

**MANAGING RAPID CORPORATE GROWTH: A CASE STUDY OF
EQUITY BANK LIMITED**

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in this or any other University.

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DEDICATION

To Phyllis Siyian Kiriro and Artah Wanjiru Kiriro. Thank you for your unconditional support. To Dad and Mum, thank you for everything.

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First and foremost, I wish to thank the Almighty God for all he has done for me. I wish to also thank my parents, Mr. and Mrs. Stanley Maina Kiriro for their selfless sacrifice that has enabled me enjoy quality education. To my brothers and sisters thank you for your encouragement.

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Finally but not least to the management of Equity Bank; thank you for your cooperation.

ABSTRACT

The objectives of this study were to establish the rapid corporate growth management practices of Equity Bank limited and the lessons and experiences they have learnt along the way. A case study design was used. Managing growth is the work of management and how well it is managed determines if the organization will flourish or die. This is because growth is a very big challenge to management since it stretches the capacity of the organization to its limit while at the same time creating internal challenges especially with the employees who are unsettled by the rapid changes taking place around them.

Equity Bank Limited has in a few years emerged from bankruptcy and grown from a tiny mortgage provider to a leading commercial bank that controls 52% of the bank accounts in Kenya. It has spread its wings to Uganda and South Sudan and is preparing to enter the Tanzanian and Rwandese market.

The study collected data from three very senior Directors who provided very deep insights into the growth management practices of the Bank. It emerged that the bank pursues a Low Cost, high volume business model. This model generates revenues by maximizing on the number of transactions. The Bank has deliberately executed a very ambitious expansion strategy that is well planned, monitored and financed.

The study established six critical success factors that form the pillar of the expansion strategy. These include, being market led and customer focused innovation, Information technology, strategic partnerships, corporate governance and capacity building and leadership development.

The Bank has learnt that expansion must be matched by capacity both human and financial. The bank is actively investing in alternative delivery channels both to increase its reach and reduce congestion at its branches but struggling to personalize customer service to a rapidly growing customer base.

The study was limited by time and resources. Getting an appointment for the interviews was challenging due to the busy schedule of the respondents. There is room for further studies in areas like sustainability of growth at the Bank, similar studies to firms in other sectors, studies on declining firms.

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ABBREVIATIONS

| | | |
|-----|---|--|
| ATM | : | Automated Teller Machine |
| CBK | : | Central Bank of Kenya |
| CSF | : | Critical Success Factors |
| EBL | : | Equity Bank Limited |
| EBS | : | Equity Building Society |
| ICT | : | Information and Communication Technology |
| KCB | : | Kenya Commercial Bank |
| N&G | : | National and Grindly Bank |
| NMC | : | Multi National Corporation |

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Despite its centrality, driving corporate growth is paradoxical; everyone recognizes its importance, yet it's easy to get it wrong. The result is that every day, anxious executives in well established companies worry deeply about how they are going to lead strategic growth in their organizations. The time tested comfortable approaches to everyday management don't work well in rapidly changing, uncertain environments (Gunter & MacMillan, 2009).

The fast growth potential of many companies is the most exciting aspects that they encounter during their longevity. Such growth is a supreme challenge to management, and makes the firm extremely fragile unless the firm manages changes as the organization grows. All companies experience major problems as they move from a small, entrepreneurial organization to a large, more professionally managed organization. Some cope with the problems better than others, but no firm is exempt, since growth means that firms are constantly outgrowing their own capabilities. (Gupta & Singh, 1991)

All chief executives who have experienced periods of rapid growth acknowledge the difficulties of the management challenge. While some firms cope with the problems of growth better than the others, there is no magic formula for success. There is no "one right way" how to conduct growth, how to lead a company towards the expansion. Every business has a natural rate of growth. If that rate is not reached, a business can decline. If

it is surpassed, the business struggles to keep pace, and if it can not maintain the pace, business will still decline. One of the most important functions of the management of any business is sensing what the specific growth rate should be, and operate with it (Johnson, 1998)

Managing growth is central to the work of effective executives and the board and staffs they work with. How well growth is managed will strengthen, transform or weaken an organization. Some changes are planned and occur as of the normal evolution and development of the organization. Other changes come quickly- sometime anticipated- but never fully prepared for. Also a "no change, no growth" policy might result in a premature failure of business, for the reason that every business has a life cycle. They are conceived, are born, grow to maturity, and decline. How long a business will stay in each stage will determine its success (Pettigrew & Whip, 1993)

It is natural for managers of successful businesses to think about growth. Growth has many compelling attractions- economy of scale, greater market share, increase of prestige, a place to learn and participate. When considering an expansion, a primary reason for pursuing growth is to increase profit, however it is not sufficient simply to project a profit and obtain a financing commitment, nor is it sufficient to close the financing and actually make a profit. The expansion must promise enough profit to justify the investment and the risk. An expansion that does not produce enough profit will reduce the value of the business. Growth could be seen also as the only path that the organization should walk in to survive the competition. (Konda, 1999)

Some companies do not grow or cease to grow because they fail to react to the evolving marketplace. They may not even recognize that the market and its competitors are changing. An established, mature company could stay in slow or static existence mode for years if market did not evolve. However, today this is unusual, the market keeps evolving at a fast pace and management just to keep the company alive must change it toward the growth. (Konda, 1999) An expanding business offers the potential for numerous growth opportunities. Fast growth can help motivate employees and help project a very positive image to customers. Internal and external participants of organization will profit from the growth. Owners will benefit through increased profit potential; Employees will benefit from business growth through increased earnings and promotions. Customers will benefit from expanded products and services. Society benefits through the new jobs created, (Johnson & Scholes, 2003)

1.1.1 Banking Industry in Kenya

The origins of the Kenyan banking industry can be traced back to the year 1896 when the National Bank of India (NBI) set up a small branch in the coastal town of Mombasa. This branch was targeted at the thriving trade at the Kenyan coast and the ongoing railway construction. In 1958, Grindlys Bank of Britain merged with NBI to form the National & Grindly Bank, (N&G). In 1970 the government of Kenya acquired N&G and renamed it the Kenya Commercial Bank. (Kamande, 2006)

According to the Central Bank of Kenya (2009), the industry has grown by leaps and bounds and currently consists of 46 institutions, 43 of which are commercial banks, 2 mortgage finance companies and 1 non bank financial institution as at 31 December

