

**VALUE CHAIN ANALYSIS OF A COMMERCIAL BANK
A CASE OF EQUITY BANK IN KENYA**

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Abstract

The banking industry has experienced a rapid growth in terms of profits, deposits and revenues during the President MwaiKibaki's era. This trend has triggered a lot of competition in the banking industry. Equity bank has managed to weather this competition to stand out as one of the most successful business today in Kenya. Equity bank is also a very adaptive bank with a versatile reactionary mechanism to exploit any emerging gaps in the banking industry. The bank has been able to create new markets in uncontested areas like small scale enterprises such as; hair salons, Jua Kali enterprises and dairy industry so that its competition strategies are heavily bent on using 'blue ocean strategies'. Equity bank has therefore managed to build a competitive advantage that can be exploited to sustain and further its growth.

Keywords: Value Chain analysis, Strategy, value map, roadmap

INTRODUCTION

Equity Bank was founded as Equity Building Society (EBS) in October 1984 and was originally a provider of mortgage financing for the majority of customers who fell into the low income population. Equity bank is one of the biggest indigenous local banks, a status it has managed to achieve in just 25 years. The bank has been focusing on small-scale farmers, individual customers, Micro-small and Medium scale businesses. The bank has now moved to other segments like corporate banking and has opened and 106 branches.

The vast majority of Africans have historically been excluded from access to financial resources. Its expansion necessitated the conversion to a bank in December 2004. The bank is the largest bank in terms of customer base in Africa and having nearly half of bank accounts in Kenya. The company's vision is "to be the champion of the socio-economic prosperity of the

people of Africa. The Bank has subsidiaries in Kenya, Uganda, South Sudan, Rwanda and Tanzania. Its shares are listed on the Nairobi Securities Exchange and Uganda Securities Exchange.

Equity Bank retains a passionate commitment to empowering its clients to transform their lives and livelihoods. Through a business model that is anchored on access, convenience and flexibility, the bank has evolved to become an all inclusive financial services provider with a growing pan African foot print. Equity Bank's business model and its visionary leadership have continued to earn local, regional and global accolades and recognitions. The model is also studied in some of the leading business schools in the world, as other developing countries in Africa and Asia seek to learn from Equity's low margin, high-volume model.

Equity Bank in 2010 established the Equity Group Foundation. This innovation and creative vehicle has fully transformed the concept of philanthropy and corporate social responsibility. The six social thematic areas of focus are: education and leadership development; financial literacy and access; entrepreneurship, agriculture, health, innovations and environment. Equity bank's expansion has been duplicated by other banks like Barclays Bank, co-operative bank, Eco-bank, bank of Africa and Family bank. The mission of equity bank is to mobilize savings, term deposits and other funds for the efficient provision of loan facilities to the micro-finance and missing middle sector, especially small and medium enterprises to generate sufficient and sustainable profits in order to contribute to the members' welfare and to the national economy.

EQUITY BANK'S VALUE CHAIN ANALYSIS STRATEGIES

The term 'value chain' was first used by Michael Porter in his book 'competitive Advantage creating and sustaining superior performance' (1985). The value chain analysis describes the activities the organization performs and links them to the organizations competitive position. Porter argues that the ability to perform particular activities and to manage the linkages between these activities is a source of competitive advantage. Porter distinguishes between primary activities and support activities. The primary activities are directly concerned with the creation of delivery of a product or service. They can be grouped in five areas namely: inbound logistics, operations, outbound logistics, marketing and sales, and service. Each of the primary activities is linked to support activities that have helped improve their effectiveness or efficiency. There are four main areas of support activities which are procurement, technology and development (R&D), human resource management and infrastructure (systems for planning, finance, quality, information management).

Financial Chain Analysis

Equity bank has responded to financial strength of its competition by inviting extra shareholders/investors at its various growth stages. In the initial periods the bank had relied on its founding shareholders, by the time of its listing in 2006, a foreign fund already had owned 4%. This strategy has given it funds that helped grow faster than more closely owned competitors like family bank. Equity has also been reaching to the wealthy pockets of the Nation like the tea belt areas in rural areas. In these areas depositors' main bank is mainly safety. Hence they are easily satisfied with low returns. Such cheap funds have enabled the bank to lend at better margins than the competitors

Marketing chain analysis

Equity bank has adopted several marketing strategies to respond to the competition in the industry. Equity's tactics includes customer acquisition, distribution, pricing, advertising branding, relationship management, innovation, customer satisfaction and social marketing. Equity bank has been able to acquire more customers from the unbanked population and from its rivals to increase its market share.

