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A Market-led Revolution
Equity Bank's Continuing Story

Graham A.N. Wright and David Cracknell

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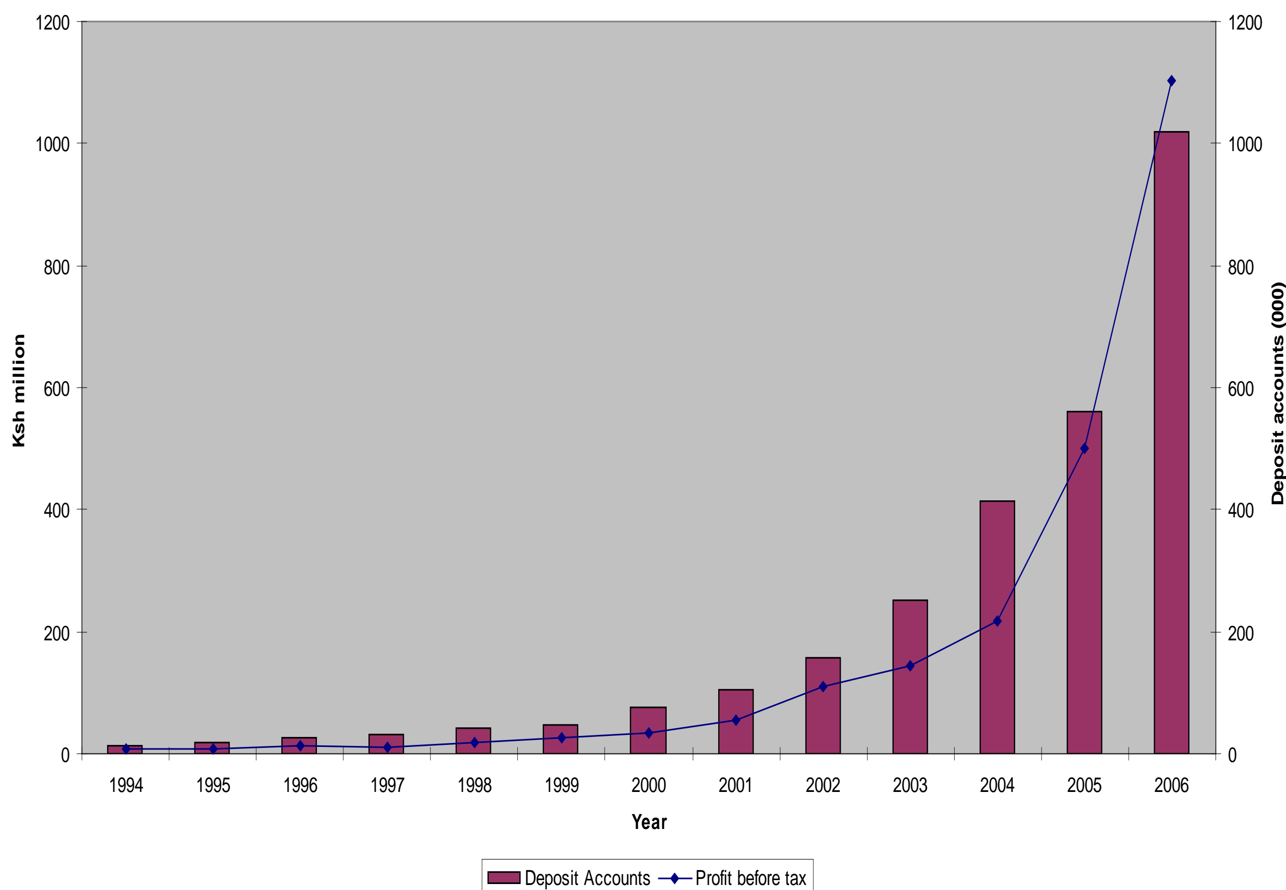
Introduction
Today Equity Bank is a remarkable institution. But in 1993, the Central Bank of Kenya confirmed that, as Equity Building Society, it was technically insolvent and had poor board supervision and inadequate management. Non-performing loans were 54% of the portfolio, and accumulated losses totalled KSh.33 million against a paid-up capital of KSh.3 million. Equity's liquidity ratio stood at 5.8%, far below the required 20%.

Yet, recognising its potential to make a valuable contribution to serving the poor in Kenya, the Central Bank of Kenya allowed it to continue in business after a capital injection. Within two years, in 1995 the organisation had made a small operating profit. Since then Equity has moved from strength to strength growing by leaps and bounds. On January 1st, 2005 Equity Building Society transformed into a bank and on August 7th 2006 it was listed on the Nairobi Stock Exchange with an initial valuation of KSh 6.3 billion, and with a current valuation of over KSh.21 billion.

This paper documents the history of this remarkable institution and assesses some of the lessons that can be learned by others seeking to follow its path.



Equity's progression from what was effectively a small family firm to a high potential organisation on to a high performing and now listed institution was not without challenges and struggles. The details of Equity Bank's Strategic and Operational History are provided in Annex 1, leaving the main text to focus on key lessons for those aspiring to follow Equity's extraordinary trajectory.

Key Lessons from the Equity Experience

Historical Overview: Transformation from a Family Firm to a High Potential Organisation to a High Performing, Listed Institution

"We are a financial institution which specialises in providing financial services to the small and medium clients that other banks perceive as unbankable…" – Equity Bank staff during Strategic Marketing Audit, June 2005.

For the period 1992-2000, Equity Building Society operated, and felt like, a family business. The Board comprised of friends of the Chairman and Managing Director, and largely did the latter's bidding. At the same time the Managing and Finance Directors took all the major decisions at the bank and they knew all the staff, and many of the customers, personally. The small size of the Equity at this time allowed the two Directors and their staff to provide very personal customer service, often by making exceptions to the formalised processes and controls in order to respond to individual's needs. Most of the credit decisions were made on the basis of personal relationships with, and knowledge of, the potential borrower either at the branch level, or for larger loans, at the Director level. It is interesting to note that Equity's portfolio remained in relatively good shape despite these informal systems – probably because of the way that clients greatly valued Equity and its services, and thus wanted to retain access to these.

"*Equity's extreme focus on customer care explains much of its success on the liability side of the balance sheet, but it also poses some challenges on the asset side. This emphasis on flexibility and responsiveness to clients can result in a lack of standardization and controls, which in turn increases risk*" – Brigit Helms[1].

The year 2000 saw the beginning of Equity's rapid transformation with the introduction of professional banking software (Bank 2000). Yet as Equity's growth stretched its informal systems the two Directors realised that they could no longer run the business on the basis of personal relationships. Equity's accelerating growth demonstrated that it had moved beyond a small company struggling to survive to become an organisation with high potential.

In 2000, the Board was re-structured to include four new members Professor Mwangi Kimenyi (an eminent economist from the Kenyan Institute of Public Policy, Research and Analysis), Benson Wareigi (the Managing Director of British American Insurance), Frederick Mushoki (a businessman and long-term customer of Equity) and Ernest Kimani (a corporate lawyer). The new Board conducted a series of retreats where experts from *MicroSave* and CGAP attended and worked with the members to discuss strategic issues in microfinance and Equity's role in the Kenyan market. In addition to this the Board meetings, procedures and documentation were further structured and formalised (see **Lesson 4: Optimising Corporate Governance**).

As the Board's procedures were formalised so were the operations and processes of the organisation. *MicroSave* and ShoreBank spent months working with Equity to process map, analyse and optimise the bank's processes and procedures. This effort resulted in standardised operations throughout the organisation, identification and reduction of operational risks, improved training materials, optimised use of the IT system and significantly increased efficiency (see Table below) for examples of some of the improvements made.

[1] In an informal assessment of Equity Building Society for CGAP in February 2003.

Process Mapping Improves Cycle Times At Equity Bank

Activity	Pre-pilot	Post-pilot
Account opening	12.6 minutes	9.78 minutes
Cash transactions (total cycle time)	7.14 minutes	4.96 minutes
Magnetic cards – Card issue	1 month	2 weeks

In 2003, Equity began recruiting for key senior management positions from outside, thus strengthening the marketing, human resource management, finance, IT and internal audit functions. In the same year, AfriCap (an apex capital fund financed by DFID, IFC, EIB and others) bought a 16% stake in Equity, joined the Board and financed some technical assistance to the organisation. One of the key components of the technical assistance package was John Staley, who left a leading salary-based lending institution in South Africa to join Equity. John Staley's arrival was another watershed in the history of Equity as he was able to conduct detailed analysis of the loan portfolio and provide an independent, and at times critical, assessment of the organisation's position. Many of the questions raised during this period of analysis and reflection caused many of the management and staff to re-think the organisation and its operations. This critical analysis of Equity's position was often extremely uncomfortable for senior management but slowly and surely it led to key changes that strengthened and developed the organisation. Perhaps the most important contribution made by John Staley was the creation of an autonomous credit function with credit committees, a collection department and an IT reporting system that functioned independently from the executive. This autonomous credit function then worked with senior management to reduce PAR>30 days from above 30% in late 2003 to just over 5% after provisions in December 2006.

PAR 30 Before and After Provisions

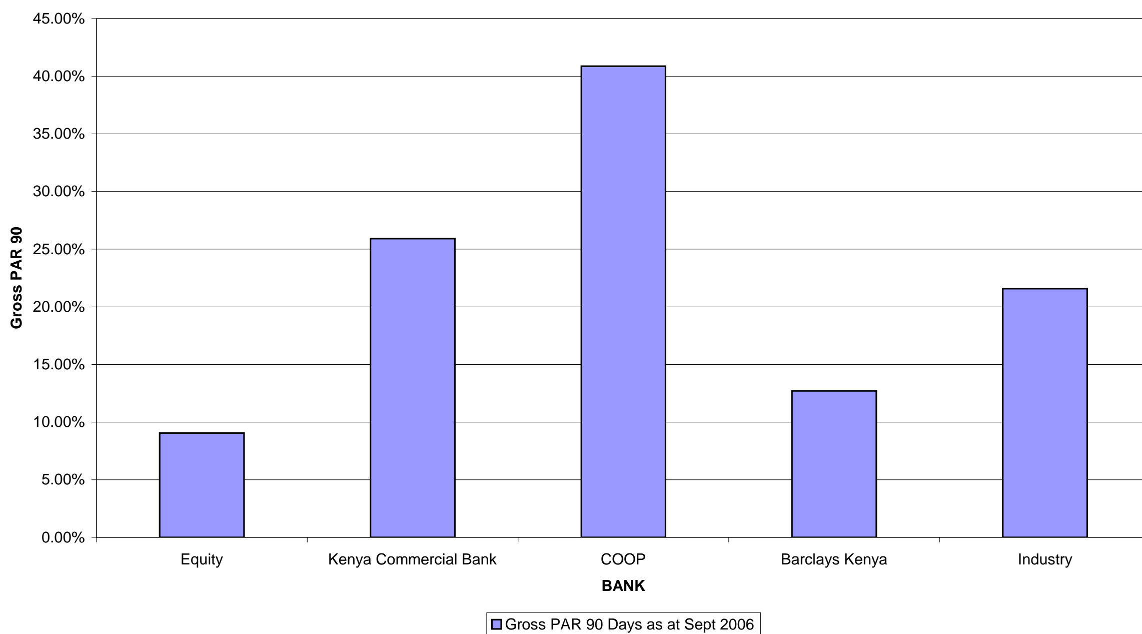
35%
30%
25%
20%
15%
10%
5%
0%

Dec-04 Jan-05 Feb-05 Mar-05 Apr-05 May-05 Jun-05 Jul-05 Aug-05 Sep-05 Oct-05 Nov-05 Dec-05 Jan-06 Feb-06 Mar-06 Apr-06 May-06 Jun-06 Jul-06 Aug-06 Sep-06 Oct-06 Nov-06 Dec-06 Jan-07 Feb-07 Mar-07

30 Days PAR After Provisions
30 Days PAR

Equity's performance needs to be seen against the performance of the Kenyan banking sector. This comparison is made at the level of PAR 90 it shows that Equity had the best portfolio performance of three major banks in Kenya in September 2006. Against an industry average of 22% PAR 90, Equity measured around 9%.

financial services



Furthermore, the critical analysis of loan portfolio allowed Equity to respond to its growing success as a savings-led organisation, which was creating excess liquidity. This problem arose because Equity's loans to small businesses and tea framers were simply not absorbing enough of the deposits available for on-lending. In 2003, Equity introduced salary-based lending for low-income employees of both government institutions and private sector corporations. Initially Equity had some problems with these loans[2], particularly since the Banker's Realm software had no "hunting" facility to automatically deduct instalments from clients' savings accounts. However, these problems have now been resolved, and Equity is one of the most successful lenders into this segment in the Kenyan market. And of course, this facility attracts many more savers (who want to be able to borrow against their salaries) into the bank.