2009. Out of the 46 institutions, 33 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by government and State Corporations. The banks have come together under the Kenya Bankers Association which serves as a lobby for the banks interest and address issues affecting its members

The banking industry in Kenya is governed by the companies' act, the banking act, the central bank act and various prudential guidelines issued by the Central Bank of Kenya (CBK) from time to time. The banking sector was liberalized in 1995 and exchange controls lifted. (Maritim, 2007) The CBK categorizes financial institutions into three peer groups of large, medium and small in terms of net assets. Out of the 45 institutions, 13 were in the large peer group with aggregate net assets of over ksh.15 billion. The medium peer group comprises of 17 institutions with net assets ranging between Ksh 5billion and Ksh 15 billion whereas the small peer group had 15 institutions with net assets of less than Ksh 5 billion (Central bank of Kenya, 2009)

The period 1989 to the year 2000 will remain a very dark time for the local banking industry. This was a time when a number of mainly indigenous financial institutions collapsed as a result of challenging business environment and an unstable political climate. The requirement by the CBK to bank to write off their bad debts against their profits instead of hiding them under assets in their balance sheets sent many banks to an early grave. "Politically correct" banks such as Trade bank & Trust bank were used as conduits for stealing customer deposits and money laundering. At the same time interest

rates were at their highest as a result of relentless government borrowing to finance its budget deficit as a result of the freeze in donor lending at the time. This resulted in huge profits to the few stable banks (Cheserek, 2007).

In tandem with the sustained economic growth, the banking sector has recorded impressive growth in the last few years. Overall profitability has been rising at an average of 30% while asset portfolio has been expanding at an average of 25.9%. The industry recorded a major decline in the stocks of non performing loans following resolutions of the large non performing loans in the banks that have significant government share holding. There has been a remarkable enhancement of capital adequacy ratios mainly due to fresh capital injections and retention of profits. There has also been an increase in the access to financial services mainly due to an aggressive banking sector expansion, targeting the retail market across the country (Central Bank of Kenya, 2009.)

The banking sector is dominated by 6 large banks which account for approximately 58% of the market share. The remaining banks are small and have limited outreach. In view of this, there are enormous opportunities in the economy to expand banking services to parts of the population that do not hold bank accounts especially in the rural areas. This will provide a greater pool of savings to finance the productive investments of vision 2030. Banking institutions will need to cope with continuously changing business environments and a continuous flood of new requirements via robust ICT platforms, while staying sufficiently agile. Consumers will continue to demand individualized goods and services, and to demand them faster than ever. Second, the world is undergoing a “knowledge

Revolution” whose consequences will exceed even those of the industrial revolution. Hence banks will be expected to continue aggressively designing new products that leverage on ICT to remain competitive (Central Bank Kenya, 2009).

Down streaming into the retail market sector is expected to continue particularly with the licensing of deposit taking Micro Finance Institutions in 2008. Additional capital injection is also expected as banking institutions expand into the region in search of growth opportunities in line with trends towards regional and economic integration. Competition will also intensify as pan-African banking groups from South and West Africa target Kenya as their East and Central Africa regional hub. Diversification into other financial services such as insurance, securities and financial advisory services is also anticipated as consumers increasingly seek “one stop financial supermarkets.” These developments are expected to enhance banking products being offered and bring more Kenyans into the banking space. (Central Bank of Kenya, 2009)

1.1.2 Equity Bank Limited (EBL)

EBL has very humble origins. It was founded in 1984 in the town of Muranga, Muranga County, in the Republic of Kenya. It was then known as Equity Building Society (EBS). Its establishment was motivated by the desire to create a financial service provider which would touch base with the majority of the Kenyan population who lacked access to financial services or simply could not afford it. The initial focus was to offer mortgage services but in the 1990s, it changed its business to microfinance services. EBS grew both in business volume and outreach to become a leading microfinance institution providing a

wide range of products and services. This growth necessitated the conversion to a commercial bank which was duly registered on 31st December 2004. (Coetes, 2007)

EBL has over 4.1 million accounts, accounting for over 52% of all bank accounts in Kenya; this makes the bank the largest in the region in terms of customer base. The solidness of the bank is underpinned by its shareholder's fund base of over Ksh19 billion, making the bank one of the most capitalized banks in the region. EBL offers a wide range of financial services through its network of branches in Kenya, Uganda and South Sudan supported by alternative delivery channels which include Visa branded ATMs, Points of sale where customers shop, pay and withdraw cash in leading retail outlets. Also included are internet and mobile banking channels.

EBL has received both local and global accolades for its unique and transformational financial model. The bank is credited for taking banking services to the people through its accessible, affordable and flexible service provision. In June 2009 EBL was the emerging markets most sustainable bank of the year in Africa and the Middle East. In July 2009, EBL received the African business of the year 2009 award at the Commonwealth Business Council & African Business awards. Later on in September 2009 at the Africa Banking Awards, Equity Bank was voted the Best Microfinance bank in Africa.

In 2007 and 2008 consecutively, EBL was named the best bank in Kenya by Euromoney Awards of Excellence. The bank is also the holder of the 2007 Global Vision Award in Microfinance "for initiating a concept of the future that will shape the Global Economy". EBLs' CEO has been appointed UN advisor on inclusive Financial sectors under the

newly formed UN advisors group; a group that consists of some of the most renowned names in world of finance. This appointment is the product of EBL's achievement in making banking services available to millions of low – income people. In 2008, EBL witnessed capital injection of Ksh 11billion by Helios International, a private Equity fund in exchange of 24.9% share holding in EBL. This was the largest foreign direct investment (FDI) by a single investor into a local Kenyan company in 2008 and it only goes to demonstrate the kind of investor confidence the bank is enjoying. (www.equitybank.com)

These growth and transformation was not a smooth ride. EBS faced a lot of challenges as a result of changing environmental conditions in Kenya mainly, economic, political, and changing customer tastes and preferences. According to Coetes (2007) report on the rebirth of EBS, the Central Bank of Kenya in 1993 established that EBS was technically insolvent, had poor board supervision and inadequate management capacity. Nonperforming loans were 54% of portfolio and accumulated losses totaled Ksh3 million. At this stage deposits were being used to meet operating expenses. Its liquidity ratio stood at 5.8% far below the required minimum of 20%. However due to the banks laudable record of creating affordable and easy access to financial services to ordinary Kenyans, CBK opted to apply rational judgment to allow EBS re-invent it-self. EBS grabbed the opportunity extended by CBK, eventually shifting focus from mortgage to microfinance in 1994. It comprehensively implemented the management of change process according to international standards - putting emphasis on quality customer

service, committing itself towards human resources development and investing heavily in a computerized management system