In the 1990's Kenya's economy was performing poorly due to the then prevailing global recession. As a result, many international banks were forced to restructure their local operations. Equity bank exploited the situation by banking the 'abandoned customers' the bank have its market segment which other banks don't compete for thus gaining supernormal profits which has boosted the banks competitive capabilities.

Information and Communication Technology Chain

Tayawardhena and Foley (2000) noted that deregulation and technological developments were the most important external drivers of increased competition and change in the financial service market. A part from relying on the physical distribution network, equity bank has exploited ICT and E-commerce to create a virtual distribution network. By 2000, over 40,000 Kenyans had ISP accounts and an estimated number of computers at 250,000 with about 600 websites and a total of 50 internet service providers. Licensed to operate in the country and has its share of internet users with an estimated figure of 300,000 users (Wanjoga 2001). The bank has utilized ICT to have competitive advantage over other banks in serving the local market and the Kenyan Diaspora. ICT has also enabled the banks to develop innovative products with competitive advantage.

Customer Care and Operation Chain Analysis

Equity bank business model is building around the customers. Its business tag line is 'a listening caring partner. Equity bank has adopted an open door policy where its chief executive and marketing managers are accessible to their customers. This strategy generates job satisfaction to the swift decision making. Damanpour Walker and Avellanda (2009) notes four types of innovation namely service process innovations, technological process innovations, and administrative process innovations. Equity Bank has continuously incorporated the above innovations. For innovation to yield optimum impact firms have to invest in market research so as to understand the industry, competition and customers expectation. A close interaction with customers provides the most effective platforms for market research. Customers provide the early warning signals about products quality and timelines. They know about competitors. To know your customers is to know your future (Fox 2000).

Human Resource Analysis

Ammo (2003) emphasizes that human resources is the most important factor for success in any organization. Lee and Miller(1999) also noted that one of the key resources needed to execute an organization strategy is its human capital. Hence, a dedicated and talented Workforce may serve as a valuable scarce non –imitable resource that can help firms execute an appropriate positioning strategy. An Equity bank initial weakness as identified in the SWOT analysis was its lack of experienced workforce as compared to its competitors. Management of equity addressed this gap by poaching from other banks and heavily investing in training. As a result, the banks has managed to attract experienced staff from other reputable world-class companies among them, Henry Karugu –Marketing and Product Director (15 years with GlaxoSmithKline) Peter Makau, Corporate Director 20 years experience at senior level with major local and international among many others.

The bank has also addressed its talent gap by enrolling its capacity building programs. They have trained their staff on leadership and management development programs offered by leading world business school, IESE business school in Spain, Strathmore Business school and boulder microfinance leadership program (Equity 2007).The rapid growth of Equity bank has given it an edge over competition by providing higher job satisfaction than other bank through opportunities for career growth.

Equity bank was one of the first listed companies in Kenya to have an ESOP scheme. ESCOP refers to an employee shares earning scheme. Such shares are offered at a discount but can only be accessed after a number of years of service. The ESCOP has helped motivate and retain its staff. Through such efforts Equity bank has built a competitive advantage over. Its competition through a deliberate strategy of creating a young energetic well trained and motivated work force.

BEST PRACTICES IN THE BANKING INDUSTRY

Many banks today are moving away from traditional practices and adopting forward thinking best practices to support profitability value. These best practices are applicable to every area of banking as the industry changes. The recent economic downturn regulatory change and emerging technologies have combined to change the way bankers think about marketing, product development business management and risk management.

Banks face many challenges in today's dynamic market place. In a global economy that has become increasingly competitive, banks need efficient development of products that quickly satisfy a more demanding customer base and building long term customer trust.

The main best practice exercised by equity bank includes:

- ✓ Private policy
- ✓ Equal treatment
- ✓ Cost reduction

Private policy

Equity bank endeavors to safeguard and ensure security of the information provided by the customer, equity bank uses 128-bit encryption for the transmission of the information which is currently the permitted level of encryption in Kenya. When the information provided by the customers is not transmitted through this encryption the customers system displays an appropriate message ensuring the best level of secrecy for the customer's information. The customer is required to cooperate with equity bank in order to ensure security of the information and it is recommended that the customers choose their passwords carefully such that no unauthorized access is made by third party. It means therefore that even in the process of analyzing its value chain the customers private information should not be interfered with regardless of the value that would otherwise be added to the bank if such information was available.

