

**ORGANIZATIONAL POLICIES AND PERFORMANCE OF EQUITY BANK IN KENYA**

**BY**

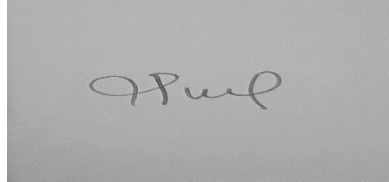
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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE  
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## DECLARATION

This project is my own work and has not been presented for examination in any other university or for any other award.




Signature

Date: 03/08/2021

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D61/85245/2016

This research project has been submitted for examination with my approval as the University Supervisor.



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## **DEDICATION**

I dedicate this research project to my beloved family.

## **ACKNOWLEDGEMENT**

I am greatly thankful to Almighty God who has given me sufficient grace in doing this project work. I am grateful to my supervisor; Prof. Martin Ogutu whose guidance has been amazing and through him this work has become possible. I owe a lot of appreciation to my dear wife Daizy Laboso and children Ryan, Raina and Renia through whose love and unwavering support I have been able to pursue this work. I cannot forget my loving parents too; my late father Mr. Joseph Chirchir (may he rest in eternal peace) and my mother Mrs. Mary Chirchir for their sacrifices, unconditional love, encouragement and marvelous contributions towards the success in my education journey. Lastly, I am glad to all my friends for their supplications and support.

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## **ABSTRACT**

Banking sector remains paramount in the economy and development of any nation. The rapid competition in the banking sector has been an eye opener for product differentiation. The growth and impressive performance of the banking sector increases their competitive advantage. Performance measures of an organization are crucial pointers of the success of the Equity Bank. It brings in the aspect of competition in the market, where other firms perform highly than others depending on the policies they put in place and their competitive advantage over others. Banks that have invested in Kenya offer broad products and services such as giving credit facilities, investments, mortgages, retail banking, microfinance, debit, and credit cards. Commercial banks and institutions offering mortgage facilities are accredited and controlled as provided for in the Banking Act. This research response to the questions such as; what are the organizational policies adopted by Equity Bank in Kenya? Moreover, how do these policies influence the performance of Equity Bank? The personal interview was carried out in the organization's headquarters on a one-by-one basis on seven top-level management staffs.

The data collection optimized primary and secondary interviews. The research design maximized usage of systematic qualitative description in form of content analysis which helped classification and summarization of data going by the objectives of the study. The research findings concluded that organizational policies are key to the performance of the organization. Organizational policies were continuously improved to suit customers tastes and preferences. The intention was to provide holistic effectiveness, efficiency, productivity, economies of scale while enhance organizational performance. In nutshell, it promoted continuous improvement of Equity Banks products while ensuring it remain afloat. Equity Bank considers growth, liquidity, and profitability subsequent trends in analyzing performance. The research recommended reinforcement of business model, enhance innovation, effectiveness, and efficiency while remaining demand driven, inclusive, low margin, high volume model and propelled by a scalable and sustainable social and economic twin engine.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Organizational policies remain to be an important part of a company strategy, also outlines what practices a business views as suitable in the environment of its day-to-day operations. Policies a firm has adopted, certainly have an effect on how organizations perform as a whole through major decisions the organization takes. Policies, therefore, determines organization's performance which can be a good or bad performance, but all depends on the strategic management decisions and actions they take. As much as the management always has the interest of attaining the intended objectives, organizational performance also depends on how these policies affects the daily operations of employees which also greatly contributes to the general firm's performance. This clearly demonstrate the connection between organizational performance and the organizational policies put in place.