1.2 Problem Statement

Growing a business too quickly is always a dangerous proposition and a double edged sword. How well growth is managed will strengthen, transform or weaken an organization. This is because growth is such a supreme challenge to management, and makes the firm extremely fragile unless the firm manages changes as the organization grows. A "no change, no growth" policy might result in a premature failure of business, for the reason that every business has a life cycle. They are conceived, are born, grow to maturity, and decline. It is how long a business stays in each stage that determines its survival. On the other hand, it is natural for managers of successful business to think about expansion. Expansion has many compelling attractions- economy of scale, greater market share, increase of prestige, a place to learn and participate. It also brings about extreme challenges on a firms resources and capabilities (Konda, 1999)

Equity Bank is relatively a new bank in Kenya's corporate scene. How ever its growth rate has been so rapid, raising so much dust in its wake. It has altered the pecking order in the other wise conservative Kenyan banking industry. It has revolutionized the way things are done with its unique low cost, high volume business model that mainly targets informal and previously "un bankable" sectors.

Between the year 2004 and 2009, customer numbers increased from 413000 to 4.3 million, staff numbers grew from 530 to 5093, total assets grew from ksh6million to ksh65billion, loan portfolio grew from ksh3billion to ksh65billion and customer deposits grew from ksh5billion to ksh69billion. (Equity Bank, 2009)

EBL pursues a unique business model that emphasis's huge volumes and low margins. This model has attracted both local and international recognition. On many occasions the bank has been invited to various international forums to share on the success of its model and in particular its mobile banking initiative. EBL has become a hub for other institutions worldwide keen on learning and exchanging insights on extending financial services to the low income segment and the un banked population. Of note is the China Development Bank which has been seeking technical advice to help it establish a bank in China on the lines of Equity (www.equitybank.com)

EBL's expansion strategy has seen it evolve into an inclusive financial provider with an infrastructure in Kenya that currently stands at 106 branches. It also has over 500 Visa branded ATMs, village mobile banking units as well as over 2500 points of sale across the country. It is the fourth largest in terms of net assets after Kenya Commercial Bank, Barclays Bank and Standard chartered bank .It has full-fledged operations in Kenya, Uganda and Southern Sudan. It has subsidiaries in insurance brokerage and investments Banking. It is listed in the Nairobi Stock Exchange where it is the third largest in terms of market capitalization after East African Breweries and Bamburi cement surpassing the US\$.1billion mark in April 2008. This came only two years after the banks shares where

listed in the stock exchange. It is also listed at the Uganda Securities Exchange. (Equity Bank, 2009)

All companies experience major problems as they move from a small, entrepreneurial organization to a large, more professionally managed organization. When this change is happening rapidly, all aspects of the organization have to adapt to this change-and fast. The structures, culture, internal processes all have to rapidly change. How quickly and positively they adopt will determine their success rate. It's important to note that these changes usually take place within a volatile macroeconomic environment further complicating the process. Kenya's corporate grave yard has classic examples of companies that have totally collapsed or that are struggling due to problems brought about by complications as a result of rapid growth. A classical example is Uchumi supermarkets and Discount Securities Ltd (Muchira, 2007)

Despite its young age, Equity Bank Limited has one of the highest profit growth rates in corporate Kenya's history, consistently registering profit growth of more than 200% every year since 2004 when it converted to a commercial bank. This comes at a time when its competitors in the banking sector (some of whom have been around since the colonial era) are struggling with single digit or even negative growth in their profits. It has been able to maintain an extremely healthy balance sheet and does not appear to be about to slow down. This begs the question, why is Equity Banks growth strategy such a success while other firms seem to be financially struggling due to expansion related mistakes?

This paper explored the typical issues that Equity Bank Limited experiences when going through periods of rapid growth, and the approaches the management performs to maintain a controlled situation of growth.

1.3 Research Questions

- (a) What strategy and approach is equity bank pursuing in order to maintain a controlled situation of growth?
- (b) What are the experiences and lessons they have learnt along the way?

1.4 Objectives of the Study

This study sort to investigate;

- (a)The strategy & approaches that Equity Bank Limited's management performs to maintain a controlled situation of growth
- (b) The experiences and lessons they have learnt along the way.

1.5 Significance of the Study

The study is of benefit to various groups. It's a blue print to the boards and management of companies, as they plan and implement their growth strategies. It's a guide for policy formulation at government level. This will enhance supervision and good management practice in the banking, insurance and other firms with significant control of the national economy. Scholars will be able to better appreciate the dynamics and intricacies of growth. To Equity Banks Limited's current and potential stakeholders who will be in a better position to understand and appreciate the banks growth dynamics.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews various studies that have been done and theories advanced on corporate growth. The chapter is broken down into various sections such as Method of Growth, Growth Strategies, Challenges of Growth, Organizational and Administrative Problems, Related Studies and finally the Conceptual Framework.

2.2 Methods of Growth

Pearce and Robinson (1991), Garland and Farmer (1986), Ball and McCulloch (1993) and Ansoff and McDonnell (1990) are unanimous on the various growth methods Service industry firms like banks can adopt. These include organic growth, joint venture, strategic alliances, mergers, consolidation or wholly owned foreign subsidiaries.

According to Johnson and Scholes (1993), organic growth, also known as internal development is where strategies are developed by building up the organizations own internal resource base and competence. It has the benefit of providing a good learning environment and at times may be the only sensible way to pursue genuine technological innovation and exploit them. A similar argument applies to the development of new markets by direct involvement. For example a manufacturer may choose to forgo the use of agents so as to get a full understanding of the market. This knowledge becomes a core competence relative to other manufacturers who choose to be distant from their customers. It is also ideal for those who are breaking new ground and may not be in a position to develop by acquisition or joint venture since they are the only ones in their

field. Others may just not find a suitable target for acquisition. It has other benefits such as maintaining the same culture and management style, limited disruption, ease of financing and limited hidden or unforeseen losses as opposed to mergers and acquisitions. It has the limitation of being slow especially in a highly dynamic market. It also has the challenge of barrier to entry such as difficult brand penetration.