Cost Reduction

Equity bank is cost friendly to its customers. It has option of opening an account with zero minimum up to 300 shillings depending on which type of account the customer is willing to operate for instance, It's easy to open, flexible and encourages disciplined savings that allows saving of small fixed amounts which can be accessed at instant in case of emergency and the customer can access a loan of up to 90% at lower rates.

Equity bank has also come up with agency banking in order to easily access it's customers. The objective of the agency model is to offer the full range of banking service to the customers without having to visit the branch. The agents are particular in their appearance and

are distinct. They are also branded and have the bank's logo. The bank has taken advantage of the various technology solutions available in order to enable customers transact at their convenience. The customer can open a new account or operate their existing one. The bank has therefore differentiated itself by offering the services to where the customers are regardless of how rural they are they can access the banking services.

Equal Treatment

Equity bank has adopted an equal for all non discriminatory concepts. This is clearly embedded in its motto "Your listening caring financial partner." The Bank retains a passionate commitment to empowering its clients to transform their lives and livelihoods. Through a business model that is anchored on access, convenience and flexibility. It has evolved to become an all inclusive financial services provider. The vision of equity bank is to be the champion of social economic prosperity of the people of Africa. With strong footprints in Kenya, Uganda and Southern Sudan, it has more than 7.3 million customers with the largest base in the East African region. To the employees, the bank promises:

- To expose them and give them a chance to maximize potential.
- To train them so that they can realize their career ambitions.
- To reward them and give them the opportunities to realize their goals.
- To work with them and give back to the community.

This is a clear indication of the bank's commitment in ensuring that the best practices are attained in as far as giving the customers and the employees a conducive environment.

HOW DOES THE BANK USE THE RESULTS OF THE VCA TO CHART OUT ITS COMPETITIVE STRATEGY?

Equity uses various strategies to respond to the competition in the banking industries this includes product offering diversification branch and regional expansion, relationship marketing financing, customer-care, innovation and information technology strategies. The bank has used its VCA to chart out its competitive strategies in the following practical ways;

Management

The Bank's management comprises of highly skilled and experienced personnel. The Bank has continued with aggressive capacity building through staff training and development programs. The first critical success factor of the bank is about an organization culture that values people, enhances performance and supports the business. This is grounded on seven core values namely Professionalism, Integrity, Creativity, Teamwork, Unity of Purpose, Respect and Dignity for Customers and Effective Corporate Governance. A lot of emphasis is laid on developing leadership capabilities at all levels of the organization by sponsorships to some of the world's

leading programs. The Board of Directors has attracted directors who have shown great commitment and enthusiasm in involving themselves in the affairs of the Bank and who have demonstrated the spirit and ethos of the organization. The Board has provided leadership to the bank to become an all inclusive bank providing accessible and affordable financial services and in the process generating great shareholder value.

All Board members are vetted before appointment to take into account professional qualifications, integrity and track record. The Chief Executive Officer & Managing Director Dr. James Mwangi, has shown exemplary leadership and commitment and has been honored twice with Presidential national awards. He was named as the African Banker of the year for the second year in a row and Ernst & Young World Entrepreneur of the Year at a ceremony held in Monte Carlo, Monaco.

Equity bank as a result of its aggressiveness in attaining its mission and vision has received a number of awards unlike other banks. It was Equity Bank was awarded Best Managed Company in Africa award by EuroMoney magazine. In May 2012: Equity Bank was named Best Bank in Kenya at the Banking Awards 2012, while also receiving the Best Bank (Tier 1) and the Best Bank in Microfinance awards at the same event

Creativity and Innovation

Equity Bank takes advantage of the various technology solutions available in order to enable customers to transact at their convenience. It was among the first banks to use Agency Banking model. Others have followed later such as KCB, Cooperative Bank and PostBank. Customers: Equity Bank has been known for its creativity and innovation in provision of its products and services. It was awarded the Most Innovative Bank in Africa Award at the African Bankers Awards held in Arusha, Tanzania. The annual awards reward outstanding talent and achievement in Africa's financial sector. In Sept 2011: Africa Investor named Equity Bank as the Best Initiative in Support of SMEs and the Millennium Development Goals.