In addition, this period of change and upheaval saw Equity move to new, larger, head office premises on the 14th floor of the prestigious National Health Insurance Fund (NHIF) building and the creation of regional managers to supervise the growing numbers of branches. Furthermore, the branches were networked and internal, IT-based communication systems were implemented.

Despite these important steps to strengthen systems, the many outsiders who passed through to conduct rapid reviews of the organisation, repeatedly warned about managing the rapidly growing portfolio, and questioned Equity's ability to do this. Managing exponential growth of this scale was widely seen as an impossible feat. This scepticism continued in the face of the clear dedication of the organisation to institutionalise credit management systems and processes, and the resulting consistent decline in the portfolio at risk.

Just prior to the move to the NHIF building, John Mwangi, the founder-Managing Director retired. Equity's official retirement age was 60 but because of the key role he played within the organisation, John Mwangi's tenure had been extended to

[2] See **Mugwang'a** Trevor and David Cracknell, "Microfinance Institutions and Salary Based Consumer Lending" *MicroSave* Briefing Note # 45, Nairobi, 2006.

62. John Mwangi had guided Equity from its humble beginnings, seen it through the toughest of times and most recently, helped the organisation prepare for change in recruiting and training a new layer of management. John had been the Father figure/*mzee*[3] for all the staff in the bank and had acted as a valuable counter-complement to the energy and drive of the Finance Director, James Mwangi. During the period of rapid growth from 2000, John Mwangi had shielded Equity's management from the turbulent external environment so they could focus on the internal issues and challenges of managing growth. John Mwangi's vision had allowed him to accept an increasingly high level, hands-off role and to step aside to let management grow and prepare for further transition.

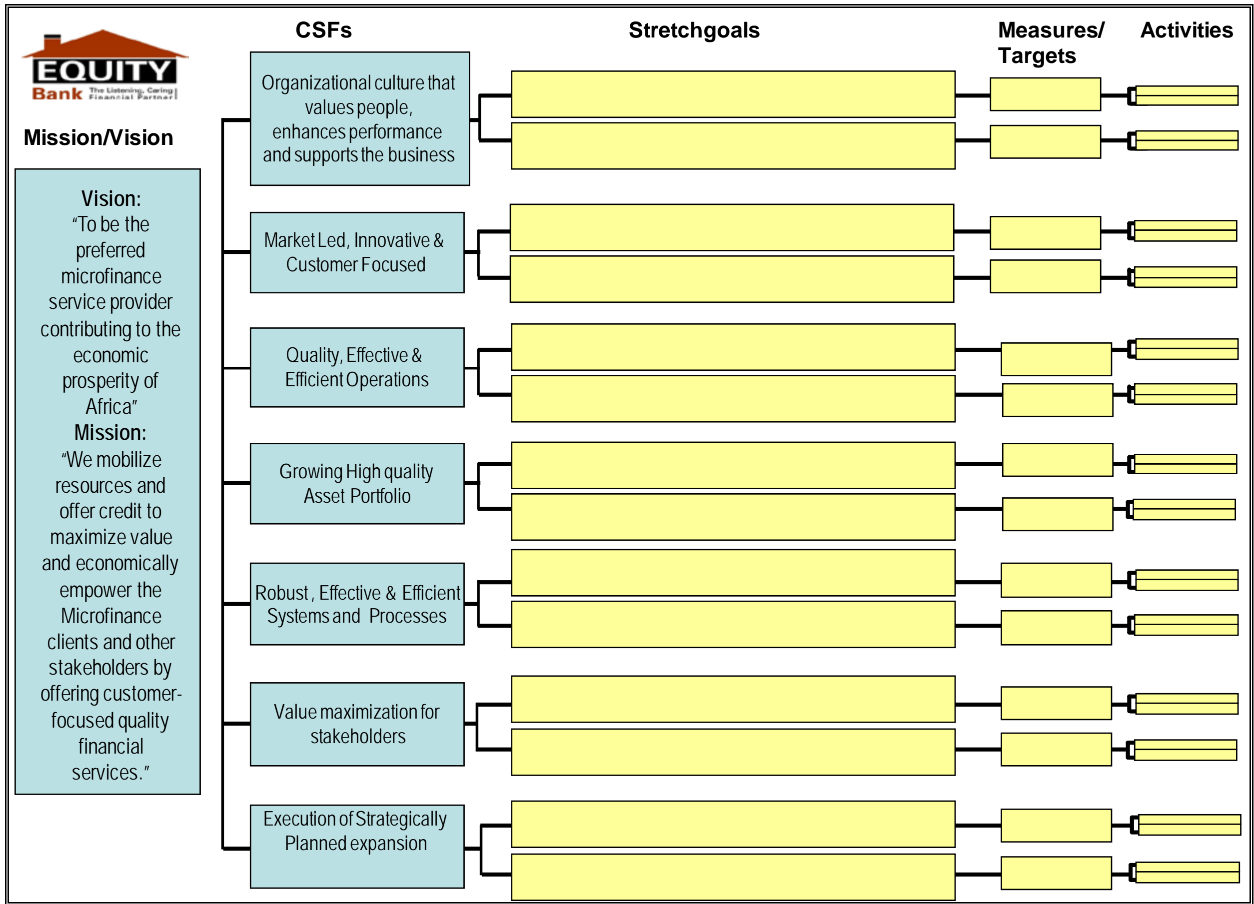
The transformation from a high potential organisation to a high performance institution continued in the second half of 2004. James Mwangi took over as Managing Director and began to broaden and deepen the management systems in response to the growing, and increasingly diverse challenges presented by the rapid growth the organisation was experiencing. With this, the leadership style changed to a less risk averse and more participatory approach with senior managers being delegated increasing levels of responsibility within the bank. This, in turn, necessitated two significant changes within Equity – firstly accelerated recruitment and training to develop the capacity to manage the organisation, and secondly a strategic plan and change management process round which the organisation could rally.

"*As successful as Equity's feedback loop has been in the past, growth is straining the old way of doing things. It is putting pressure on Equity in terms of the sheer number of clients that need to be served, the human resource and system investments that need to be made in order to keep up with the increasing numbers, and the speed with which people and systems must adapt in order to keep up with the pace of growth*" – Analysis and Strengthening of the Feedback Loop at Equity Building Society report, 2004.

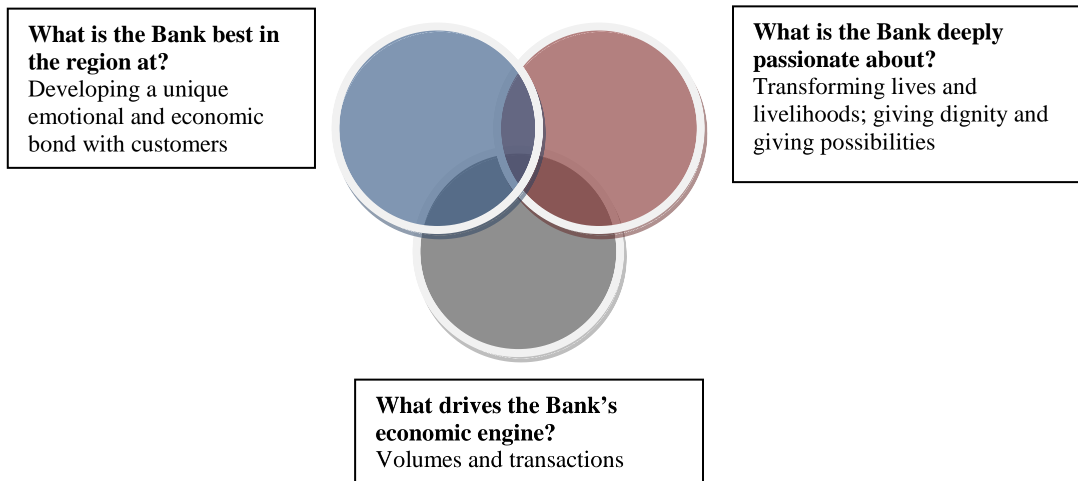
Equity had a very firm desire to promote from within both to reward staff who had been with the organisation in its tough times and to maintain the culture. However, the management soon found that the sheer speed of growth forced it to recruit from outside. Furthermore, Equity's rapid growth and growing profitability now allowed it to go into the marketplace to recruit talent from other financial institutions – something that would have been impossible even two years before. By 2004 Equity was able to match salaries and attract high potential staff from other organisations to join the fastest growing financial organisation in Kenya. The professional culture and commitment of Equity allowed it to attract those that were dedicated to working hard to build a first class Kenyan institution devoted to serving the people of Kenya with outstanding services and products (see **Lesson 3: Developing and Maintaining Institutional Culture** below).

The development of a common vision and strategic plan for achieving it was implemented within a lengthy, participatory process facilitated by Stepwise Management (a consulting firm based in Germany). Months of staff time was spent developing mission, values and vision, assessing Equity's strengths, weaknesses, opportunities and threats, preparing a "structure tree" outlining critical success factors, "stretch goals", targets/activities and measures. This process allowed Equity to bring its strategic plans and goals into a framework that was easy to communicate and thus "*operationalise the clarity of focus*". By the end of 2004, all senior and middle management had played a role in developing and internalising the strategic plan. By the middle of 2005 everyone within Equity knew, and had bought into, the institution's plan and understood the roles they played in achieving it. Amid the turmoil of explosive growth, Equity had achieved a common vision and was harnessing the power and commitment of all 845 staff working in the same direction to realise it. In the words of one Assistant Branch Manager, "*before … we just went to work to work. Now we are going to work to achieve goals. Please make sure we have goals all the time*." With this commonality of vision and understanding of the strategic plan and the activities necessary to achieve it, Equity was able to further delegate responsibility and empower managers.

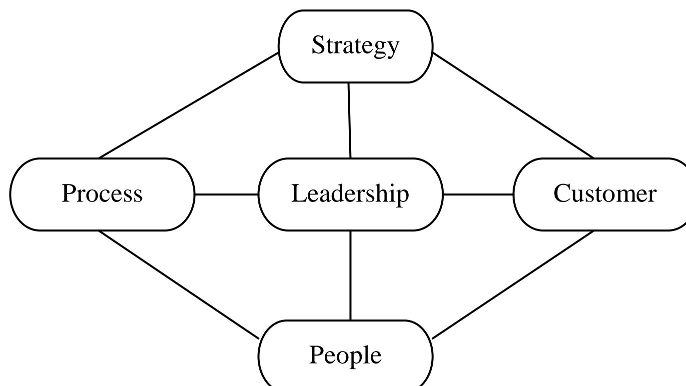
[3] A *mzee* is a highly respected, wise, old man in Kenya culture.



Equity tries to achieve balance in what it does:



And in how it does it:



From "The Power of Alignment" Labovitz and Rosansky

"As a result of this high alignment employees and managers had a frame of reference for their high level of empowerment. Being an employee at Equity Bank very fast became a kind of status symbol. Equity Bank attracts the most talented people in the country[4] to join the bank as an employee and to work at Equity Bank´s mission and vision" – Frank Kretzschmar, Stepwise Management[5].