Joint venture is a project in which two or more parties invest together. And each has a share in both the equity and management. According to Rugman et al (1985) joint ventures are normally undertaken by multinational corporations (MNC) and a local partner. The MNC brings its firm specific advantages (knowledge, technology and capital) to the venture, while the host country partner traditionally brings knowledge of the local environment.

Porter (1985) describes acquisition as a growth process whereby, an organization develops its resources and competences by taking over another organization. A compelling reason to develop by acquisition is the speed with which it allows the company to enter new market or product arrears. In some cases the product or market is changing so rapidly that this becomes the only way of successfully entering the market, since the process of internal development is too slow. Another key reason of acquisition is the lack of resources or competencies to develop a strategy internally. Acquisitions have many compelling attractions; key among them is overcoming barriers to entry in new markets especially in cases where the acquired organization has a relatively strong market presence. Acquisition also assists in unifying sales, distribution and other key departments thus creating positive synergies. It is also a tool used to eliminate

competition and create bulk purchasing power. It has the limitation of being too costly and risky especially if a due diligence is not conducted properly. The biggest limitation after cost is the issue of incompatibility. Assimilating new products, customers, suppliers, markets, employees and operating systems might create “indigestion” and management overload.

Joint development is whereby two or more organizations share resources and activities to pursue a strategy. Joint development has become popular because organizations cannot always cope with increasingly complex environments (such as globalization) from internal resources and competence alone. They may need to obtain materials, skills, innovation, finance or access to markets, and recognize that these may be readily available through cooperation as through ownership. There are a variety of arrangements for joint development and alliances. Some may be much formalized inter-organizational relationships, at the other extreme; there can be very loose arrangements of cooperation and informal networking between organizations with no shareholding or ownership involved. (Johnson and Scholes, 2003)

Strategic alliance is a cooperative arrangement between two or more companies. The partners in the alliance seek to add to their competences by combining their resources with those of the other firms with a commitment to reach an agreed target. The global airline industry has been forming alliances in strategic areas like maintenance, code and route sharing. Consolidation refers to a combination in which two or more companies

join to form an entirely new company. The individual joining companies cease to exist and a new company bearing a neutral name is formed. (Johnson and Scholes, 2003)

Mergers refer to a combination of two firms in which only one firm survives and the other goes out of existence. An example is the merger of East African building society bank (EABS) with Ecobank of West Africa. EABS went out of existence.

2.3 Growth Strategies.

According to Byars (1991), a common frame work to the analysis and determination of growth strategies is Ansoffs product /market opportunity matrix. In developing a strategy for growth, the organization must determine whether to concentrate on existing or new product /services and existing or new markets. This suggests four possible options which are outlined in the following figure;

The first three are regarded as intensive strategies, while diversification is regarded as a form of extensive growth.

Figure 2.1. Product Market Opportunity Matrix

| | | |
|--------------------------|---------------------|--------------------|
| PRODUCT OR SERVICE | CUSTOMER | |
| | EXISTING | NEW |
| EXISTING | MARKET PENETRATION | MARKET DEVELOPMENT |
| NEW | PRODUCT DEVELOPMENT | DIVERSIFICATION |

Source: Byars L. Loyd (1991) strategic management formulation and implementation: concepts and cases, 3rd edition NY. Harper Collins publishers, p.p.193.

According to Byars (1991), the focus of market penetration is increased sales through greater control in a market in which a firm already has a product or service. This may be achieved by means of increased and more effective positioning, targeting, delivery and promotional activities. The strategy aims at attracting customers from competition, stimulation of more usage or consumption, or attracting new customers.

Market development strategy consists of introducing the organizations existing products or services to customers other than the ones it currently serves. This may be achieved through opening operations in new regions or countries. It is essentially important for the organization to understand the number, needs and purchasing patterns of the new customers and determine the organizations adoptability to new markets.

An organization using product development strategy creates a new product or service for existing customers. Product development may be a modification of existing products,

advancements of delivery systems or expansion of services. The organization must consider the impact of the new product or service to the existing ones and the organizations ability to deliver the product or service.

With a diversification market strategy, an organization offers a new product or service to new customers. There is there fore a simultaneous focus on new product or service and new markets in an endeavor to pursue “newness” outside the mainstream of present business. The strategy must be preceded by development of a considerable knowledge of the new customers’ needs and making certain that the new product or service meets those needs.

Byars (1991), adds that in addition to the various growth strategies, banks may also consider competitive strategies which include among others being, a market leader. In this case a bank emphasizes on market share, economies of scale and a strong distribution network. A market challenger on the other hand emphasizes on market share but together with aggressive pricing, delivery and promotional tactics. A market follower attempts to maintain or build a market share and profitability, and focusing on cautious marketing tactics. A market nicher focuses on niches with respect to products and markets and does not try to offer all financial services to the market.

2.4 Challenges of Growth

According to Konda (1999) Business can be a two-edged sword. When it is controlled, it usually leads to financial success. When it is uncontrolled, it can lead to a financial failure. Growing business too quickly is a dangerous proposition. If the company lacks

the capital, manpower, time or the other resources to deliver quantity of product on time, it will either forfeit a customer or lose credibility, if not both.

The first challenge is to recognize that rapid growth is occurring. Depending on the culture and history of the organization, being off balance and always in or near crises may be the norm. Other organizations are completely the opposite. They have done the same things the same way year after year. In either extreme, a careful look at the realities of environment is needed. Once the rapid growth has taken hold, it is virtually impossible to stop through any normal business practices.

The second challenge facing managers is not how to maintain rapid growth but how to steer the business through the inevitable crises that rapid growth brings. Growing pains are unavoidable, and so management must recognize the nature of problem and should act accordingly.

The third challenge for the management is to separate out the symptoms from the causes, and to be able to understand how the effect of these symptoms leads to frustration, stress, poor decision making and declining morale which in return they lead to declining firm performance.

2.5. Organizational and Administrative Problems.

When an organization grows too fast, there is a real risk for certain problems to develop. These problems have the capacity to sink an organization if not dealt with on time and proactively.

Lack of sufficient employees is a problem created by explosion of growth. Such expansion forces people to undertake greater responsibility, often before they are ready.