There are theories that have been established and designed that anchor this study. The resource-based theory for instance, requires that in strategic management subject, the important factors driving the entity's competitive edge and the way it performs are majorly linked using the elements of its resources and the capabilities which in many cases not easy to copy or even expensive to imitate (Barney, 1986, 2001a; Mills, Platts & Bourne, 2003; Conner, 1991; Mills, 2003; Peteraf and Bergen, 2003). The resource-based thinking of the business forecasts that some kinds of assets possessed and in custody by entities (firms) have the capability to make competitive edge and ultimately higher performance of the organization (Ainuddin et al., 2007). For instance, very skillful workforce, an exceptional geographical setting, Brand image acknowledgement etc. It is, therefore, notable that policies of organizations should majorly consider resources available internally, as opposed to their dependence on the external environment. The profit-maximizing theory is another critical aspect is of the idea that business organizations' main goal is to maximize profits that run in a relatively long period and have an attribute of outperforming their competitors in the market. Human resource-based theory looks in the quintessence of the people constituent in the evolution and development of strategy by the organizations. Any master plan and development of a policy by a company, should always keep its employees in mind, as these are the people affected in one way or another by these kind of policies in their day-to-day operations, which eventually affects the general performance of an organization.



There is a lot happening in the sector of banking in Kenya as far as the environment is concerned and the dynamics in technology and needs of the people (customers). This has brought about the competition among commercial banks which is critical in enhancing their performances depending on the policies put in place by various banks. These dynamics and the nature of the competitive environment has made it necessary to research on policies relating to performance of Kenyan Banks.

### **1.1.1 Strategic and Operational Policies**

Policies are a sort of strategy, which comprise set of specific directions and procedures, which guides how organizations work in their daily operations. Policies are created by a topmost management and must be adhered to, by the people who are affected by such. It is always documented and approved by the executive or board of organizations. They use directions and guideline procedures to outline instructions and give way on the courses of action to deal with prevailing problems.

Strategic and operational policies are very important in that they are empowering tools as it conveys its guiding approach and philosophy to employees. They describe, feature, and stipulate what the management expect from employees and how management anticipates meeting customer requirements, workforces', and shareholders', which may eventually determine the performance of the organization. Policies can be developed within the organization or can be based on internationally put standards.

There are different kinds of policies in the banking sector. These policies are always designed to meet the requirements of different users- from developers to those managing or appraising the work of others and the customers. They can be categorized into various sections, for instance, policies can be; Administrative, Compliance, Lending, Operational etc. These policies include but not limited to electronic-banking, Identity Theft, Social media, Private Banking, PrePaid Card Activities, Investments, Loans Review and Credit Scoring among others.

### **1.1.2 Organizational Performance**

Organizational performance involves checking into how companies perform against its objectives and goals. It may also refer to those attitudes that have been assessed or measured as to their involvement to organizational goals (Cook and Hunsaker, 2001). In other words, organizational

performance encompasses actual outcomes and productions compared with intended results. According to Richard et al. (2009), performance of organizations involves certain areas of the firm outcomes like monetary performance such as profits, product performance in terms of sales and stakeholder returns. For these specific areas of outcomes to be realized in most cases depends on how the employees work together and how they are motivated. The coordination among employees should be well organized so that they focus and know exactly what they need to do each year to outperform the competitors in the market.

Organizational performance is important because it shows that the organization has achieved or not achieved its intended goals and objectives. It brings in the aspect of competition in the market, where other firms perform highly than others depending on the strategies they put in place and their competitive advantage over others. In one way or another organizational performance is a concern because, it does not matter the size of the company or how complex the company is. Employees in any organization should be fully committed to business, for the success of the company performance. Highly performing organizations attract more business doing with their clients and shareholders as compared to those companies that perform poorly; hence the factor of organizational performance is key to any company.

Performance measures of an organization are crucial pointers of the success of the company. Factors such as strategic objectives, organizational policies, organizational structure, reward arrangements etc. drives the performance of an organization. Measures of organizational performance can then be categorized into revenues, efficiency in terms productivity, market share, excellent customer service, achievement of goals and objectives, customer importance such as value, innovation, and adaptation to change etc. The tactical ideas provide performance targets for the organization; it sets the direction in which corporates take. The vision, missions and core values are the key superintendence and the master plans.