In September 2011: Equity Bank Group was listed as one of the 16 global emerging Markets New Sustainability Champions by a World Economic Forum Report in 2011. Equity Bank Group was recognized as the only financial service provider in the Emerging markets which meets the threshold of sustainability based on a criteria covering, innovation, growth and corporate sustainability.

Opening of many branches and outlets

Equity Bank Limited offers financial services through its wide network of branches in Kenya-135, Uganda-38, South Sudan-4, Rwanda-7 and Tanzania-2 supported by Alternate Delivery Channels which include:

- ✓ Visa Branded ATMs.
- ✓ Points of Sale (POS) where customers shop; pay and withdraw cash in leading retail outlets.
- ✓ Internet and mobile banking channels The Bank runs on a Global Robust State of the Art Information Technology Computer System supported by Infosys, HP, Oracle and Microsoft.
- ✓ Agency Outlets-The Bank embedded the agency model in 2011 which allows the Bank to leverage on third party infrastructure for cash transactions.

Attractive products and services

The Banking VC starts from the customer side, where the products are offered to the market, sold, provided to the customer and finally corresponding transaction is executed. Equity bank offers the following services; Standing order-These are written instruction given by a customer to debit an account with a certain amount periodically & credit another specific account with this amount. Internal standing order – free and external standing order – Kshs.300 .Agency Banking-The objective of the Agency Model is to offer the full range of banking services to our customers without their having to visit a branch.

Trade Finance

Equity Bank Trade Finance offers trade finance products and instruments that facilitate movement of good from point to point both locally and internationally. To achieve this objective the following off the shelf products are provided:-

- ✓ LPO Financing- avails finances to clients who have orders to services but they are limited by their cash flows.
- ✓ Invoice Discounting-offers extended maturity dates to enable clients ease their cash flow constraints.
- ✓ The bank guarantees both local and international e.g. bid bonds/tender bonds, performance guarantees, advance payment guarantees, retention bonds, customs/transit bonds, payment guarantees and immigration bonds.
- ✓ Import and Export Collections- the bank handles import and export documents on behalf of clients to ensure prompt payment. .
- ✓ Letters of Credit- the bank guarantees payment to exporters/sellers on behalf of clients.
- ✓ Pre-shipment Financing- the bank provides bridging finance to exporters against confirmed orders or export letters of credit to enable them meet the initial costs of raw materials, production, transport and logistics.

- ✓ Post-import Financing-the bank accommodates clients post import financial needs by offsetting import payment obligations falling due on their behalf pending receipt of the sales proceeds.

Agriculture Loans-

The bank offers a variety of loans depending on the clients' needs and ability to repay. These include;-Farm Inputs Loan and- Agriculture Commercial- these are short term loans to assist farmers to buy farm machinery, tool ,social development needs. Micro enterprises dealing in livestock and cash crop production. It is also available to agricultural traders and value addition entities such agro-processors.

Human resource Management

In equity bank human factor underlines the personal nature of the services in marketing; the personnel is a powerful tool in persuading customers to take up the various products offered by the bank. They are able to change customers' perception on service delivery and quality. Achieving sustainable growth in the competitive retail banking market means attracting and retaining customers (White paper, 2006). Initiatives to improve the employee work environment have been put in place to ensure employee productivity. The bank strives to provide more personalized service by reorganizing the retail branch space in most of the branches.

CHALLENGES ON THE BANK'S VALUE MAPS IN LIGHT OF THE EMERGING STATISTICS AND ITS STRATEGIES HOW TO ENTANGLE ITSELF FROM THIS MAZE

Originally, Porter (1985) developed a value chain to define the different areas of value creation in the producer goods industry. The value activities defined by Porter for the producer goods industry are not fully transferable to the banking industry as the industrial value generation differs from the production process of a bank (Canals, 1993; Lamarque, 1999). The banking business is customer driven and therefore the banking value chain should start from the market side. The value process of Equity Bank should start with advertising a newly developed product or service to the market. Secondly, the product/service is sold to customers, e.g. the credit contract will be signed by the customer. In a third step the product will be provided to the customer, e.g. the credit amount is paid to the account of the customer. Finally the corresponding transactions, like payments, clearing and settlement transactions etc. will be processed. Hamoir et al. (2002) and Steffens (2002) reflect this process by differentiating the primary activities into distribution, products and transactions/infrastructure. The distribution part of the banking value chain consists of marketing and sales activities. Marketing includes promotion and advertising activities, branding the firm name/products/services and sales

support. Sales consists of multichannel management (sales force, internet, call centers, branches), acquisition of customers and offering/pricing.