At the end of 2004, preparations for the transformation of Equity Building Society into Equity Bank Limited were underway. Equity tripled its capital entirely from existing shareholders – including Ksh.200 million ($2.67 million) from British American Insurance – thus demonstrating growing public confidence in the institution. The capital base was raised from Ksh.423 million ($5.64 million) to Ksh.1,148 million ($15.31 million). At the same time the institution's processes were re-examined and, where necessary, re-reengineered. Furthermore, procedures were added for the new departments and functions Equity would need as a bank. Once the new processes had been re-defined, their implementation was further cemented through a process of on-going compliance audits – and close monitoring of each branch's score on these audits. Simultaneously, working with *MicroSave*, Equity introduced a system of institutional and operational risk analysis in preparation both for conversion to a bank and for the Central Bank of Kenya's move to adopting Basel II supervision standards. Finally, preparations were put in motion to deal with the additional responsibilities and opportunities of being a bank – particularly with regard to the management of cheque clearing.

"*The Bank has established a comprehensive risk management framework. It has identified a range of possible risks, which have been mapped, indicating risk drivers, frequency, impact, risk levels, trends, risk owners and the respective mitigating strategies. All risks associated with banking institutions and those that are specific to Equity Bank, are actively managed by the respective business units and monitored by the Risk Management Department. The Bank's risk limits are assessed regularly to ensure the appropriateness in line with the Bank's objectives and strategies and current market conditions*" – Information Memorandum for Submission to Capital Markets Authority, 2005.

In late 2005, Equity conducted extensive brand analysis in preparation for what it expected to be a major re-branding exercise. Equity had used the same logo since it began in 1982 but had introduced the tagline "The listening, caring financial partner" in 2001 and produced a wide range of branded materials. The results showed that the customers loved the existing brand, that the modest house was seen to reflect the stability of the institution and that the brown roof of the house demonstrated its connections with the earth and roots of the Kenyan people. Indeed, research showed a significant concern amongst clients about Equity becoming a bank. Clients were concerned about losing touch with Equity and that it would become a more expensive, less-accessible institution. In sum, they were fearful that Equity would become like any other commercial bank. All communications of the new brand had to take into account this concern and reassure customers that Equity was still there to serve them as always and that they were not leaving anyone behind, to the contrary Equity was just changing to serve them even better. Thus the re-branding had to reflect the warm, caring, listening personality of Equity's brand.

"*Allow me to highlight three values that I believe have enabled Equity Building Society and Equity Bank to make these achievements. The first is passion in what we do. We are passionate about it because we know that it makes a difference in the lives of people. Second is doing whatever we engage in very well. At Equity, we believe in market leadership and customer focus. To achieve this, we invest heavily in our people, reward them and care for them. The third is good corporate governance. This has earned us the confidence of our shareholders, and enabled us to attract support from strategic investors and development partners*" – Peter Munga, Chairman, in the Information Memorandum for Submission to Capital Markets Authority, 2005.

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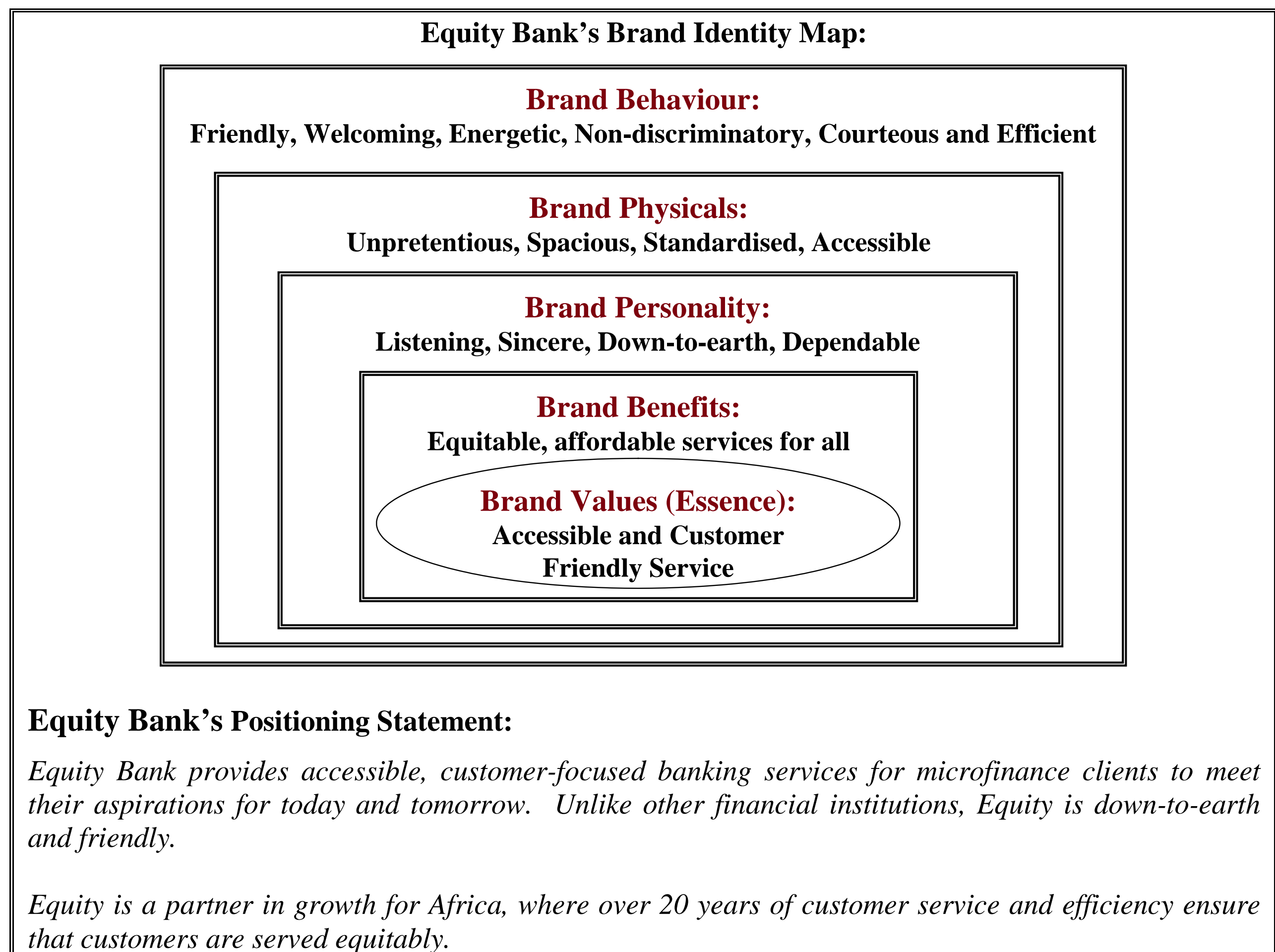
[4] By 2004 Equity had been able to recruit senior professionals from all the major banks in Kenya, the Central Bank of Kenya, Safaricom, East African Breweries, Selectron, USA and Reuters South Africa.

[5] The success of Equity's Strategic Planning was recognised by the Kenya Institute of Marketing in its 2006 Company of the Year Awards. Equity won Company of the Year for Corporate Planning Management.



Equity Bank's Positioning Statement:

Equity Bank provides accessible, customer-focused banking services for microfinance clients to meet their aspirations for today and tomorrow. Unlike other financial institutions, Equity is down-to-earth and friendly.

Equity is a partner in growth for Africa, where over 20 years of customer service and efficiency ensure that customers are served equitably.

After a huge effort over the Christmas and New Year period, (during which staff finalised their training), brochures and posters were printed and deployed and the signage was changed on each and every branch, Equity Bank opened its doors for business on January 3rd 2005. The smooth change over and rapid admission of the bank to the central clearing system reflected the detail and care with which the transformation process had been planned. The transformation process had been deeply involving, but the success in changing the institution's legal structure sent strong signals to the general public about the institution and its capabilities, and provided another great moment for the staff to celebrate together. Above all, the transformation released enormous energy for the big projects envisaged for 2005.

Throughout 2004, the Bankers' Realm software (an upgraded version of the Bank 2000 Equity had originally installed) had been showing growing signs of stress as the number of customers on the system grew exponentially. By the beginning of 2005, engineers from Banker's Realm's creators, Craft Silicon, were stationed almost permanently at Equity trying to address some of the capacity issues and resuscitate the system each time it froze. In response, Equity had mounted an intensive search for a new IT system, a comprehensive and lengthy process that eventually culminated in the selection of InfoSys and its Finacle system – and an investment of $8 million. Customisation and implementation of the operations module of the Finacle software occupied Equity from July-October and in parallel, a $2.7 million, intensive training programme was conducted in preparation for the on-site testing and rollout of the software. After testing in late October and early November, the system was deployed across the bank in a frenetic month from mid-November to mid-December 2005. During this period, senior managers worked with staff deep into the night and over weekends to migrate the data, test the system and stabilise it prior to re-opening the branches on Monday morning. Further customisation of the Finacle software in 2006 saw reporting modules refined and new credit management functions implemented. A key success factor in the conversion of the banking software was Equity's ability to bring together a focused team that was dedicated to specific goals and led by staff that was respected at both the Head Office and brand level. Equity has learned to use close-knit teams from across the bank to accomplish specific, ambitious projects. In 2006, the reporting and then loan modules were also implemented.

In addition, to rationalising operations for front office service, there was an additional need to de-congest its banking halls where queues swelled even outside of peak hours. As a matter of urgency, Equity invested in high-end ATMs that could handle the large volume of business. By mid-December 2005 the 70 ATMs (purchased and installed at a cost of around $2.7 million) were being tested by staff ready for launch at the beginning of 2006. Throughout the first half of 2006, Equity struggled to optimise the card application and issuing processes. However, just as this component of operations had been sorted out, the interface between the Finacle software and the Opus software used to run the ATMs began to experience problems due to the high volumes of transactions. In September and October 2006, Equity worked hard to resolve these systems and begin the development and testing of "cash-back" systems at local supermarkets, as well as mobile phone based banking solutions. By December 2006, Equity's ATMs were handling more than 50% of all withdrawals.

All the while the bank was attracting a growing number of savers and savings – so much so that it was clear that it would soon need some additional share capital to maintain prudential norms required by the Central Bank of Kenya. In response, in 2006, Equity completed the preparation of the documentation for listing. Initially, Equity had sought to contract this out to an investment bank. However, it soon became apparent that if the listing documents were to be of the high standards that Equity had established for itself, they would have to be prepared "in-house". Working with AfriCap and *MicroSave* staff Equity's senior management team prepared all the necessary write-ups and these were then accepted first by the Capital Markets Authority and then the Central Bank of Kenya. Equity Bank was listed on the Nairobi Stock Exchange on 7th August 2006, valued initially at Ksh.70 per share, but quickly traded up to a high of Ksh.182 per share. When AfriCap had first purchased shares in Equity Building Society, Equity was valued at around Ksh.1 billion. This means that the small, almost family, enterprise that was technically insolvent but 12 years ago is now publicly listed, immensely profitable, serving nearly a million customers and is worth over Ksh.21 billion[6].

Lesson 1: Commitment to Customer Focus

"*Equity ni mama ya kila mtu (Equity 'is 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*[7]."

From the beginning of the renaissance of Equity in 1993, the organisation has been very customer focused. In the early days this was driven by the requirement to attract and retain customers as a basic survival need. Equity's branches were limited in number and shabby in appearance, and the attention to customer service was the only way that the Building Society could reasonably expect to function in a marketplace where considerably more stable and visibly more robust financial institutions were operating. During this period, Equity's approach personified grass-roots, relationship-based banking. From 1993-1997, managers and staff went into the market places to interact with, and sell to, their clients and potential clients. Many, if not most, clients opened their accounts across the Branch Managers' desks and larger Nairobi-based clients would often be ushered into the Managing Director's office to complete the account opening formalities. To this day, it is not uncommon to find clients recalling opening their accounts in this manner and this has given rise to a fierce loyalty to the institution.

During the period 1998-2001 Equity added what they termed "social" or "community" marketing activities to this personalised, "in the marketplace" service. This involved presenting prizes to the best farmers and providing scholarships for carefully selected, high-potential children to attend college or university ... upon completion of which they were often hired by Equity.