Workload will constantly be expanding and may not be predictable. New issues and problems will constantly generate and innovative solutions will have to be implemented quickly. Shortage of experienced staff, both managerial and technical, need for more people will force management to assign employees to jobs that, they are not qualified to do. Everyone at rapidly growing company's works hard. However, there is a difference between working hard and being overworked. One is productive, the other one can be frustrating and detrimental to careers, relationships and lives. Some employees do not feel comfortable with the new situation created within the organization, so they quit and go somewhere else, (Thomas, 2000).

As new employees are added, particularly at managerial levels, to cope with the growth in demand. Confusion about roles, authority levels and responsibilities sets in. Current employees often feel threatened by the influx of new personnel. Senior employees are likely to feel that their stature within the organization is being undermined, and less senior people may feel that they are neglected. Confusion leads to demotivation and very often to a breakdown in decision making. What is worse is the impact that such confusion in the senior management levels will be transported to those further down the organization. Instead of leading, the tendency is to react to crises rather than manage them. They could feel isolated, stretched, and sometimes they experience reduced confidence in their abilities. Such reactive rather than proactive management can cause the firm to stray from its intended goals. Some of the managers and even are committed to business and work hard they might not be able to adjust to changes brought by growth. In rapid growth stage, even one weak manager in a key position can really drag down the performance of an entire organization (Gunther & MacMillan, 2009)

Stress and long hours will impact communication and relationships within management and non-managerial employees. As firm experiences rapid growth, the number of intra-company relationships increases, making communications increasingly complex. Informal face-to-face communications, which are norm in small firms, become more difficult and are replaced by written reports. New pattern of communicating skills must be developed on the course of growth. People are tired and stressed. The task of improving the communications with employees is on managers not on workers (Konda, 1999)

In a growing business, financial resources are often viewed as the major factor limiting growth potential. Company could find itself short in cash and even it is selling more. There is a quick answer for that: company is short in cash because things are well with the business. While this may sound impossible, rapid growth may causes cash strain on company. In a growing business the demands of the increasing sales, support services, inventory, labor costs etc. can rapidly require all those extra dollars that management expects to see flowing in when the sales numbers are rising. Not only does the business have to invest more resources in inventory, labor and the other expenses associated with growth, but also receivables typically grow along with sales because a large portion of sales are purchased on credit that will lower the availability of the cash (Konda, 1999)

Too often, managers at companies undergoing explosive growth allow profit margins to decline, hoping that will recover them in volume. Decline of profit margin will come for example as result of emergencies for extra raw material and need to have them at any Cost as demand for product raises. That will increase unfavorable material cost variances. Cost labor variances incur for the same reason. The need for temporary workers, more

than it was planned will increase unfavorable labor cost variances. The faster a business is growing, the more difficult it will be to plan future expenditures or income. It is always a tendency for fast-growing business that expenses to increase faster than sales. As business will grow, the fixed costs will become heavier on product, also variable cost often because of negligence of management will increase. It is easy to underestimate the impact of taxes when planning for a growing business. Often it is assumed that taxes rise parallel to rises in sales. As business becomes more profitable and grows, tax bills will likely increase at higher rate than anticipated, because the company will move into higher tax bracket (Thomas, 2000).

In the growing process, company could increase its market share at the expense of the competitors, and competition will become sharper. Management should understand that what worked in the first stage of business it might not work in the rapid growth stage. It is important to detect and implement the right market strategy for the organization. There is always risk of failing and an appropriate strategy is imperative task for the management to succeed toward competition as the company expands, demands for its products might increase. Management accurately must assess the production capacity of the organization. If firm can not satisfy sales demand rapidly, its reputation in the market place will decline and customers will ignore the future strategies of the growth, (Konda, 1999)

It is not uncommon in explosive-growth firms to hear a manager say, "I do not have time to listen to a few small customers, as long as the masses go along." Customer complaints are signs for managers to identify the problem areas within the firm, reasons for disputes, and resolutions. Ignoring these complaints not even will make company to lose those few

customers, but as sales accelerate, what were once a few customer complaints can escalate to an unmanageable deluge making company to incur uncontrollable loses. Sustained rapid growth is usually the result of the ability of companies to create markets, but early success could create false expectations to the firm. Market demand for its products might not be, as it first appeared to be. Not carefully analyzing the demands and mistakenly interpreting the success might result in a saturated market and an eventual withdrawal of the company from the field (Gunther and MacMillan, 2009)

2.6 Related Studies

Kamande (2006) did a study on the regional growth strategy of Kenya commercial bank (KCB) and concluded that the Rwanda and South Sudan's financial markets are so subsistence that immediate benefits should not be reasonably expected to materialize. The bank should therefore have a long term view of these markets. However there is the risk of the bank doing all the ground work only for competition to come when the market is ripe and snatch the customers away.

Aludo (2005) in his study of the growth by acquisitions strategy of Commercial bank of Africa identified incompatibility of the human resources as the main challenge of this process. He recommended extensive team building among the staff members so as to create harmony and a unified organizational culture.

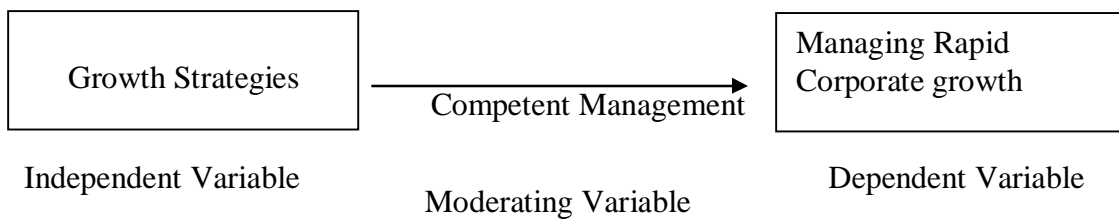
Njoroge (2007) investigated the mergers and acquisition experiences by commercial banks in Kenya. The study established that most mergers and acquisitions were motivated by the need for the banks to meet the capitalization requirements by the Central Bank of Kenya. Further banks mostly merged with others that had the similar characteristics such as customer profiles, same shareholders among others.

The researcher investigated the availability of a study on managing rapid corporate growth at Equity Bank Limited, however no such study was available.

2.7 Conceptual Frame work

The main variable of interest to the interest to the study is the dependent variable of managing rapid growth. The independent variable that influences the dependent variable is growth related strategy formulation and implementation. Management competence plays a moderating role in this relationship. The low cost high business volume model is one of the strategies used by management. It is supported by the critical success factors.