### **1.1.3 Commercial Banks in Kenya**

Kenyan banks and banking economy are controlled and supervised by the Central Bank of Kenya (CBK). There are 52 banking institutions in Kenya; commercial banks are 43, mortgage finance company is 1 (Housing Finance) and the deposit-taking microfinance institutions are 8 (such as Faulu, SMEP, etc). Both international banks (such as Standard Chartered, Absa, etc.) and local banks (such as KCB, Equity Bank, etc) dominate this banking sector. Apart from the normal

way of banking, the sector in Kenya has embraced Electronic-banking services which is a competitive edge within the industry and has become the ideal mode of banking to most customers.

Banks that have invested in Kenya offer broad products and services such as giving credit facilities, investments, mortgages, retail banking, microfinance, debit, and credit cards. Commercial banks and institutions offering mortgage facilities are accredited and controlled as provided for in the Banking Act. Corporate commercial banks that offer services to people as well as mortgage finance companies being the key players in the banking sector are supposed to adhere to regulation desires controlling their way of doing their operations and behavior in the market so that they can protect their overall reliability and steadiness of their financial system (<https://www.centralbank.go.ke>).

As much as banks make big profits as can be seen from their financial reports, there are a myriad of challenges that they face as well. There is a high cost of borrowing in the Kenyan commercial institutions; the rates of interest are still very high. Kenyans therefore are reluctant to approach banks for their financial needs such as loan borrowing unless these interest rates reduce. This is indeed a challenge to the banks as credit facilities are a key source of profits to the banks. There are also cases of theft in the banks. Banks also lose money through fraud, collusion of customers and their own employees, from people entrusted with security systems, and other persons either through conspiracy or through technology by hacking of financial software and hardware systems. Rivalry from mobile money transfer services is also another big challenge banks face. Mobile money technology such as M-pesa and Airtel money have brought about tough competition to the banks. Since this innovation came into play in the market, many consumers have found it easier to transact their monies using mobile phones as opposed to going physically to the banking halls.

#### **1.1.4 Equity Bank, Kenya**

Equity bank is a Kenyan bank registered as a limited company. It is licensed as stipulated by the Central Bank of Kenya (CBK) as a commercial institution and it deals with a variety of financial services/products such as giving credit facilities, investments, mortgages, debit cards and credit cards. Equity bank is headquartered in Nairobi, Kenya. Historically, Equity Bank, Kenya started its business in 1984 and it was at this time offering mortgage financing for most Kenyan customers especially those of low income earning. It has then over the years changed from a microfinance into a commercial bank.

Equity bank through its business model based on ease of access, its comfortability and flexibility of doing business has become apparent of changing the livelihoods of its customers. In this regard, it has been able to attract more customers in a very dynamic banking industry. According to Equity bank's website, the bank has been able to establish its customer base and currently it has at least nine million customers hence making it the largest bank. The bank's main focus has been centered in areas such as; development and nurturing of leadership, education, easy accessibility to finance, agricultural and health aspect, the environment, innovation and entrepreneurship.

Despite the bank's successes over the years since its inception, it has also encountered difficulties which has affected its operations in one way or another. Equity bank has its unique challenges mainly due to tough competition in the industry. Several banks, both local and international have continued to invest very strongly in the Kenyan market offering different products and services. This has affected how various banks perform mainly due to the nature of products they provide and their style of leadership. These challenges that the Equity bank faces, has then initiated the study on the strategic management policies adopted by the bank and how these policies affect the performance of Equity bank.

## **1.2 Research Problem**

Organizations, which set up their policies, which is a deliberate system of ideologies, affects the operations and the way they work to achieve their outcomes. Policies contributes a lot in making decisions that can be either subjective or objective. The policies that aid in subjective decision making usually are personal and normally assist senior management to achieve their own individual interests. These decisions are always not easy to test objectively. On the other hand, policies that help in making decisions objectively are usually operational in nature and it cuts across in benefiting a whole organization. Policies are formulated by a top-level management and go hand in hand with the direction in which organization takes in terms of mission and vision. The context of the strategic management mostly includes the preparation, execution, assessment, and control of strategies to achieve the mission and vision of the firm. Organizational performance is about an organization achieving or not achieving its strategic objectives and this depends on the organizational policies which have been put in place by the management. Through strategic

management policies, the firm can see overall organization performance in areas such as human resources, production, finance, and marketing.