Inside the branches, the introduction of Bank 2000 significantly improved the customer service offered by the bank – simply by cutting the teller interface time from 20-30 minutes under the old manual system to around 5 minutes using the IT system. This allowed the bank to respond to the needs of many more customers. Almost immediately after the installation of the Bank 2000 system, Equity conducted the first watershed market research, which gave them invaluable insights into their customers' needs, perceptions and concerns. In response to these insights, Equity re-priced all its products and conducted a

[6] This valuation is according to Equity's share price as at March 2007 at Ksh.233 per share.
[7] Taken from **Cook**, T, "Equity Building Society: A Domestic Financial Institution Scales up Microfinance", 2004.

communication campaign to tell their customers that this had been done in response to their recommendations in the focus groups. Equity's customers took the market research exercise (during which both the Managing Director and Finance Director played an active role and sat in several focus groups) and the actions that followed it as another example of how the bank listened to and cared about them. This further stimulated the accelerating growth in both the number of customers and the value of the deposits held by the bank.

"*The market research we conducted with MicroSave was one of the most important milestones in Equity's development - since then things have changed. With market research things that we never thought were true, and things that we held so dearly as true, were challenged. Our thoughts, our perceptions were challenged. Armed with the findings from the market research on what that segment wanted in terms of wants and needs, we involved ourselves in refining our products*" James Mwangi, *MicroSave* Market-Led Solutions VCD

In late 2001 and early 2002 Equity also began upgrading its banking halls to make them more professional and sophisticated in appearance. However, despite this, with the rapid growth in customers, by 2003 some of Equity's banking halls were becoming quite congested, and by 2004 many were significantly overcrowded, with customers waiting as long as one and half hours in queues to get to the tellers. In response, Equity introduced Branch Floor Managers who interacted with, and assisted, customers as they waited in the lengthening queues. In addition, and in response to customer demand, Equity lengthened its opening hours to 4.00 pm on weekdays and to 1 pm on Saturdays.

"MicroSave helped us to discover that our products did not meet our client's needs. We learned that we could target new markets and develop new products. [It] helped us identify competitors, learned how to communicate better, make charges transparent, provide information on products, repayment schedules and statements. We worked with MicroSave on financial modelling, product design, costing and pricing and now the pilot projects on Sako Plus and Jijenge"- James Mwangi, reporting to Marguerite Robinson during the Mid Term Review of *MicroSave* in 2002.

The rapid expansion also necessitated the introduction of more policies, procedures and systems of internal control. These systems reduced the ability of Branch Managers and other staff to make exceptions to meet the needs of customers and thus the relationship banking that had characterised the smaller, less systematised Equity. Furthermore, the exponential growth was stressing both the human resources (often more than half the tellers on duty in branches were trainees, thus slowing the average speed at which customers were being served) and the IT system itself. This problem was compounded by transformation into a formal sector bank, which necessitated adding additional complexity to the account opening and some transaction procedures.

"*Equity's feedback loop has functioned extremely well in the past and has been a "secret" of the institution's success, primarily because it has given clients what they want - fast, clear, convenient, accessible and friendly responses to their questions, comments, concerns and suggestions. Equity's recent and rapid growth is largely due to its ability to listen to clients, analyze the information gathered in the context of its own capabilities, and develop the infrastructure, resources, products and services to satisfy client needs and preferences*" – Analysis and Strengthening of the Feedback Loop at Equity Building Society report, 2004.

In response Equity initiated work on changing the IT system to introduce a cutting edge banking system and purchasing 200 ATMs as well as developing outline plans for mobile phone-based banking … all of which were designed to de-congest the banking halls. In addition, Equity developed a formal customer service strategy based on a detailed analysis of the preferences of its customers that employed ServQual questionnaires, focus group discussions and mystery shopping. This strategy has driven the bank to focus on speed of service, accuracy of transactions, knowledge of staff, staff-client interactions and the appearance of the branch and staff. Standards have been set for a variety of critical variables under these categories and are being monitored on a regular basis. Performance against these customer service standards will be a significant proportion of the branch-based incentive schemes scheduled for implementation at Equity.

"*Equity is not like the other banks. If I have problem, I can see the Branch Manager and he will listen. They care about their customers and offer loans to us when other banks never would. Equity is my bank, even if I have to queue for an hour to get my salary right now, I know they are working to change that – because they care*" – A low-income customer.

Lesson 2: Harnessing the Market-led Approach, Word of Mouth and Public Relations to Stimulate Growth

"*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*[8]".

Throughout (and perhaps because of) its history, Equity Bank has been very aware of the power of word of mouth in the market place and the importance of influencing that word of mouth through customer service, relationship marketing and public relations. For example, when Equity first received funding from international donors[9], this was immediately publicised throughout the branches and in press releases as proof that the organisation had their backing and confidence and was thus a strong institution (**see Lesson 5: Management of Donor Inputs** below).

"*These people are our people. They are part of us*" – FGD respondent during product marketing research, 2003.

As Equity moved to use market research to understand its clients' perceptions and needs, it relayed the fact that it was doing this very clearly to them – thus re-emphasising its commitment to listening and responding to its customers. The first round of qualitative market research generated significant change within Equity – particularly in the way that they packaged, priced and communicated their savings and loan products. The research process also re-emphasised the need to stay in constant touch with the clients. In response, Equity management created a marketing department comprising over a dozen people and committed to an on-going process of market research to understand clients' needs, preferences and concerns.

"… *the management never lost sight of the existing mismatch in the "product-driven" product menu that was being offered and the needs of the new market*[10]."

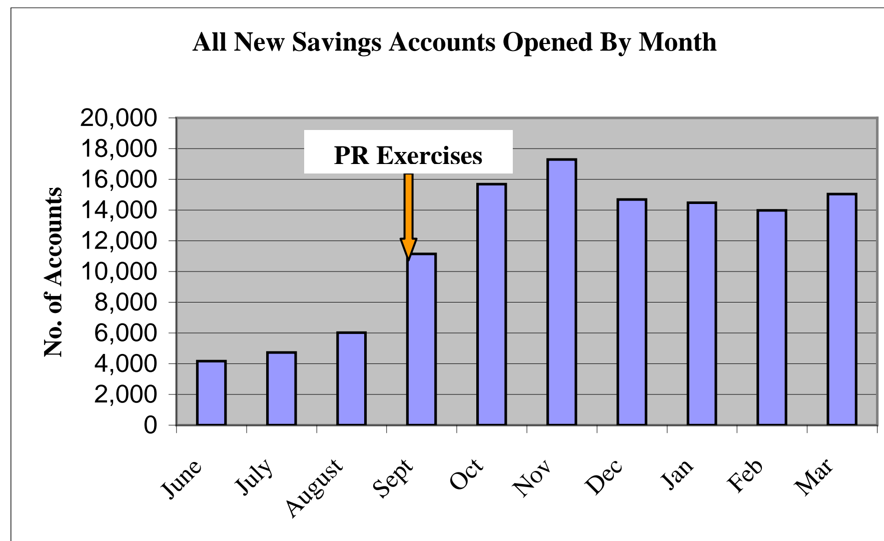
The second major market research programme in May 2002, examined existing and potential customers' perceptions of Equity and provided an opportunity for management to obtain feedback on the organisation's performance from the customer's perspective. This exercise provided valuable and generally positive feedback on the changes that had been made as well as some additional recommendations on how the services and products might be further improved. In response Equity made further changes, particularly around how staff were expected to communicate with/to customers and then

[8] **Coetzee**, Gerhard, Kamau Kabbucho and Andrew Mnjama, "Understanding the Re-birth of Equity Building Society in Kenya", *MicroSave*, Nairobi, 2002.

[9] The European Union-funded MESP and the UNDP-MicroStart programme

[10] Equity Building Society, Market Research Report on "Clients' Perceptions of Equity Building Society's Loan Products", December 2001.

sent out nearly 200,000 personalised letters and SMS messages to their clients outlining the changes that had been made. As a result of this, Equity was the talk of the town and markets for many weeks as people discussed the communication and how it illustrated the customer-responsiveness of the bank. The effect was to mobilise an extraordinary level of positive word of mouth marketing. Another round of market research to optimise the feedback loop and communications within Equity, and between Equity and its customers, was conducted in March 2004. This too led to significant insights into, and improvements in, the way Equity was managing its communications – once again leading Equity to enhance person-to-person communication.



"We remain a bank that bridges the gap by being market driven, listening to and partnering with customers..." – Equity Bank staff during Strategic Marketing Audit, June 2005.

In September 2003, the 20th anniversary of Equity was celebrated at the Grand Regency hotel in Nairobi, building further on positive word-of-mouth marketing and public relations. Two thousand of Equity's most loyal and valuable customers were invited to join the celebration of "20 years of serving Kenyans". The Minister of Finance, the Resident Representative from the IFC, the President of Women's World Banking and the British High Commissioner all made speeches endorsing Equity and its work. Equity released a six-page supplement on the organisation, its customers and its plans for the future, and this was complemented by another six pages of messages of support and congratulations from key customers and suppliers. At the same time Equity contracted a film company to prepare a documentary that was then aired on several occasions, during prime time viewing, on two of the four Kenyan TV stations. At the local level branch staff prepared and took part in local events that included community level endorsements from chiefs, business leaders and school principles. This PR blitz generated an immediate jump in account openings, which was then sustained by word of mouth (see Graph).

The strength of this word of mouth marketing, meant that Equity has not had to conduct any significant above or below the line promotion or marketing activities since September 2003. It has simply relied on the "buzz" around Equity and its operations that pulses through the market and periodically supplements this with carefully planned public relations activities. At the community level, managers and staff remain involved in local activities, present at "*baraazas*" community (meetings) and committed to building relationships with opinion leaders around their branches. At the national level, press releases are used to build the image of the institution. For example, the purchase of the Finacle system provided an opportunity to announce the Ksh.600 million ($8 million) investment that the institution was making, thus underlying both its financial strength and its commitment to excellence in banking and customer service.

In 2005 after the transformation into a bank, Equity held additional public relations events at two prestigious hotels and invited over 1,000 customers and opinion drivers to each event. Invitees were selected on the basis of their influence on other potential customers, their level of interaction with the bank (through discussions with staff/managers, through suggestion boxes etc.) and, in some cases, their longevity as Equity customers. The meetings were used to present information on Equity to overcome misleading and negative information so commonly presented by competitors – including misinformation about the Equity's ownership structure, its financial position and its relationship with the government, to name but a few. Information packs were given out, and these included answers to frequently asked questions, clear and succinct descriptions and analyses of the bank's financial statements/position and the

results of ratings conducted by independent agencies. In addition, presentations were made on new developments at the bank, in particular the new IT system, new branch openings, the forthcoming introduction of ATMs nationwide and the bank's listing on the Nairobi Stock Exchange. A question and answer forum was conducted and the meetings concluded with a celebration of Equity's achievements and the success of an indigenous Kenyan institution.

A lower key approach is used when the Managing Director or senior management officials attend key prestige events in Kenya or particularly abroad. Thus, for example, when the Managing Director attended the African Business Leaders' Forum that preceded the G8 Gleneagles conference and the concluding conference for the UN Year of MicroCredit, the local media were encouraged and assisted (through carefully crafted press releases) to report Equity's participation as a matter of pride for Kenyans and more broadly Africans.

Most recently, Equity has developed a "prestige banking branch", which offers exceptionally personalised services in positively luxurious surroundings, not for its corporate customers but for its Nairobi-based, most loyal and high value customers – the brand ambassadors who have been with, and promoting, the bank for many years. The personal service these customers receives encourages even stronger word-of-mouth marketing. In addition, loyal shareholders throughout the institution have voluntarily committed to introducing new customers to Equity on an annual basis, a key factor in the bank's growth.

Lesson 3: Developing and Maintaining Corporate Culture
"*Discussions with staff revealed that they view the bank as one that serves "… the common mwananchi (people) … and it listens to and empowers low-income people…" It was also clear that Equity is "… a professional bank because it has professional bankers, run by competent management and offering professional banking services…"*" – Strategic Marketing Audit Report, June 2005.