Figure 2.2: Conceptual Model



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design and methodology of the study. It is divided into the following three parts, research design, data collection and data analysis.

3.2 Research Design

This was a case study of Equity Bank Limited. A case study is a complete and careful observation of a single unit such as a person, institution, family, cultural group or an entire community and emphasizes depth rather than breath of a study. The study involved an in-depth investigation of the Bank's growth management practices and the experiences learnt.

3.3 Data Collection

The research utilized both secondary and primary data. Secondary data was collected through desk review of the strategic plans and other related document at EBL. Other sources of secondary data were newspapers, business magazines, NSE publications, journals and other sources. Primary data was collected through in-depth interview investigation. These were guided by preplanned structured interview guide.

The researcher held interviews with three top management officers who included; the Director of Operations and Customer Service, The director of Corporate Strategy and Company Secretary, The Director of IT and Projects. The kind of information that was sort required much insight into realities of growth management practices and could only be comprehensively provided at these levels. The three directors were able to provide a

bird's eye view of the entire organization. Objectivity of their responses was checked by correlating responses to similar questions.

The mode of communication used in this study was personal interview guided by an open ended interview guide. This allowed for flexibility of data collection. The researcher administered questions, explained and clarified difficult questions using unstructured technique. This technique allowed for deep probing and collection of vast amount of information.

3.4 Data Analysis

The nature of data collected was qualitative. The questionnaire was edited and checked for consistency. Data collected was analyzed using narrative analysis and presented through prose. This analysis is appropriate whenever one has qualitative data and needs to establish patterns in the different responses. The analysis assisted in determining the growth management practices and experiences of the bank.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the study. It is structured in three parts. The first is an analysis of the respondents. Secondly, the findings on the Rapid Corporate Growth management practices of Equity Bank Limited followed by a discussion on the lessons learnt from managing the Bank during periods of rapid growth.

4.2 Respondents Profile.

Primary data was collected using in-depth interviews aided by an interview guide. Data was analyzed using narrative analysis. Three respondents drawn from senior management were interviewed. This cadre of employees is part of the senior management committee charged with formulating strategic policy and guiding the Bank. Their selection as respondent was motivated by the fact that they have very deep insights, experience and understanding of the banks growth management practices. At the senior management level, the respondents included the Director of Corporate Strategy who is also the Company Secretary, the Director of Operations and Customer Service and the Director of IT and Projects. They included one lady and two gentlemen.

The Director of Operations and Customer Service is a Certified Public Accountant and a graduate of Advanced Management Programme (Strathmore–IESE Business School, Barcelona, Spain) He has more than 15 years of working experience in the banking sector. He has worked for 12 years at Equity Bank in various capacities. The Director of Corporate Strategy and Company Secretary holds an LLB degree, a diploma in Law, and

is a Certified Public Secretary. She is a graduate of Advanced Management Programme (Strathmore IESE Business School, Barcelona, Spain) She is an advocate of the high Court of Kenya and holds a Post Graduate Diploma in Gender and Development. She has over 13 years of Legal private practice experience. She has been with Equity Bank since the year 2002. The Director of IT and Projects is a Certified Systems Engineer, a Novel Certified Network Engineer and a graduate of Advanced management Program (Strathmore IESE Business School, Barcelona, Spain) He has over 20 years experience in the information technology and Banking industry and was previously General Manager of Operations. He joined Equity Bank in 2004.

From a loss making mortgage provider, Equity Bank has grown by leaps and bounds in a very short period of time. It currently controls 52% of all bank accounts in Kenya. Below is a table showing the various variables and their growth momentum.

Table 4.1: Growth Statistics

| | 2004 | 2009 |
|-------------------------------|-------------------|--------------------|
| Growth in customer numbers | 413000 | 4,371,000 |
| Growth in Staff numbers | 530 | 5093 |
| Growth in Customer Deposits | Ksh5,081,000,000 | Ksh69,843,000,000 |
| Growth in loan portfolio | Ksh 3,099,000,000 | Ksh65,732,000,000 |
| Growth in total assets | Ksh 6,707,000,000 | ksh100,812,000,000 |
| Growth in profit before tax | ksh218,000,000 | ksh5,278,000,000 |
| Growth in shareholders' funds | ksh1,271,000,000 | Ksh22,908,000,000 |

Source Equity Bank (2009)

4.3 Rapid Corporate Growth Management Practices.

The study established that Equity Bank Limited pursues a very unique, low cost, high volume business model. This model is characterized by low per unit pricing so as to attract a huge volume of transactions. The higher the number of transactions, the higher the revenue. This model allows the Bank to effectively and profitably offer affordable and inclusive financial services to the low income masses that for a long time had been ignored by the mainstream banks. This model forms the strategic backbone from which corporate strategy is anchored. With this in mind it becomes very clear that the rapid expansion of the bank is not accidental but part of a very deliberate and painstaking strategy execution.

To support its expansion and realize its strategic corporate objectives, the bank has identified six critical success factors (CSFs). The banks business plans sets measurable targets on each of these critical success factors. They are monitored continuously to ensure that any variance between the targets and outcomes are addressed promptly. The board reviews the implementation of the strategic plan on an on going basis. These CSFs are, being market led and customer focused innovation, corporate governance, capacity building and leadership development, strategic partnership and Information technology.

4.3.1 Market Led, Customer Focused

Listening to the needs of the customer and developing products and services that meet these needs is a top priority for the bank. This has enabled the bank to always

successfully improve existing products, create new ones further fueling its expansion. All branch employees including contracted support staff like security men are rigorously trained on the banks products and on customer service. Language barriers especially in remote rural locations are managed by ensuring that there are available bank staff who can speak the local language. Further, access to the bank manager is a right to every customer and not a privilege. The common practice in other banks has been for the bank manager to be accessed by big account holders, but this is quickly changing. This open door policy extends to the banks corporate headquarters where both customers and employees can access the senior management without too much formality and restriction. Feedback from these interactions has enabled the bank to be a market leader in innovations and customer service. By accommodating customers who for a long time had been ignored by mainstream banks due to their limited financial abilities, Equity Bank has created such a loyal following among the masses, that 50% of all new account holders have been convinced to join by other account holders. This partnership has been taken further with the bank elevating its account holder's not as just customers but as members. The high impact, "Mimi ni member" campaign has elevated the Equity brand into the public's collective consciousness and popular culture. The campaign also helped project the brand as all inclusive and created a sense of belonging and pride for all members.