Commercial banks in Kenya have established organizational policies and numerous tactics to be able to compete in a well diverse banking industry. However, they have continued to encounter very stiff competition among themselves, which vary their performances in one way or another depending on the policies applied. They have not been able to establish competitive advantage by positioning themselves in a unique manner in the market. This raises the question; how strategic policies relates to performance of the commercial banks, Equity bank being a case study.

Quite a number of research studies in the banking industry have been carried out in Kenya but the focus mainly is on different aspects other than organizational policies and performance. For instance, Wambui (2014) undertook a research study on Strategic Change Management Practices and Performance of Kenya Commercial Bank Limited, Muriuki (2010) did a research study on Strategic Planning Practices and Performance of Commercial Banks in Kenya, Munyiri (2010) investigated the Lending Policies and their effects on performance of Commercial Banks in Kenya. Despite these studies carried out, organizational policies and how these policies have affected performances of commercial banks in Kenya has not been covered, Equity bank being the focus of this study. This research response to the questions such as; what are the organizational policies adopted by Equity Bank in Kenya? Moreover, how do these policies influence the performance of Equity Bank?

### **1.3 Research Objectives**

The objective of this study is to ascertain the effect of organizational policies on Equity Bank's Performance.

### **1.4 Value of the study**

This research study will be significant to the different users of this research information who will include commercial banking institutions, government-regulating institutions such as Central Bank of Kenya, investors, employees, and the academic world. Strategic Management policies are a vital piece of any organization since they speak to appropriate issues, such as what is in the standard behavior by employees, day-to-day operations by employees etc.

The investors for instance; by studying the relationship between organizational policies and performance can be able to tell the future of an organization and are able to make decisions if they will put their money for investments or not. It is also significant for the users to understand the underlying forces of competition in the banking industry in Kenya such as strategies used by competitors to gain competitive advantage over others.

This study will help employees to understand what is meant by organizational policies and clearly understand their individual and team responsibilities, which in turn saves time and resources, therefore, eventually determine the performance of their organizations.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter is an in-depth analysis on the theoretic studies and the arguments that have been done before in strategic management. The chapter also discusses what literature says about the connection between organizational policies and organizational performance as well as the knowledge gaps and how they can be addressed.

### **2.2 Theoretical Foundation**

Theories are analytical tools that help in elaborating something, understanding it, and eventually making expectations and predictions about a given subject. The study of strategic management as a field has led to a number of theories being established over the years. According to Mohd Khairuddin Hashim (2005) and David (2005), among the theories of strategic management, which have been perceived and are used in organizations. Government and private institutions utilize these theories; resource-based, the profit-maximizing, human resource-based theories, among others. This research study therefore is guided by these theories, which are discussed within the scope of this chapter.

#### **2.2.1 Resource -Based View**

Resource-based theory has advanced over the years and has given a way of understanding how tactical resources and experiences give an opportunity to firms to enjoy brilliant performance. This theory makes us understand that the right to poses strategic assets offers a unique opportunity to organizations to stablish competitive edge over its competitors. Such a unique opportunity over the others can really aid a firm to attain huge returns, which gives them a green light as far performance is concerned. Resource-based theory talks of assets that are of high value, exceptional, not easy to imitate, and non-replaceable (Barney; J.B 1991). Some hard-to-copy resources are always secured by several lawful means, including trademarks, patents, and copyrights.

A resource is non-replaceable when players in the market cannot find other ways to substitute and get the benefits that such a resource can provide. An organization whose employees treat customers with high regarded excellence and respect gains trust and loyalty from its clients and will have not

only a competitive advantage over its rivals but also the ability to sustain it. This sustainability helps the firm to stay prosperous far into the future.