Much of Equity's success has been driven by its ability to develop and maintain a distinctive corporate culture that has driven and inspired the staff towards its core values. This is culture, and the underlying aspiration to serve the Kenyan people, is well reflected in Equity's original "inspiration statement":

> *"That when years turn our vision dim and grey we shall still be seeing beauty in the tired wrinkles of our faces. We will find comfort in the wisdom and knowledge of the fact that, we did all that we could in our power to achieve our goals".*

This inspiration statement emerged from, and is engrained with, the dust, sweat and tears of the door-to-door, market-to-market selling that Equity's staff and management undertook in the period 1993-2001. This period defined much of Equity's culture that combines the professional demeanour and dress code of a traditional banker with a commitment to serve each and every customer – however poor – with the same care, respect and enthusiasm.

"*At Equity we have lost the fear, and now we listen more often. We retained humility, simplicity, integrity, honesty and dedication … the devotion to work*" – James Mwangi, Managing Director.

This culture came under stress with the massive expansion as Equity had to bring in new staff at all levels of the organisation. This often left old staff feeling that new staff members were coming to take their jobs, or the jobs to which they aspired. In many cases, old staff felt that after years of working to bring Equity back from the brink to a situation where it was the fastest growing financial institution in Kenya, they deserved to reap the benefits and had the real experience to take up more managerial positions. However, not all staff had the qualifications, or more importantly the capability, to do this – hence Equity was force to recruit from outside. The inevitable upshot of this was that some new staff coming in felt the resentment of old staff who had worked at Equity before 2002 – and found huge pressure to perform and demonstrate their worth to the organisation.

As a result, turnover amongst managers recruited (both to run branches and within Head Office) has been reasonably high. Branch Managers bought in from state owned banks such as Kenya Commercial Bank or the Industrial Development Bank have all resigned or been let go. Equity's culture is very different

from the culture of the organisations they had previously worked for. Equity has a culture that expects managers to aggressively search for business, encourages professionalism in speech and dress, and insists on closeness to customers, with managers walking the banking halls to speak to, and "socialise with", clients. This culture is reflected again at Head Office where some high profile managers recruited into the senior team have not been able to maintain the pace, or hands-on nature, of the work environment in Equity. Managers (and indeed front-line staff) recruited but not fitting into Equity's culture soon find themselves under significant pressure to perform and conform or to leave.

To manage the rapid growth in staff, Equity appointed "cultural ambassadors" from the ranks of the older staff. The cultural ambassadors are encouraged to retell stories about the evolution of Equity and the success of its customers, with view to preserving the institutional history and culture and to assisting new staff members to understand why it matters to the organisation. Particularly after the development of a common vision and strategic plan with Stepwise Management, existing staff members quickly identify the people who do not fit in, or appreciate, the institutional culture. Once these individuals are identified, upward communication is rapid and staff members make collective approaches directly to senior management. Senior management (typically the Managing Director himself who spends a significant amount of his time working on human resource matters as part of the first critical success factor: "Organisational culture that values people and supports the business") then deal with these issues. To maintain transparency and minimise internal politics, discussions and sources of information are always open and clearly stated – this has been demonstrated to reduce malicious communications about staff members and focus discussion on the real problems.

"*Equity's internal culture is one of consensus, staff buy-in, and capacity building*" – Pamela Champagne, Shorebank consultant.

Equity's demanding institutional culture has been extended to the way that it manages external consultants – from which they require a participatory, team-based approach that puts the transfer of knowledge and development of the staff members at its core. After two experiences where consultants provided services and advice, broadly in accordance with their terms of reference, but with little or no consultation with Equity staff, Equity chooses and manages its consultants very carefully indeed. Consultants are typically given basic terms of reference which specifically note: "*At all times the consultant(s) will work in close collaboration with and alongside Equity's senior management, middle management and staff and with the other experts assisting Equity. The roles of the consultant will be those of facilitator, advisor and trainer - building on the significant progress achieved to date and bringing specialist knowledge and international expertise to Equity in the specified areas. The identification of counterparts at all stages and levels of work is therefore imperative*". Assignments are then implemented in a consultative, and situation specific, manner with regular reporting to/discussions with senior management so that the assignment responds to Equity's rapidly evolving needs.

However, with the rapid growth and attendant stresses within the organisation, there have also been occasions when consultants are unable to access the staff with which they needed to work in order to complete their assignments successfully. Furthermore, the rapid growth also means that consultants supporting Equity will sometimes find themselves working with a team of staff relatively new to the organisation and thus unable to access information or contribute effectively to the work. This reflects the large number of on-going activities within the organisation, and the continuing re-assignment of key management staff in order to drive these projects.

Equity has a relatively flat structure, with product champions and credit analysts at branch level reporting only one level up to their representative in Head Office. This has been engineered deliberately to blur distinctions between the Head Office and the branches and to re-emphasise the operational and customer focus of all staff irrespective of where they are seated. This also fosters the teamwork between Head Office and branch staff that characterises all that Equity does in pursuit of its vision and mission.

As part of recent strategic planning process, Equity collectively defined its core values. These values are the "PICTURE" that Equity wants to present:

Professionalism,
Integrity,
Creativity and innovation,
Teamwork,
Unity of purpose,
Respect and dedication to customer care, and
Effective corporate governance.

Lesson 4: Optimising Corporate Governance

At the outset in 1982 Equity was established by five friends who came together to set up a building society in the hope of doing big business in banking. This Board was deeply involved in day-to-day management until 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. The Board soon became irregular in its meetings thus leaving 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. It was the CBK report and the threat of closure that reawakened the board and spurred it into action ... thus beginning the "re-birth" of Equity Building Society.

During the meeting called to discuss the CBK inspection report, the directors developed an action plan that included injection of capital, aggressive marketing, a review of branch networking, compliance with the Building Societies Act, recovery of non-performing debts and strengthening of internal controls. Thereafter, the Board met on a quarterly basis. While its role continued to be that of providing management support, rather than governance, the Board's meetings increasingly discussed operational and strategic issues concerning the turnaround of the institution, capitalisation and compliance with CBK requirements. In 1995 James Mwangi, who had moved from acting as a consultant into the position of Financial Director was appointed to the Board. This period, during which the Board was "*a band of brothers*" - comprising Peter Munga, John Mwangi and James Mwangi - and scarcely distinguishable from executive management, lasted from 1992-2000.

Despite the impressive performance, there was a realisation both within the Board and the CBK that more was needed. Both saw that the institution could realise its full potential or be said to be strong without solid, 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, they believed, 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.

In 2000 Equity broadened the Board to comprise seven members drawn from a diversity of personal and professional backgrounds on the basis of their expected contribution to governance. 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, bought a client and business perspective to the Board. Benson I. Wairegi's professional corporate management, Ernest K. Kimani's legal expertise and Professor Mwangi Kimenyi's academic credentials and international relations experience, all enhanced the Board's capacity. These selected strengths generated the creative tensions necessary in the governance and strategic leadership of a fast-growing institution and infused a new dynamism has been infused into the governance. Coetzee et al. noted, "*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[11]".

In 2002 the Board was further strengthened by the AfriCap investment, which bought experience investment bankers Stefan Harpe (and later Wagane Diouf/Peter Gachuba upon Stefan's retirement) onto the Board. The next two years saw progressive evolution and growth of the Board to its current situation under which it has nine members of which six are independent and only one of which (James Mwangi) is executive.

Equity Bank's 2007 Board

Peter Munga is a Certified Public Secretary with vast experience in both private and public sector management. He is Chairman of National Oil Corporation and holds Directorships in Micro-Enterprise Support Programme Trust (MESPT), British American Insurance Company, and Equatorial Nut Processors.

James Mwangi – CEO and Managing Director is a Certified Public Accountant (CPA (K)). He has wide experience in the banking industry spanning over 17 years.

Benson Wairegi – Vice-Chairman is Certified Public Accountant and is the Managing Director of British American Investments Company (Kenya) Limited and Group Managing Director of British American Group in Kenya.

Julius Kipng'etich is the Chief Executive Officer of the Kenya Wildlife Service and was previously the Managing Director of the Investment Promotion Centre.

Peter Gachuba is an Investment Banker and is AfriCap's Investment Officer responsible for East and South Africa Region.

Wagane Diouf is the Managing Partner of AfriCap (Alternate to Peter Gachuba).

Frederick Muchoki is a businessman with vast commercial experience, and is the Managing Director of Presta Office Equipment Limited and Continental Business Systems Limited.

Ernest Nzovu has for many years been a consultant in human resources and is a director of Hawkins and Associates, KHI Limited and KHI Training.

Linus Gitahi is the Chief Executive Officer of Nation Media Group, previously Managing Director of Glaxo Smithkline, West Africa.

Mary Wamae is an Advocate of the High Court and has over 13 years of private practice experience.

The candidates are identified and short listed by the Board Nominations, Governance and Staff Remuneration Committee prior to presentation to the Board. The Board of Directors is expected to foster the long-term business of the bank consistent with their fiduciary responsibilities to shareholders and depositors. The Board is committed to conducting the affairs of the Bank with openness, integrity and accountability and in accordance with the highest standards of corporate governance.

The Board members have all signed and are expected to deliver against Equity's 86-page Code of Corporate Practices and Conduct, which developed over the year prior to March 2005. This outlines their duties and responsibilities, as well as the systems and forms for the formal annual evaluation of the Board as a whole. In addition there is a bi-annual individual assessment of each Director's performance. The Code also explicitly outlaws Directors conducting business with, or taking any loans from, the bank. Directors are given regular training and often attend retreats and workshop with some of the banks' strategic partners.

[11] **Coetzee**, Gerhard, Kamau Kabbucho and Andrew Mnjama, "Understanding the Re-birth of Equity Building Society in Kenya", *MicroSave*, Nairobi, 2002.

The Board has constituted seven board committees:

- Audit Committee
- Strategy & Investment Committee
- Governance, Board Nominations & Staff Remuneration Committee
- Asset and Liability (ALCO)/Risk Committee
- Credit Committee
- Tendering & Procurement Committee
- Systems and Processes Committee

These committees provide strategic direction, review performance, take policy decisions and ensure that the bank meets its responsibilities to its shareholders and other stakeholders. The board committees comprise a mixture of Board members and senior managers and each committee is required to prepare and deliver a report to the Board at every meeting. Each Board meetings lasts a full day. To ensure that the board committees receive the attention and value they deserve, Board members are paid for the work that they do on these committees and for attending the Board meetings.

Equity's Commitment to Corporate Governance

The Board of Directors are committed to conducting affairs with openness, integrity and accountability and in accordance with the highest standards of governance practices. The Board consists of 10 directors, 9 of whom are non executive and who have a good mix of skills, experience and competence in various fields. The selection of directors is made on the basis of skills and expertise and not on shareholding. The full board meets at least every quarter.

Equity emphasizes regular reviews of its processes, policies, procedures and structures with a view to ensuring the best performance of the Board and the overall management of the business. The Bank has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. Procedures are in place to ensure that assets are subject to appropriate physical control and to ensure segregation of duties. There are also regular management meetings held to strategise on ways to enhance and safeguard the business.

In accordance with the Banking Act and the Central Bank of Kenya's prudential guidelines the bank ensures that shareholders and stakeholders are provided with full and timely information about its quarterly performance. The performance of the bank is regularly discussed with the Board, performance trends, forecasts and actual performance against budgets are closely monitored.

Source: Annual Report 2004

Equity Bank's corporate governance is largely unparalleled in the microfinance industry and compares favourably with most corporate governance in the commercial banking sector. The Board is active, committed and above all, accountable.

Lesson 5: Management of Donor Inputs

Since Equity has been able to attract donor funds, it has used these strategically to increase its credibility and profile within the market and the capacity of its systems and staff. Under the EU-funded MESP programme, Equity, in 1997 acquired a total of Ksh.70 million ($900,000) for on-lending to support start-ups and the expansion of micro-enterprises, at a 6% flat rate per annum, to be on-lent at a reducing rate of 32% per annum. Given Equity's net deposit position when the MESP grant was made, these funds were not taken to increase its loan capital. Equity's relationship with the MESP/EU was primarily a promotional opportunity to be exploited as proof of Equity's attractiveness to international development partners. An additional part of the grant was used to train staff and conduct study tours to Centenary Development Rural Bank in Uganda and CRDB in Tanzania.