4.3.2 Innovation

Equity Bank is aware that the environment is changing and becoming more complex. The customer with their ever changing tastes is spoiled for choice and is becoming more demanding. Competition is rapidly copying the Equity Bank transaction based system.

For instance, mainstream multinational banks are going back to the rural areas and to informal setups like Gikomba Market in Nairobi targeting the low income mass market. This clearly vindicates the Equity Bank strategy. To stay ahead, Equity Bank continues to be very innovative creating value and convenience to its customers. For instance it has pioneered in Point of Sale delivery systems whereby customers can withdraw money directly from their bank accounts from the tills of Supermarkets and other retail outlets countrywide. It offers internet and mobile phone based delivery systems. Currently, the bank has the largest number of Automated Teller machines (ATM) in East and Central Africa. It was the first bank in Kenya to offer intelligent ATMs that receive, sort and credit the customers account instantly.

Equity Bank was the first bank in Kenya to offer Mpesa money transfer services in ATMs. In collaboration with Safaricom Limited, it has recently unveiled M-KESHO, a mobile phone based bank account platform, Equity is the first bank in the world to offer such a phone centric account. The bank has pioneered in offering agency services through its wide network. These services include payment of utility bills, insurance services, school fees collection accounts and mortgages.

Innovation is one of the banks greatest strength and it continues to have a profound effect on its outreach program through enhanced accessibility, while offering convenience and affordability.

4.3.3 Corporate Governance

The study established that Equity Bank has built its business on very strong corporate governance principles based on application of high and consistent ethical standards in its relationship with all stakeholders. There is a strong commitment to conduct business in accordance with best business practices based on the principles of accountability and responsibility, compliance with relevant laws and regulations, risk management, appropriate checks and balances and delivery on commitments to all stakeholders.

In line with good corporate governance practices, the board of Directors plays a very important oversight role. It continues to supervise the delivery of very strong business and financial growth. The board provides critical leadership resulting in the bank taking banking services to the furthest reaches of the Kenyan society, the Eastern African region and in the generation of great shareholder wealth.

The Board has attracted directors who have show 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 also conducts a self evaluation exercise in keeping with the highest international standards. The evaluation focuses on the role and responsibility of the board, structure, composition, functions and process, information, meetings among other critical areas.

The board has established seven board committees which are all governed by charters and are each aligned to the banks critical success factors. Among these committees is the Strategy and Investments committee which supervises the development of corporate

strategy and monitors implementation of the same. It manages the process of resource allocation in line with the banks mission and vision. It also reviews and considers the proposed strategic investments and makes recommendations to the board and advises the management accordingly.

4.3.4 Capacity Building and Leadership Development

Continual development of its human capital base is a critical strategic priority for the bank. The bank is always scouting and employing highly qualified and talented staff from the banking and other sectors. New staff members are thoroughly inducted into the banks unique corporate philosophies and culture. The objective of this unique induction process is to inculcate the banks culture which is performance and value based. The bank continues to be a learning organization characterized by significant investment in staff learning and development through provision of technical skills, management and leadership training. Talent development programs and initiatives are also provided.

Talented high performing staffs are promoted to challenging roles that result in experiential learning of various competencies and leadership capabilities in preparation for potential succession in various positions. It's a requirement that every year, a minimum of 70% of staff have to attend internal and external training programs and conferences that normally average two weeks in duration. In addition there is continuous mentoring and coaching of staff of all levels with the aim of ensuring that they all live the mission, vision and values of the bank.

4.3.5 Strategic Partnerships

The study established that Equity Bank has been partnering with strategic stakeholders in so as to support the growth process. It has partnered with universities such as Harvard and Stanford whereby researchers from these institutions do cases studies on the bank. The knowledge obtained is shared. Equity Bank benefits from cheap high quality feed back. The bank has also partnered with World class investment groups such as Africap and Helious EB. These groups provide much needed financing for expansion. Other benefits include, the ability to source world class management and technical skills to support senior management, access to strategic, financial and investment advice, knowledge sharing on strategic planning, business growth and mergers and acquisition. Also included is experience of major banking expansion across Africa and raising the profile of the bank internationally.

4.3.6 Information Technology.

Equity Bank has invested heavily in a robust Information Technology platform. This system is able to effectively support the magnitude and volumes of the banks transactions. It consists of an Infosys core banking system called Finnacle, an Oracle database and a HP hardware platform. The system is multi tiered hence having enough room to seamlessly scale up as the bank grows. The system has the capacity to process 100,000 transactions per minute with capacity to scale up. The bank continual upgrades this infrastructure to ensure consistent systems availability, enhanced resilience and failover capability. The bank is steadily moving toward a branchless setup whereby customers can transact their accounts from anywhere in the world.

4.4 Growth related Lessons and Experiences

The study established that Equity Banks expansion has been rapid and successful to date. It has however not been without its fair share of challenges. The bank has been very keen to diagnose and remedy its weakness. For instance, due to huge customer growth, bank employees had to work very long hours so as to meet demand. Frequent transfer of skilled and experienced staff to new branches outside their comfort zones had a negative effect on staff morale and performance.

To remedy this problem, the bank put in place measures such as development of alternative delivery channels such as intelligent ATMs, more efficient processing systems and an aggressive staff recruitment drive.

The bank also underwent a cultural change that firmly committed the management and staff to the vision and mission of the bank. Empowering the lives of ordinary Kenyans was seen as a calling and not a duty. The bank also established the Employee Share Ownership fund that made employees be shareholders of the bank.

Equity Bank has the highest, average, number of customers per branch in Kenya. It was common to see long cramped lines of customers snaking through the building. To contain this, alternative delivery channels were instituted such as ATMs, internet and mobile phones. To discourage customers from performing simple transactions over the counter, a fee is charged.

The biggest challenge for the Bank is on how to continue growing yet maintain a direct rapport with the customer. The customer numbers keep growing making direct interactions with the Bank more strained. Excellent customer service is one of the pillars of its growth momentum and maintaining this is a real management challenge especially now that the Bank is increasingly getting automated. The management has introduced a 24 hour free customer call center, where customers can call at any time with their questions and concerns. The Bank is also working on other methods to achieve this objective.