The materiality or tangibility of assets of the firm is a vital consideration within resource-based theory. Tangible resources are those that can be seen with the eyes, touched with the hand, and can be measured or counted. Resources that are physical for instance, firm's property, plant, and equipment, as well as cash money, are thought to be tangible assets. Alternatively, intangible assets are rather hard to be seen, touched, or quantified. Intangible assets may include like knowledge and skills of workforces, a company's reputation, and beliefs. By comparing these two forms of resources, intangible resources have the ability to meet the standards for strategic resources (i.e., valuable, exceptional, difficult to imitate, and non-replaceable) than are tangible resources. Organizations that wish to attain competitive advantage that is long-term should therefore consider putting more energy on investing and developing their intangible resources.

Abilities of companies to perform is another important aspect within resource-based theory. Capabilities and abilities appear to improve periodically as a firm build on its strategic resources. Capabilities are indeed noteworthy since they demonstrate how firms get the probable value that resources offer. Businesses or even individual customers do not just invest their money on companies because it owns strategic resources, instead they check on the capabilities and skills that companies have, and they can entrust them with their money because this is what is of essence. By so doing, companies on the hand demonstrate value addition to customers hence gaining strong competitive edge in the market.

### **2.2.2 The Profit-maximizing and Competition - Based Theory**

The Profit maximizing is an infinitude theory and can be traced back many years in the time of Adam Smith's in his scripting of *The Wealth of Nations* (Lynch, 2000). As Adam Smith could put it, individuals running a business has their own interests of maximizing the profits and by so doing, enhance the benefit of the society. This theory then gained substantial consideration from Alfred Mashall in the book *Principles of Economics* that was put out in 1890 (Hornby, 1995). There are so many other ideas that has contributed to this theory by the literatures from Robinson (1933) & Chamberlain (1933) thereafter Coase (1937). At this phase though, this hypothesis is assuming the financial perspective where the firms principally maximize its profitability by saying its marginal revenues (MR) is equal to its marginal cost (MC). In the nineteen fifties and sixties, the theory got



key recognition from the strategic management area by the following authors, Igor Ansoff, Alfred Chandler, and Alfred Sloan (Lynch, 2000). Specifically, Ansoff (1989) pointed out that “...an organization pursues its goals by profit-making and, more so, by changing its wealth into tangible goods or by providing services and then attaining a profit on them by selling them to potential buyers...This way therefore, existence of the organization basically relies on the profits; the organization can collapse if they don’t make profits and use the same profits to generate more profits and be able to sustain themselves for the future”. This theory got more attention in the 1960s as published by Friedman (1962) in his book, which came with the idea of corporate social responsibility. This idea was elaborated more in 1970 that the real proclamation of the theory was specified to the public by Friedman (1970), as he indicated “In a free business enterprise, privately owned-property management system, a person in the management level is treated a worker of the business owners. He directs accountability and obligation to his employers and the obligation is to carry out the business how they wish to do it, which is basically to make money while conforming to the rules and procedures of the society, both those rules specified in law and those indicated in ethical custom.” This declaration by Friedman (1970) also changed the perspective of the theory, in that profit maximization could only be the aim so long as the law and ethical custom gives it an opportunity to do so.

The basic principle of this theory in strategic management field is: According to Lynch (2000), the strategies will be determined by the aim of maximizing the business’s profitability at the end of it all and the goal of developing sustainable market competitive advantage over the rivals. The use of this theory therefore, in the business world is straightforward. The goal of changing the organization to a better place is then to improve and establish its profitability. Profit-maximization, therefore, is very important in boosting organizations not only for current but also for future survival. It is of essence to note that, this theory is associated with total change of business, and should be put into consideration in the future research of this field.

### **2.2.3 The Human Resource -Based Theory**

The theory lays emphasis on the employees’ development and highlight things such as the enthusiasm, politics and beliefs of companies and the wishes of people (Lynch, 2006). The resource-based theory elaborates on investing on people as one of the key elements. Human resource-based theory puts together the resource-based theory with a stakeholder in the side of the

firm. But according to Wright et al. (1994), in applying the thoughts of worthiness, exceptionality, hard-to-copy, and substitutability, there is an argument that the human resource way of doing things could not form the basic idea of workable competitive advantage because any human resource practices could be easily imitated by rivals. Rather, skills of employees and highly motivated staff can help the business to establish and attain sustainable competitive advantage over the competitors. It is, therefore, imperative to establish the birthplace of competitive advantage by establishing the human resource batch that contains skills of high level, enthusiasm of employees.