Similarly the UNDP-MicroStart funds Equity received in 2000 were not only used to strengthen operations (particularly the IT systems), but were also used as evidence that international donor agencies believed in and supported the organisation in order to strengthen its reputation in the marketplace.

Photocopies of the newspaper articles announcing the MESP and UNDP grants were placed on the notice boards of each branch and Equity staff highlighted the grants to their customers. Similarly, the publicity around the Africap investment often highlighted the key and prestigious donors backing Africap – particularly the IFC and the European Investment Bank.

In 2002 as DFID and Africap joined the Swiss Contact and *MicroSave* support to Equity, a Steering Committee was formed to coordinate inputs. This has proved an effective mechanism to ensure a commonality of vision, a prioritisation of inputs and that Equity remained in the driving seat to manage the use of the technical assistance grant funding made available by the donors supporting it. As noted in **Lesson 3: Developing and Maintaining Corporate Culture**, Equity also manages the technical assistance inputs it receives very carefully in order to optimise the transfer of learning and experience from the consultants working with it.

Success brings many friends (as well as some jealous enemies!). In the last couple of years, many donor agencies have sought to provide Equity with grant and loan support in order to link their reputation with what is seen as the emerging African success story in microfinance. Indeed, much of the Managing Director's time is spent gently rejecting inappropriate offers of support – usually linked to targeting specific niche markets or broader Government programmes. As a result, Equity has had remarkably little grant support, rather preferring to focusing on building its strengths from within.

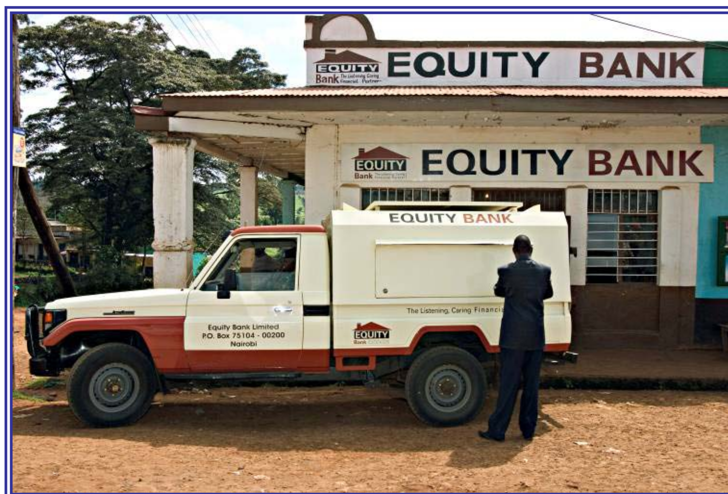
Lesson 6: Commitment to Remaining a Broad Based Bank

Equity has retained its appeal to a broad cross section of Kenyan clients. This is consistent with its mission and vision and has been the case despite growth and conversion to a commercial bank. This can be clearly seen by examining the structure of Equity's product portfolio. While the savings product range has grown to include personal and business current accounts, consistently 80% of savings accounts by volume are Ordinary Savings Accounts, accounting for 50-60% of total deposits. The average (mean) account size grew by 5% in the months following conversion to approximately $125, but this is likely to represent data cleaning by Equity prior to conversion to the new Finacle system rather than a significant change in the nature of deposits.

After conversion the loan product range expanded to include asset finance, business overdrafts and insurance premium finance products. However, small value ($300-$500), salary advances and farm input loans still comprised 72% of the volume of loans and 12% by value. Business loans comprise 10% by volume, though are by nature much higher in value at 43%. Equity's new cash flow based *Biashara Imara* loan is growing rapidly and reaffirms Equity's commitment to the low-income sector. As of November 2006, there were nearly 20,000 outstanding B*iashara Imara* loans.

Equity's commitment to remaining a broad based financial institution is clearly demonstrated by its choice of investment in delivery channels. This combines large urban branches that can serve high transaction volumes, with smaller branches in rural centres, ATMs and mobile branches. In addition, the larger Equity branches have long since had special "corporate" sections to ensure that the higher value customers are given rapid and even more personalised service.

"The fact that Equity has responded to the withdrawal of commercial banks from the rural areas by strengthening its presence further is its greatest strength in line with Equity's vision to serve the low-income population" Coetzee et al (2003)



While Equity has maintained a broad focus on the low-income, business trader, farmer and government employees, it has also reached farther up-market and across the market into other segments. It is increasingly an attractive and competitive option for higher income earners, students and youth (customers of tomorrow), as well as larger scale corporation. The professional image of Equity's banking halls and AutoBranches (see below) has encouraged the higher value customers to see it as a bank that can meet their needs too.

The bank has also diversified its market and brand by aggressively tackling the market perception of Equity as a financial service provider for the Kikuyu in Central Province, and tea farmers in particular. Equity has done this through opening strategic branches in new areas outside Central province and diversifying "the face" of Equity both in term of the staff employed and in the images contained in marketing materials.

	Total
Mobile unit clients	45,897
Mobile units(Vehicles)	8
Branches operating mobile units	28
Locations served	52
Savings balance	349,540,460
Mobile loan clients	20,239
Mobile loan portfolio	232,310,366
Staff on mobile services	132

Mobile Unit Statistics at December 2006

Equity Mobile Banking: Equity responded to the need for local, rural financial services by creating mobile branches. Mobile branches use secure vehicles to establish a branch for one or two days per week in a local town, typically coinciding with the day that the local market operates.

Equity's approach in its mobile banking units is simple. Each mobile banking unit is attached to an Equity branch. A village satellite branch is established in a simple rented structure that is served once or twice per week by a mobile banking unit. Customer data is downloaded at the beginning of each day from the hub branch server, and staff, cash and armed security are transported to the satellite branch. At the end of each day the mobile unit returns to the hub branch and transactions are downloaded. See Coetzee et al (2003).

The number and penetration of these branches continues to expand. Where the mobile branch is particularly successful, additional banking days are added. Some of the most successful mobile branches are expected to graduate into full branches, as happened in 2006 when two were converted into complete banking halls.

Equity AutoBranch: In 2005 Equity launched its auto-branch concept. This concept combines the speed and convenience of automated teller machines with the personalised service that Equity is known for.

The first and largest AutoBranch opened in Nairobi with a mix of ten cash dispensing machines and full ATMs (that also accept deposits). Equity customer service staff provide assistance at the AutoBranch during business hours. They provide advice to customers on how to use the ATMs, and initiate sales of other products and services. This approach effectively builds financial education of the low-income community into e-banking service delivery.

Following the success of the AutoBranch concept. Equity anticipates extending the number of AutoBranches within its network.

Lesson 7: Human Resource Management

Equity has grown successfully, in part because it has been able to manage the consequences of growth. Year on year increases in loans and deposits of more than 50% have forced radical change in the institution. Equity has consistently responded to growth and change by strengthening their management team. As Equity has grown its ability to attract and retain the very best staff has increased. Conversion to a bank and listing on the Nairobi Stock Exchange has placed additional emphasis on continuing to extend the depth and quality of the management team. The Table below shows just how rapidly the senior management team has grown.

Growth In Numbers Of Staff At Different Levels In Equity 1995–2006

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Board level	3	3	3	3	3	7	7	7	8	7	10	9
Executive management	2	2	2	2	2	2	2	2	3	12	14	15
Branch/assistant branch managers	6	6	10	13	15	18	22	24	30	49	61	71
Senior managers at Head Office	2	2	2	1	1	2	3	3	7	10	23	63
Administrative support staff	4	4	1	5	5	4	7	15	22	24	24	152
Credit staff	6	8	10	12	16	17	36	28	51	86	149	297
Savings staff	25	34	31	47	72	72	81	108	205	360	591	692
Management information systems staff	1	1		1	1	1	3	5	8	13	33	48
Finance/accounting staff	3	2	1	3	1	4	6	7	11	7	14	17
Marketing staff	–	–	–	1	–	–	5	10	12	10	10	22
Internal audit staff	–	–	–	–	–	–	2	3	5	4	5	9
Total	**50**	**62**	**60**	**86**	**116**	**124**	**176**	**210**	**360**	**530**	**884**	**1,395**

The growth has also required Equity to carefully manage the recruitment and deployment of senior staff from outside the bank – often above the staff that have risen through the ranks. Originally, in common with many MFIs, Equity was committed to promoting from within, but as the rapid growth took off, it soon became apparent that this strategy was not practical and would constrain growth if it was maintained. Many longer serving staff members were re-deployed, or additional layers of management were created, in order to allow the bank to place senior staff members recruited from outside in strategic positions. As noted above in **Lesson 3: Developing and Maintaining Organisational Culture**, not all outside recruits have been a success – many struggled to understand and fit into the Equity institutional culture. In particular Branch Managers recruited from mainstream banks have often simply not been able to readjust. Those unable to work the Equity way are given a limited period to adjust and learn, and if they cannot, are encouraged to leave the bank.

A particular strength at Equity Bank has been the broad experience of the management team. Equity's culture has always placed great importance on management being able to respond to a wide range of competing needs, and as a result management staff have been transferred regularly around departments

and branches. This strategy has created a very flexible and competent management layer. However, this strategy is becoming more difficult with rapid growth and the need for increased specialisation.

Equity's approach to the introduction of the Finacle Banking System illustrates Equity Bank's staff culture. With a need to implement a new banking system professionally, but rapidly, Equity Bank created a very strong implementation team, with more than 50 staff who worked around the clock for six days per week. Once the system was ready to be introduced every senior manager in the bank was allocated a number of branches. The senior managers were then expected to supervise teams who were tasked with introducing the new banking system in that branch. The transfer to the Finacle system was accomplished in a very short period of time. The implementation of the new system was accompanied by a Ksh.200 million ($2.7 million) budget for staff training which was used to set up a "boot camp" outside Nairobi for full immersion, high pressure training on Finacle.

A measure of Equity Bank's success in developing competent staff is the increased marketability of its staff. In 2005 and early 2006 there was an increase in staff turnover in the middle cadres as staff were actively recruited by competing institutions. Equity responded rapidly, with a salary review and by introducing an Employee Share Ownership Scheme.

However, not all is perfect: Equity Bank cycles through periods of stress as the organisation grows and responds to the latest challenges, such as a recent significant share issue for which Equity was a participating bank. In addition, Equity is still working to perfect its internal training and induction modules and needs to reorient some of its management staff around key disciplines with new job descriptions and less rotation of management staff. Also with such rapid growth most junior staff in the bank are relatively inexperienced and learning "on the job" – often compounding the problems with delays in the banking halls. However, Equity Bank places emphasis on professionalism as well as flexibility and as a result has won the Kenya Banker's Association Award for the greatest number of new qualified bankers in both 2005 and 2006, so it is in a good position to respond to these challenges.

Future Challenges and Opportunities

"*The Bank's strategic plan envisages to sustain the current high growth phase for the next five years, and consolidation thereafter. The key drivers of the growth are continued growth of the customer base and product development. Customer growth base will be sustained through continuous expansion of the branch network and investment in new distribution channels including Automated Teller Machines (ATMs), mobile banking and point of sale ("POS") outlets"* - Information Memorandum for Submission To Capital Markets Authority, 2005.

Equity Bank has performed extraordinarily over the last decade, and particularly over the last five years, but both challenges and opportunities remain. Senior management are particularly focused on continuing to understand the evolving needs of their markets and on ensuring that the growth and formalisation of the bank does not significantly reduce the bank's ability to respond to these needs. Equity has already established an Innovation Centre to focus on exactly this and how technology can be harnessed to respond to the market.

In this context, Equity continues to optimise its IT and related systems. The bank plans to implement a data warehouse (which will be particularly important to maintain the customer-centric focus of the bank and for improving credit decision-making), credit scorecards, an increasingly automated call centre and improved collections mechanisms. Plans are already underway, to develop and implement mobile phone-based banking, thus complementing its growing reach through ATMs and mobile-branches.