Equity banks star performance has attracted the attention on other market players. These banks have signaled their intention to begin targeting the low income market. They have already begun poaching some of Equity's carefully trained staff. The Bank has to figure out how to hold on to its market.

CHAPTER FIVE: SUMMARY AND CONCLUSION

5.1 Introduction

The objectives of the study were to find out the rapid growth management practices and experiences of Equity Bank limited. Three senior management staff were interviewed using an interview guide. This chapter gives a summery of the main findings of the study with respect to objectives and conclusions drawn thereof. This chapter also gives recommendations, limitations of the study and suggestions for further studies.

5.2 Summary

Growing a business too quickly is always a dangerous proposition and a double edged sword. How well growth is managed will strengthen, transform or weaken an organization this is because growth is such a supreme challenge to management and makes an organization very fragile and its capacity stretched unless the organization manages these changes as the organization grows.

Equity Bank Limited has grown from a tiny loss making mortgage house to a leading commercial bank that currently controls 52% of all bank accounts in Kenya. From this study it is clear that this rapid growth is not accidental but the product of very deliberate strategy execution by management supported by a very able and talented Board of Directors. The Bank pursues a very unique low cost high volume business model. To support this model the bank has aggressively expanded its outreach so as to increase transactions and revenues. To facilitate a controlled level of growth, the bank has identified six critical success factors whose management is a priority to the bank. The Bank has managed to grow in its niche market with limited completion since mainstream

banks had ignored this market. This is however changing. Equity Bank has been very keen to match its capacity with its growth. Resources are channeled proactively. The biggest challenge is how to maintain its direct touch with customers and grow at the same time.

5.3 Conclusion and Recommendations

In any business, growth is generally regarded as measure of success. As discussed above managing fast growth is one of the most difficult management challenges that exist. Since the problems cannot be avoided, the question to ask is how can a firm overcome the problems associated with growth. The short answer to that question is to say concentrate on the people issues. The employees are the engines that make the firm successful. Their commitment and motivation, which allowed the firm to enter a growth phase, has to be nurtured through many changes that are needed to manage growth. To succeed during expansion, an organization should concentrate on the following issues.

Production capacity. Not to forgo capacity increases in an attempt to squeeze more profits. An insufficient capacity to support the growth may work in short—run, but the production shortfall will cause problems in the future.

Realistically evaluate staffing capacity to meet new demands and be open to using outside human resources. A fast-growth business means lots of hiring in management. It is much more effectively to hire several people at once and systematically evaluate hiring needs.

Evaluate financial resources and establish credit lines that grow. There are two methods to improve financial base: to grow gradually and allow profits to fund additional growth or seek outside funds (i.e., debt or equity funding). Both approaches consume time and

energy and firm will experience some rejections. Persistent and determination will carry the organization through this process.

Understand the nature of business. This is one of the first and perhaps most important steps to lead a controlled managing growth. The first reason is that it gives better idea of the actual market where the business is in. The second reason is that it enables organization to receive desirable returns as the business grows.

Setting realistic goals based on strength and weakness of company. It is very important to know the capacity of the organization's resources. Management should put limits on growth and not accept new business if it knows that the company cannot handle the strain.

Talk about growth and build good employee relations. Make anyone aware of the situation. Let employees to know before hand what is coming up. Clarify as much as you can every difficulty that company might endure in process of growth.

5.4 Suggestions for Further Studies

Rapid growth is an area that offers great opportunity to researchers. Similar studies can be done to other organizations; studies can be done on the sustainability of Equity Banks growth strategies over time as the bank matures. Studies can be done on organizations that failed as a result of poor growth strategies. Studies on firms in other sectors can also be done.

5.5 Limitation of the Study.

The researcher encountered several challenges during the study. These include unavailability of local comparative studies on this subject. More research should be done in this critical area. The respondents are very busy people and getting appointments and adequate time to interview them was challenging. This study focuses on Equity Bank hence application to other organizations is limited. Time and financial resources were challenge during the study.

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Appendix I: Introduction Letter

Maina Brian Kiriro
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School of Business

P.O. Box 30197

NAIROBI

1st October 2010

Dear Respondents,

RE: COLLECTION OF DATA FROM YOUR ORGANISATION.

I am an MBA student at the University of Nairobi, School of Business. As part of the fulfillment of the requirement of the MBA degree, I am undertaking a management research project is entitled;

“Managing Rapid Corporate Growth: A case study of Equity Bank Limited”

You have been selected to form part of this study. I hereby request for your full cooperation and blessings as I undertake this study.

This information is purely for academic purposes and will be treated with strict confidence. Your name will not be mentioned in the report. Findings of this study shall upon request be availed to you.

Your cooperation is highly appreciated.

Thank you in advance

Yours faithfully

Maina Brian Kiriro
MBA Student

Dr. James Gathungu
Project Supervisor

Appendix II: Authorization Letter

Appendix III: Interview Guide

Part A: General information

1. What is your name? _____

2. What business function do you head?

3. What are your qualifications?

4. How long have you headed this function?

5. Have you worked in other position in the bank?

6. If the answer in yes in the above question, what position and for how long?

Part B: Growth Management Issues

1. Describe the low cost, high volume business model

2. How does this Model influence the banks choice of competitive strategy?

3. What are the critical success factors of the bank and how do they influence the growth management practices of the bank?

4. What is the role of the Board of Directors in the process of Growth management?

5. Is there a dedicated Board Committee that supervises the Banks Expansion?

6. What circumstances does the Bank consider when strategizing on opening new branches?

Part C: Organizational and administrative issues.

1. EBL has been growing at a very fast rate, what are the main organizational and administrative challenges brought about by this growth?

2. How are these challenges handled? Kindly give examples.

3. Does the bank have early warning systems that diagnose problems early enough?

4. How does the bank manage to be very versatile yet stay focused to its core strategy?

5. Successful management of growth requires sufficient financial, human, and information resources. What measures are in place to ensure that the bank has sufficient;

- Financial resources?
- Human resources?
- Timely Information?

6. Kindly give an example of a situation whereby you played a key role in diagnosing problems. Explain in detail the action you recommended and the outcome.

7. Your customer numbers keep growing. This can easily outstrip your capacity leading to customer dissatisfaction. How does the bank ensure that it has enough capacity to handle its growing business volumes?

8. What are key issues that you have learnt along the way as far as growth management is concerned?

9. What is the role of ICT as far as your overall growth strategy is concerned?