In addition, (Lado and Wilson, 1994) believed practices of human resource by organizations could be a good basis of sustainable competitive advantage. The human resource systems can be distinctive in how they boost firm competencies, which can be hard to imitate as opposed to individual practices. This view of HR systems appears to be well recognized in the present Strategic Human Resource Management model (Snell, Youndt, & Wright, 1996).

Despite the arguments on the connection between these theories, the notable thing is that there are specific areas within the HR system in which enduring competitive advantage might be accomplished. For instance, the human capital pool where skills of employees exist in a firm and can be extracted at any given point in time. It is paramount to establish a human capital pool that has greater points of skills. This helps to achieve a superior association between the expertise already in the firm and those external that may be necessary for the intention of the firm strategic plans and achievements. The pool of human capital skills can change after a while, and therefore must continually be checked to match with what the firms want to achieve in the end. Other areas include but not limited to; training participation among the employees, rewards recognition and appraisal communication. This boost employees' enthusiasm, hence high productivity and eventually promotes competitive advantage.

### **2.3 Organizational Policies and Organizational Performance**

Organizational policies provide the basis and structure of an organization. When policies are applied, they contribute to the establishment of the company beliefs and culture. Culture can be understood as morals, sets, principles, and behavior, which gives direction to company employees. According to (Schein, 1990) culture is a combination of diverse morals and behaviors that may be considered as a guide to achievement. Cultures are rarely noticed or seen. According to Stewart (2010), if the companies want to increase their profits and employees' productivity, norms come

first to be considered. In this regard, policies can be adopted as part of the culture and norm of an organization. Strong policies can help instill the importance of honesty and ethical behaviors in the people. Policies also serve as a way for senior management to communicate what they expect from employees in terms of behavior and how these employees are expected to add value to the success of the business by way of achieving its goals and objectives. Policies, as the guidelines on how employees should operate also should convey strong message on the consequences for those who violate them. Decent policies reinforce practices that benefit the organization and its customers, hence reflecting in the general performance of the firm.

Alternatively, organizational performance is linked to the survival and success of an organization, which is the firm usefulness in monetary value and company's operational output (performance) (Venkatraman & Ramanujam, 1986; Saraf et al., 2007) depending on the distinctiveness of its assets, survival in terms of profits maximization and a motivated human capital as explained in the theories. Firms when creating policies should base them on the theories and what they need to do to achieve their intended objectives. A balance scorecard is also very critical in measuring the organization's performance (Kaplan & Norton, 1992). Performance is an all-inclusive measure that can include efficiency, excellence, consistency, and so on.

Pointers such as monetary aspect, efficiency in terms of use of technology, customer perspective among others measure the performance of the firm. Financial pointers may include return on equity (Shin, 2006), return on sales (Bharadwaj, 2000 & Tanriverdi, 2006), return on investment (Mahmood and Mann, 1993; Rai et al., 1997), revenue (Francalanci and Galal, 1998; Devaraj and Kohli, 2000; Rai et al., 2006), and sales (Weill, 1992; Mahmood and Mann, 1993; Rai et al., 1997; Palmer and Markus, 2000; Zhuang and Lederer, 2005). Efficiency related pointers (signs) such as use of information technology also have an influence on the productivity (Rai et al., 1997; Hitt and Brynjolfsson, 1996; Palmer and Markus, 2000; Zhuang and Lederer, 2005; Brown et al., 1995; Mukhopadhyay et al., 1997; Grover et al., 1998), decrease of goods' cost (Wang et al., 2006; Bharadwaj, 2000; Mitra and Chaya, 1996; Zhu and Kraemer, 2002). Other key pointers that are used in certain situations, include meeting customer requirements (Ranganathan et al., 2004; Devaraj and Kohli, 2000; Ray et al., 2005), adding value (Saeed et al., 2002; Osei-Bryson and Ko, 2004), and market share (Byrd and Davidson, 2003; Barua et al., 1995; Sircar et al., 2000).