Another challenge is likely to come from the potential of growing competition aroused by Equity's success. The profitability of Equity's operations is already encouraging other commercial banks to re-engineer their systems and compete with Equity, which is viewed as a growing threat. With the advent of e-banking technology in Kenya (particularly mobile phone-based systems), it is also likely that larger banks can use this to compete with Equity.

This competition is seen as beneficial to the bank as well as desirable and necessary to keep stimulating Equity's young top management. It is hoped that the emergence of competition and the pursuit of new markets will keep Equity focused on optimising its offering to its customers while also energising the management team with new challenges, opportunities and horizons. Equity still has to complete its geographical expansion throughout Kenya to take in the remaining high potential areas of Western and Eastern Provinces. The bank has also initiated work on agricultural lending and is developing plans to extend its mobile-branch banking – particularly around Lake Victoria in Western Kenya. Longer-term, the bank will look at expansion within the region to take on under-served areas.

Conclusion

Equity Bank is gaining increasing recognition as an Africa market-led success story. The bank has revolutionised not just the Kenyan market (where mainstream banks such as Barclays and Stanbic are now rushing to try to come down market and emulate Equity's achievements … and profits) but also the way many think about microfinance in Africa. The lessons it offers are complex, and yet in their core essence, simple: *success is dependent on putting the customer at the centre of a professionally managed and governed organisation.*

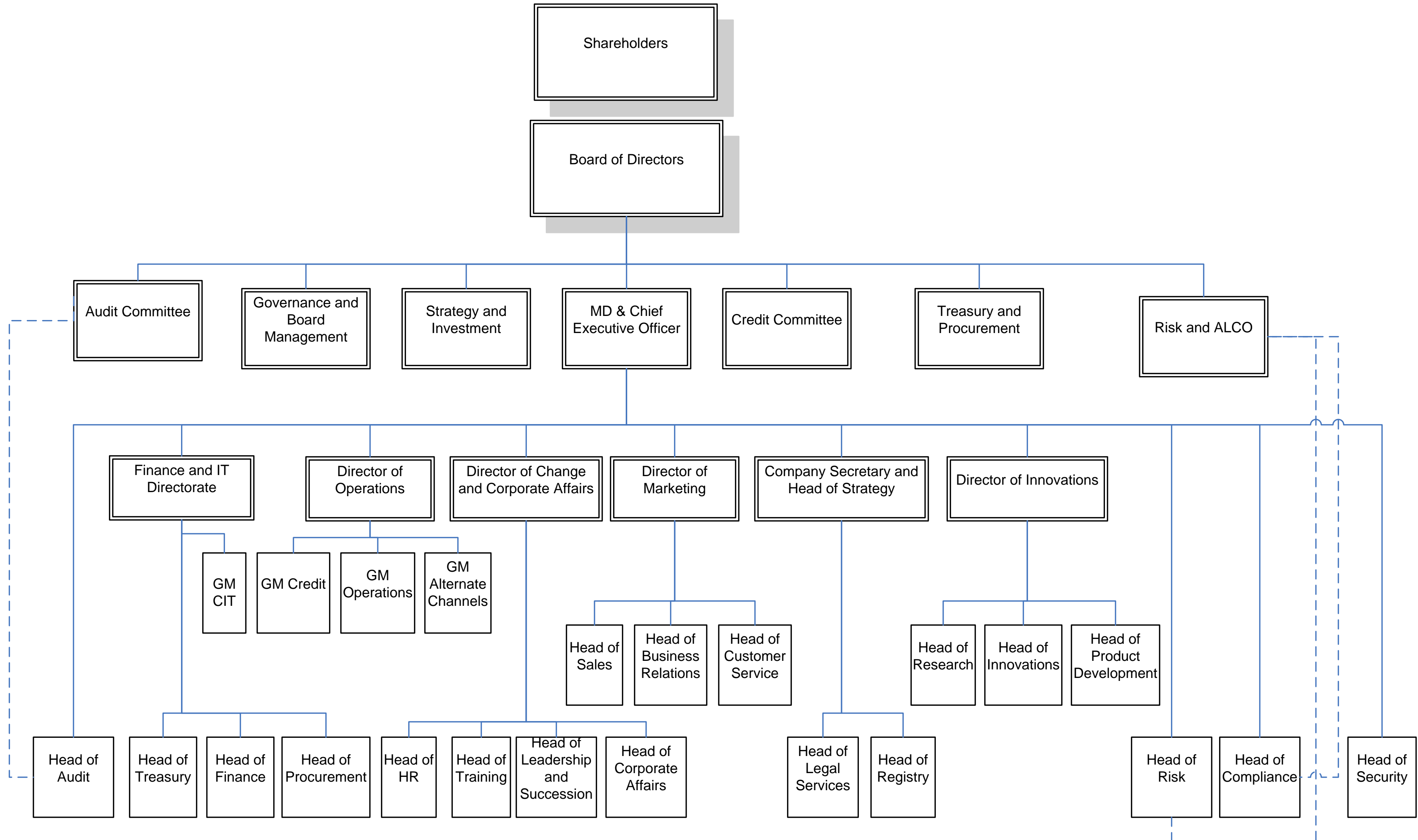
Annex 1: Equity Bank's Strategic and Operational History

Date	Strategic	Operational
1983	Equity Building Society established by five friends to provide the low-income market financial services.	
1984		Equity Building Society opens its doors for business
1986	Founder CEO resigns and John Mwangi appointed in his stead	5 branches operating Customer deposits of Ksh.24 million
1986 -90	Growing understanding that the mortgage lending offered by Equity is servicing the microfinance market and that longer-term lending carries high risk.	Deposits stagnated at around Ksh.23 million Loans stagnated at around Ksh.7½ million Annual losses of Ksh.4-5 million
1992 /3	Central Bank of Kenya inspection reports note that Equity Building Society is technically insolvent. Board develops action plan including injection of capital, aggressive marketing and strengthening of internal controls.	End 1993: Deposits Ksh.30½ million. Loans Ksh.12 million with PAR of 54% after netting off realizable securities. Accumulated losses Ksh.32½ million.
1993	Migration to focus exclusively on microfinance.	Recruitment of James Mwangi and Nancy Nyambici to provide management and staff training. James Mwangi deposits significant funds with Equity, and brings other depositors too, thus alleviating the cash-flow problems.
1995	James Mwangi appointed as Finance Director and Board member	Break-even achieved. Extensive personal selling campaigns underway in the field.
1997 - 1999	Ksh.20 million loan/grant from MESP, which raised the profile of Equity and prepared the bank to "think big" – for customers and staff.	MESP grant allows publication of a book on "Starting A Business" and training – thus creating the perception of EBS as a partner for the common people or "*wannanchi*".
1998		Introduction of community-based social marketing.
1999 - 2000	UNDP-supported computerisation with the Bank 2000 system yields significant improvement in efficiency and customer service. Initiation of mobile-banking system to reach out into remoter areas.	The efficient implementation of IT system (programmed to take 24 months and took 4) helped staff to believe in themselves and Equity. For customers the new system reduced time at the teller from 30 to less than 5 minutes.

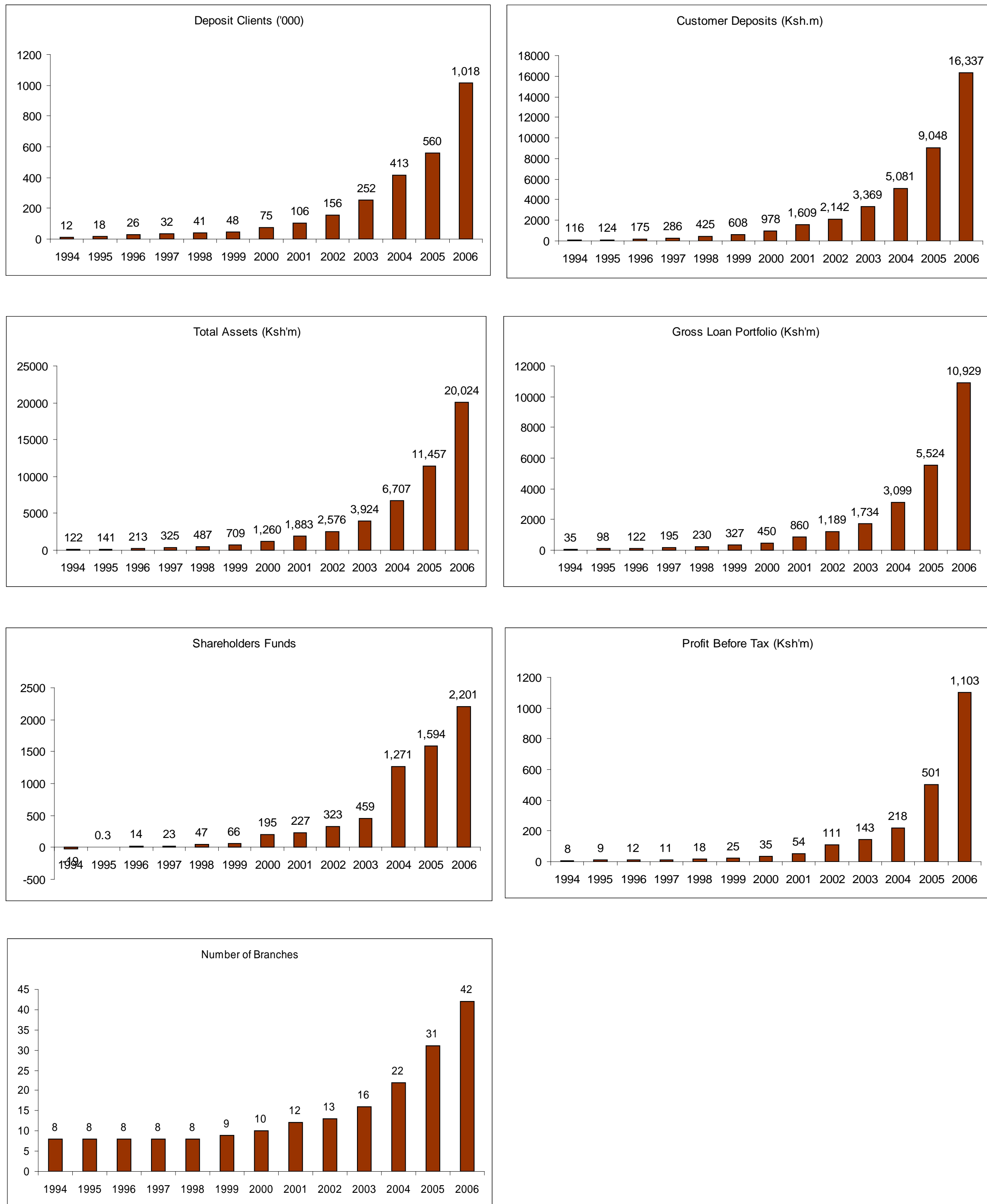
Date	Strategic	Operational
2001	Move to a demand/market-led driven approach allowing the bank to re-focus on the customer and start responding to customer demand. The products were an answer to needs of the people – and word of mouth marketing took off.	Start of partnership with *MicroSave* and Swiss Contact. 2 new branches opened Market research and costing resulted in changed the pricing and packaging of the products: ➢ Flat rate interest introduced ➢ Fees consolidated ➢ Savings restrictions on withdrawal amounts abolished (previously Ksh.10,000 a week plus notice period for larger withdrawals) ➢ In-house cheque developed
2002	Broadening of Board membership to include four new members and further formalisation of Board meetings, activities and minutes. Change in nature of branches, moving away from smaller branches in rural towns where there was limited competition, to larger branches in major centres with Equity actively seeking to compete.	1 new branch opened Extensive process mapping to analyse, strengthen and increase efficiency of all processes within the bank.
2003	Africap invests Ksh.120 million taking 16% of the shareholding and a place on the Board. Moving outside the traditional Kikuyu areas of Nairobi and Central with the opening of Nakuru and Meru branches. John Staley arrived as a consultant, providing an independent voice that helped Equity look at itself and complete the transformation into a high potential, more professional, organisation.	3 new branches opened Withdrawal fees raised to cover increased costs of new senior management – customers willingly accept these enhanced fees. 20th Anniversary celebration held at the Inter Continental hotel, large newspaper supplements and TV documentaries highlight Equity's revival, philosophy and commitment to bring banking services the masses in Kenya. Creation of a head office and regional managers as well as autonomous departments including a functioning credit department independent from the executive. Introduction of a wide area network and email systems etc.

