimenyi	
3.	Mr Fredrick Muchoki	

Executive directors

4.	Mr John Mwangi	CEO
5.	Mr James Mwangi	Finance Director

Branch managers

6.	Mr Paul Gitahi	Tom Mboya (Nairobi)
7.	Mr Samuel Wainaina	Fourways (Nairobi)
8.	Mr Alexander Muhia	Kiria-ini
9.	Mr Ben Nyutho	Nyeri
10.	Mr Edwin Munene	Thika
11.	Mr Paul Kamau	Othaya
12.	Mr Raphael Ngera	Karatina
13.	Mr Jeremiah Kamau	Kangari

Head Office

14.	Mrs Pauline Mwangi	Executive Secretary
15.	Mr Gerald Warui	Chief Accountant
16.	Mr Ambrose Ngare	Credit Manager
17.	Mr Andrew Kimani	MIS Manager

Staff

18. Research, Product Development and Marketing Team
19. Fourways Branch
20. Corporate and Head Office Staff
21. Kiria-ini Branch

Clients

22. Various SACCO members/clients of Kiria-ini branch
23. Fourways Branch
24. Corporate
25. Nyeri

Development partners

26.	Swisscontact East Africa	Dr Ralph Englemann
27.	***MicroSave***	Graham A.N. Wright, David Cracknell

Regulator

28. Central Bank of Kenya officials

ANNEXURE II: LIST OF SOURCES

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