While approaches and applications vary, most value chain approaches have several common characteristics, including: a market system perspective; a focus on end markets; an emphasis on value chain governance; a recognition of the importance of relationships; a focus on changing firms' behavior and transforming value chain relationships; targeting leverage points; and, empowering the private sector.

Banks present some interesting business process architecture questions – especially when one begins by trying to define the bank's value chains. In the 1990s, most banks in Kenya were organized by department – generally around branch operations, product/service lines, operations and support services. Banks, in the 1990s, invariably thought of each product line or service as a value chain. In keeping with this approach, the banks of the 1990s built or acquired software systems to support each of their specific services. Information about customers using checking account services was maintained in a checking account database organized according to checking account number, and information about customers using saving account services was maintained in a saving account database organized according to saving account number. The focus was on the services and not on the customers and the kinds of services they were using. The Equity Bank has not significantly deviated from this ancient perspective.

By the late 1990s, leading banks began to realize the importance of the customer. Studies showed that customers with only one bank account generally chose a bank near their home or office and, when they moved, they moved their account to another bank located near their new residence or office. These same studies revealed that customers with multiple-accounts within the same bank were more likely to stick with that bank, even when they moved. At this point, banks began launching campaigns to encourage customers to open multiple accounts. Since the various databases were organized by account and the banks were using multiple databases. This was the case of Equity Bank.

Bank's radical roadmap

Given the circumstances that Equity Bank's value chain map seems to suggest that the bank's actual value chain does not radically depart from the targeted value chain map, there is an apparent inconsistency with the customer link. This is due to the fact that the bank is losing customers at an alarming rate. There may be a problem with the value chain map and it is apparent that it is not placing the bank at a competitive advantage. The implementation of the value chain map as it is may not prove very helpful to the bank. The problem may lie in the core activities of the bank and the target end user. For example, assume an organization sells books and it describes its value chain as Sell Books. Now, assume that the organization finds its customer base shrinking, as Equity Bank's, as people shift to digital texts which they access via

the internet. In hindsight, the organization realizes that it shouldn't have thought of itself as being in the business of simply selling books. It should have been in the business of providing reading material or content to customers – and that reading material or content can be delivered by various media. The customer is no longer simply buying books – the customer is buying information and content.