Date	Strategic	Operational
2004	Retirement of John Mwangi passes the leadership from the founder generation to a new generation. Leadership style changed to one that is less risk averse and more devolved/participatory. James Mwangi appointed CEO. Strategic planning and accelerated change management process lead by the new CEO with support from Stepwise Management. This involves analysis of critical success factors, targets and activities and then monitoring the performance against targets to assess gaps.	6 new branches opened. Lengthening queues in branches begin to compromise customer service. Move to new head office in NHIF building. Re-examination of the processes and extensive training and capacity building programme undertaken throughout the organisation. Additional new recruitment from leading companies in Kenya and elsewhere to strengthen upper and branch management. Renewed focus on optimising credit policies, procedures and the systems to support them. Wide-ranging institutional and product risk analysis undertaken in preparation for transformation.
2005	Tripled capital from Ksh.423 million to Ksh.1,148 – demonstrating the confidence in the bank. New capital came from institutional investors (British American Insurance Ksh.200 million) and the existing customers and shareholders. Transformation from Building Society to Bank provided huge morale boost to staff. The success in changing the legal structure sent strong signals to the general public about the institution and its capabilities. Board membership further broadened and Board Code of Practices and Conduct introduced. Finacle Banking System introduced and 70 ATMs installed	9 new branches opened Re-branding completed. Accession to clearing system completed. Compliance audits of the processes implemented throughout the bank. Branches scoring beneath targets of 90% compliance disciplined. Development and implementation of formalised customer service strategy. Design, pilot-testing and initial rollout of *Biashara Imara* individual microcredit product. End 2005: Deposits Ksh. 9,048 million Loans Ksh. 5,524 million with PAR 30 of 18.5% after netting off realizable securities. Annual profit Ksh.501 million
2006	Listing on the Nairobi Stock Exchange Finacle operations, credit and reporting modules customised Development of new delivery channels including ATMs, Internet banking and sms banking Restructuring of senior management	9 new branches opened End 2006: Deposits Ksh. 16,337 million Loans Ksh. 10,929 million with PAR of 6.5% after netting off realizable securities. Annual profit Ksh. 1,102 million 85 ATM machines operational 279,887 cards with customers 3,800,129 ATM transactions

Annex 2: Equity Bank Organisation Chart



Annex 3: Summary of Equity Bank Performance 1994 – 2006



Source Equity Bank Information Memorandum 3rd July 2006 and Annual Accounts 2007

Annex 4: Financial Statements

PROFIT AND LOSS ACCOUNT

	EQUITY BANK LIMITED		EQUITY BUILDING SOCIETY				
	2006 KSHS '000	**2005 KSHS '000**	**2004 KSHS '000**	**2003 KSHS '000**	**2002 KSHS '000**	**2001 KSHS '000**	**2000 KSHS '000**
INCOME							
Interest income	1,634,486	947,830	459,141	324,428	278,853	175,488	132,268
Interest expense	(126,647)	(82,327)	(63,504.00)	(67,855)	(81,582)	(70,914)	(66,852)
Net interest income	**1,507,839**	**865,503**	**395,637**	**256,573**	**197,271**	**104,574**	**65,416**
Commission and other incomes	1,863,585	937,237	640,120	306,428	170,477	125,003	76,544
Total operating income	**3,371,424**	**1,802,740**	**1,035,757**	**563,001**	**367,748**	**229,577**	**141,960**
Expenses							
Management expenses	1,855,542	1,040,274	562,944	319,049	191,399	131,111	81,642
Depreciation and amortization	279,875	137,658	83,671	50,711	40,036	32,022	16,284
Provision of bad and doubtful debts	133,134	124,276	170,890	50,585	25,312	12,003	10,380
	2,268,551	**1,302,208**	**817,505**	**420,345**	**256,747**	**175,136**	**108,306**
Profit before taxation and dividends	**1,102,873**	**500,532**	**218,252**	**142,656**	**111,001**	**54,441**	**33,654**
Taxation	(349,507)	(155,934)	(82,117)	(45,344)	(36,763)	(22,847)	(16,128)
Profit after taxation	**753,366**	**344,598**	**136,135**	**97,312**	**74,238**	**31,594**	**17,526**
Earnings per share (Kshs.)	**8.32**	**3.80**	**5.43**	**6.24**	**6.02**	**2.11**	**1.07**

BALANCE SHEET AS AT 31st DECEMBER

	EQUITY BANK LIMITED			EQUITY BUILDING SOCIETY			
ASSETS	**2006 KSHS '000**	**2005 KSHS '000**	**2004 KSHS '000**	**2003 KSHS '000**	**2002 KSHS '000**	**2001 KSHS '000**	**2000 KSHS '000**
Cash and bank balances	2,690,856	1,305,979	789,678	451,469	243,623	254,012	120,910
Government securities	1,650,653	1,254,415	578,301	870,085	454,370		
Placements and balances with other banking institutions	2,022,784	2,094,320	1,914,078	702,984	445,142	568,467	438,003
Loans and advances to customers	10,929,581	5,524,360	2,873,698	1,606,723	1,120,986	761,585	445,824
Taxation recoverable		-	-	4,414	2,103.00	-	-
Property, equipment and leasehold land	1,469,462	1,045,222	408,014	230,907	158,753	161,301	134,935
Prepaid leases		-	4,255	4,311	32,108	32,108	32,108
Investment property	11,269	11,269	11,269	11,269	65,210	65,210	65,210
Intangible assets	161,153	89,477	8,403	4,649	4,878	3,141	6,282
Other assets	1,088,726	126,910	119,724	39,970	50,442	37,303	16,440
Deferred tax		4,591	-	-	-	-	-
TOTAL ASSETS	**20,024,484**	**11,456,543**	**6,707,420**	**3,926,781**	**2,577,615**	**1,883,127**	**1,259,712**
LIABILITIES							
Customers' deposits	16,336,729	9,047,765	5,081,456	3,368,589	2,191,545	1,608,950	991,246
Short term liabilities	843,364	646,556	296,455	77,156	49,985	34,160	65,251
Taxation payable	147,031	168,229	11,994	-	-	68	2,006
Borrowings	485,450						
Deferred tax	10,917		8,543	2,834	2179	2,313	-
TOTAL LIABILITIES	**17,823,491**	**9,862,550**	**5,398,448**	**3,448,579**	**2,243,709**	**1,645,491**	**1,058,503**
CAPITAL EMPLOYED							
Share capital	452,823	452,823	90,565	62,862	52,862	50,829	50,891
Reserves	1,748,170	1,141,170	1,218,407	415,340	281,044	186,807	150,318
TOTAL SHAREHOLDERS FUNDS	**2,200,993**	**1,593,993**	**1,308,972**	**478,202**	**333,906**	**237,636**	**201,209**
TOTAL EQUITY AND LIABILITIES	**20,024,484**	**11,456,543**	**6,707,420**	**3,926,781**	**2,577,615**	**1,883,127**	**1,259,712**

Annex 5: Key Ratios and Indicators for 2004 & 2005

	2004		**2005**	
Indicator	**%**	**Ranking (out of 46)**		**Ranking (out of 43)** [12]
Shareholders' Funds/Total Assets	18.5%	11	13.91%	20
RoA	3.25%	11	4.37%	5
RoCE	17.17%	16	31.40%	3
Cost of Funds	1.25%	12	0.91%	1
Cost Efficiency (Cost to Income)	62.43%	19	65.34%	25
NPL/Total Advances	8.17%	16	9.04%	20
Core Capital/Total Deposits	25.25%	10	16.06%	23
	Ksh.	**Ranking (out of 46)**		
Total Assets	6,707 million	17	11,457 million	13
Deposits	5,081 million	17	9,048 million	12
Loans & Advances	2,874 million	17	9,863 million	13
Interest on Loans & Advances	368 million	15	692 million	16
Fees & Commission Income	617 million	6	830 million	6
Net Operating Income	1,036 million	11	1,803 million	9
Total Interest Expense	64 million	28	82 million	33
Total operating Expenses	647 million	12	1178 million	8
Profit Before Tax	218 million	14	501 million	8

Comparison of Key Banking Ratios	**Equity Bank Jun-06**	**Industry Average March 06**
Return on Assets	5.5%	2.46%
Return on Equity	41.8%	19.23%
Loans to Deposits Ratio	76.28%	84.84%
Loans to Total Assets	61.7%	52.66%
Core Capital to Total Risk Weighted Assets	15%	14.20%
Yield on Earning Assets	14%	13.42%
Operating Costs / Loan Portfolio	21.1%	14.31%
Non Performing Portfolio / Gross Portfolio	9.23%	22.44%
Liquidity	32.3%	35.82%
Government Securities to Total Assets	5.1%	19.19%

[12] Source: Market Intelligence, Sector Review 2005

Annex 6: Ratings of Equity

Global Credit Rating 2007

Rating	**Short term: A1** **Long term: A+**
Interpretation	In the short term: Very high certainty of timely repayment. Liquidity factors are excellent and supported good fundamental protection factors. Risk factors are minor. Over the longer term: High credit quality. Protection factors are good, However risk factors are more variable and greater in periods of economic stress.
Contributing Factors	High quality management
	Sufficiently capitalised with improved access to financial markets
	Strong Return on Equity and Return on Assets

Global Credit Rating July 2005

Rating	**Short term: A1-** **Long term: A**
Interpretation	In the short term: High certainty of timely repayment with liquidity factors that are strong and supported good fundamental protection factors, while risk factors are small. Over the longer term: High credit quality with good protection factors, however risk factors are more variable and greater in periods of economic stress (relative to ratings in higher bands)
Contributing Factors	High quality management
	Well capitalized
	Strong liquidity

MicroRate July 2005

Rating	**α- (alpha minus)**
Interpretation	Good efficiency and effectiveness. Low risk/well managed, and minimally effected by variability during economic cycles. Good future prospects.
Contributing Factors	Good governance and strategic positioning
	Excellent management and staff
	Good profitability
	Competitive loan and savings products

Planet Finance 2001

GIRAFE Rating	**Assessment Score**	**Interpretation**
Governance and Decision Making	B	- A high global performer - Applying advanced professionalism - Technically self sufficient - Low risk investment - Investment grade **Achievement** The best rating granted under the GIRAFE methodology worldwide for two years 2000/2001
Information and Management	A	
Risks Analysis and Controls	B	
Activities and Loan Portfolio	B	
Funding: Equity & Liabilities	A	
Efficiency and Profitability	B	
Overall Rating	G4*	

Annex 7: Recognition of Equity

Increasingly Equity Bank is being recognised for its ongoing achievements. The following is a selection of the leading awards and citations in 2006 and so far in 2007.

2006 Awards

Equity Bank Presented with the Corporate Planning Management Award

Corporate Planning Management Company of the Year 2006

Market Intelligence Awards 2006

- Best Retail Bank in Kenya
- Third Best Overall Bank
- Fastest Growing Bank

Equity Bank Presented with a Market Intelligence Award 2006 by the Minister of Finance

2007 Awards

Vision Award issued by the Global Economic Network under the Global Marshal Plan Initiative – Micro financing

In recognition of the achievements of Equity Bank, James Mwangi the Managing Director of Equity Bank has:

2006 Recognitions
UN Advisor for Inclusive Financial Services 2006-2007
Presenter at the Gleneagles G8 Summit

2007 Recognitions
Appointed to the Board of UNEP for the Commercialisation of Microfinance Institutions
Clinton Global Initiative Invitee
Presenter at the Vision Summit of the Global Economic Network
Presenter at the Berlin G8 Summit
Panellist with Professor Yunus: Forum on the Global Economy of the 31st German Protestant Church