## **2.4 Empirical Studies and Research Gaps**

Commercial banks in Kenya compete very strongly amongst themselves and so the idea of being proactive in terms of strengthening their policies such as investing on their employees (in such areas like trainings to keep their skills base up to date, rewards on best performing employees, compensation etc.), keeping abreast to technology (for efficient service delivery and customer satisfaction) among others. Adopting such policies aid them to be able to compete well in a very dynamic and competitive banking industry. Previous research for instance, advocates that information technology (IT) is powerhouse for the performance of the firm (Bharadwaj, 2000; Santhanam and Hartono, 2003; Sambamurthy et al., 2003; Zhu and Kraemer, 2002). Other research investigations that have been done have similarly put emphasize on the investment of IT having contributed greatly on the positive performance of the firm (Weill, 1992; Barua et al., 1995; Mitra and Chaya, 1996; Menom et al., 2000; Kohli and Devaray, 2003; Bardhan et al., 2006). As these previous research and findings suggest, it can be argued that IT as a resource has a direct effect on organizational performance. IT alone cannot do without the people involved. Organizations, therefore, when developing their policies, can look more into the human resource and technology for them to have an added advantage over their competitors; this on the other hand would be able to increase productivity and eventually high performance. This study seeks to research and analyze on the effects of strategic policies on performance of Equity Bank.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This section describes the methodology and ways that were utilized to collect, gather, and assemble data that elaborate and emphasize information on the strategic policies and performance of commercial banks in Kenya. This chapter as well focuses and outlines the tools of research that were used in the research study. It is therefore classified into research design, collection of data and tools of data analysis.

### **3.2 Research Design**

Research design method helps in the gathering and analysis of data on a research project. It is an outline that is adhered to, to complete a research study and make sure that the study is in line to the problem. (Kinnear & Taylor, 1996; Churchill & Iacobucci 2005).

As stated by Cooper and Schindler (2014), the research design is a form for gathering, measuring, and analyzing of data. On this research, a descriptive study will be applied. This will be helpful in finding answers and solutions to the research questions. The descriptive research method is best in seeking to evaluate and understand in detail an organization through comprehensive interrogation and observation. It will target at obtaining a detailed information regarding organizational policies of Equity bank and how these policies impact on the general performance of the bank.

### **3.3 Data Collection**

The method of collecting data in this research study was carried out through interviews. Collection of primary data was conducted through personal interviews with the help of interview guide, whereas the secondary data was gathered from the organization's publications and website.

The personal interview was carried out in the organization's headquarters on a one-by-one basis and not more than seven top-level management staff were interviewed. The people interviewed included Chief Officer Operations, Chief Officer in charge of Innovations, person in charge of Human Capital and Administration and In-charge of Business and SME Banking and investment. To gain better understanding and get more insight about the organization, the

interview guide comprised of several open-ended questions, which give the interviewees an opportunity to elaborate and clarify on questions not well understood.

### **3.4 Data Analysis**

The analysis was carried out using systematic qualitative description in form of content analysis that helped in classification and summarization of data going by the objectives of the study. The analysis was able to check how the number of years the bank has been carrying out its operations and the trends in terms of performance and review of the policies which is a strategic document because in one way or another may affect the vision and mission of the organization.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS, PRESENTATION AND DISCUSSION**

### **4.1. Introduction**

This chapter provides the findings based on the collected data. The study was keen to establish the organizational policies adopted by equity bank and the performance.

### **4.2 Demographic Information**

The respondents were guided on the requirement through interview guide. It was expected to state their department, past years of experience, academic and professional levels. The findings from the study demonstrated that all the respondents had bachelor's degree. Moreover, majority had completed master's degree while a few had enrolled for PhD. All the respondents possessed banking certification. In nutshell, the respondents were competent, knowledgeable, and proficient in providing reliable and informed information due to their academic, professional, past-experience, certification, and senior management position.