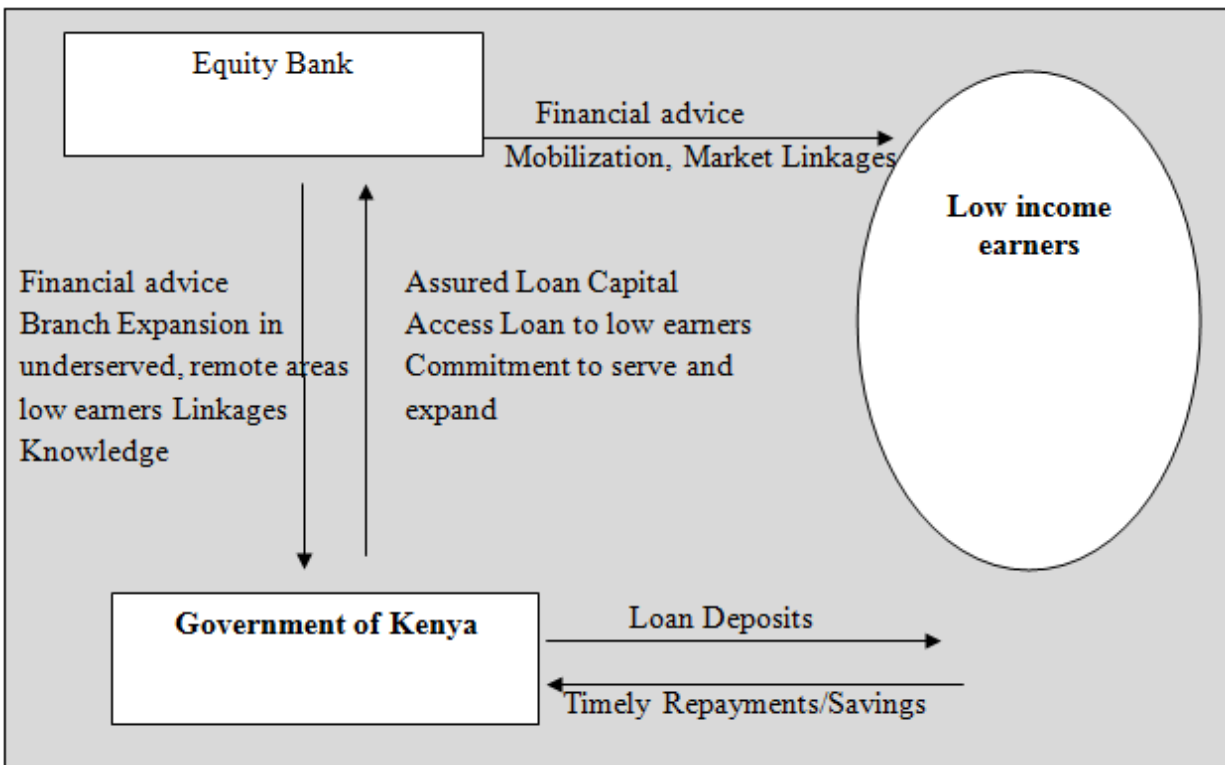
As already implied, the value chain is used to identify activities that are core capabilities and sources of competitive advantage as well as activities that are non-core activities (Lamarque, 1999). Lancelotti et al. (2003) point out that it is crucial for sourcing decisions to understand the value creation mechanisms to define sourcing objectives and establish transparency on services and cost efficiency. In our bank case, the process view of the value chain should enable on the one side the allocation of resources. On the other side the chain view should mitigate to identify how different activities interact with each other, i.e. what outcomes one activity delivers to another activity and what transaction costs would result from insourcing, outsourcing etc. This process view also seems to support that the value chain is better capable to analyze activities with regard to sourcing decisions than a listing of value activities. The Equity Bank seems to have failed towards that end. For instance, while many new entries to the market like family Bank have packaged products which involve the poor and improve relationships with the customers, the former has maintained most of the high minimum balance accounts products. Not considering the poor in any value chain is always a regrettable mistake

Equity Bank has not fully packaged products for the low income earners in comparison to the newly formed banks. Lack of formal financial services specifically packaged for the low income earners and reliance on the old system and products are barriers to collective marketing and also restrict productive investments at the household and low income earners level.

As a result, Equity Bank should enter into an agreement with the government that will temporarily subsidize the bank's geographic expansion along several value chains supported by the government (that is, cover operational losses for sometime). This should be in return for a guarantee of financial service provision to a certain percentage of low income earners supported by Equity Bank. Outside of this agreement, the bank should be free to select and mobilize its own clients so as to maintain a profitable operating platform. The decision to facilitate the entry of new branches should be made after an analysis of existing financial service providers in the target areas, which concludes that existing banks in the project area provide insufficient outreach to and support for client groups, and that there is a general lack of professional-quality financial services in the project areas.

This partnership agreement will create a situation in which financial advice to low income earners, and efforts to improve overall value chain governance by Equity Bank will be complemented by financial services from the government. While both will work independently, the governments work will reduce low income earners' loan costs while strengthening their mobilization, while Equity Bank's work will make low income earners more creditworthy through improved product provision. The partnership modality as described has been depicted in Figure 1 below:

Figure 1: Partnership Model: Equity Bank- Government of Kenya



CONCLUSION

The product differentiation strategies adopted by equity bank to increase profitability includes involvement in customers and product development through focused group discussions (FGDS) aligning products with customer needs and the environment in which they are being offered to ensure customers can identify themselves with the same customer relation management (CRM) caring out regular customer satisfaction surveys introduction of new products based on customers' needs, re-launching and revamping of existing products to make them more competitive. Extensive pilot testing of all products before roll out participation in exhibitions across the country, excellent customer service, provision of products to suit target markets through differentiation and branding of products which achieves customer satisfaction, media advertisement in TV radio and newspapers and population dynamics.

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