### **4.3 Policies Adopted by Equity Bank**

Participants were asked to indicate some of the policies adopted by the bank. The interviewees mentioned that the bank had adopted various policies that were meant to streamline performance in various departments. e-banking, asset/liability management, private banking, prepaid card activities, CRA and lending laws, loan review and credit scoring, social media policies, foreclosures, capital and dividend planning policies, market management policies corporate-social interaction policies. The paramount policies have been adopted through Automated Decision making, information sharing and For Common Reporting Standards (FATCA).

#### **4.3.1 Policies already adopted by the Equity Bank.**

Policies are inevitable in the banking industry. It provides serene and conducive turbulent industrial performance. The policies adopted are key to the realization of organizational growth and performance. Policies are ingredients for innovation and creativity. Innovation is a blueprint for broadening the products, differentiations, and product continuous improvement to fit the taste and preferences of the consumer. The policies initiated a cornerstone towards competitive advantage and performance. The results cemented the technological advancement in the Equity Bank. The increment in usage of Equitel, Debit cards, Smart Cards, Mobile banking, digitalized network, virtual banking market and new mobile and internet application to keep with customers' needs.

The researcher inquired on policies already adopted by the bank. Participants clarifies that nearly all the policies were operational at equity bank. Such included financial management policies like lending policies, employee management policies, customer data protection/privacy, security policies and procedures, strategic management, and assessment policies amongst many more. The policies adopted demonstrated a purpose-first, inclusivity, affordability, reach, agility, and quality have proven resilient and sustainable performance.

#### **4.3.2 Policies affecting performance of Equity Bank**

The predominant purpose of policies is to enhance efficiency, effectiveness, and productivity in performance of the bank. Participants indicated that lending policy framework enables that equity bank to increase customer base which translated to better bank management and customer relationship. The market policies helped the equity marketing team in Analyzing market opportunities, they also guided in planning and decision making and in determination of target market and in creation of customer base. CSR policies enables equity bank to relate to the outside



environment in a cordial manner, this enabled the bank to easily promote its brand and easily win acceptance.

HR policies promoted employee conduct as well as their welfare which in turn led to greater satisfaction, this led to increased individual staff output and productivity. Security policies such as information authorization access and control were instrumental in promoting organizational credibility, reputation, and promotion of client trust. Fair lending laws ensured that the institution remain financially healthy while at the same time protecting the welfare of creditors, results also show that through social media policies, utilization of this platform became well governed in that employees could understand what to share and what not to share. The policies spearheaded positive customer satisfaction and promoted innovation. The product innovation, market segmentation, outsourcing policies increased the competitive advantage. The agency banking increased significantly with rapid supplementary income transactions, cost efficiency hence promoting performance and productivity. The policies supported a unique social purpose driven business model that is agile to change and adaptive to environment as demonstrated by the performance of 2020 while remaining demand driven, inclusive, low margin, high volume model and propelled by a scalable and sustainable social and economic twin engine. The performance of 2020 included an increment of 53% customer deposit, 30% customer loans, acquisition, mergers, and rebranding. Moreover, the profit before provision grew by 30% with a record of 20.1 billion profit after tax (Equity Bank, 2021)

#### **4.3.3 Areas That Are Most Affected by Strategic Policies**

Participants reported that strategic policies mostly affected the bank's financial performance. In their explanation, participants reported that policies averted risk that could lead to negative performance on the bank's return on assets and return on equity. Policies also enabled equity banks to

constantly adapt to ever changing market dynamics. The second key section affected entailed human capital performance. HR policies were instrumental in ensuring optimum functioning of the resource and that HR policies also served in identifying weakness in the structure for better planning and readjustment. The policies enhanced staff compliment, dedicated towards Group's objective and core values, and promoted track record of expeditious execution. The policies instilled a value addition organisation culture that is people centric, and performance driven. It further promoted a scalable technological advancement and digitalized business reinforcing economies of scale.

#### **4.3.4 Policies that are most Effective on Performance of Equity Bank**

Drawing from their report, participants indicated all the policies almost carried equal weight, policies worked in an integrated manner in promoting quality organizational performance. This implies that a lapse in policy implementation from one department, indirectly or directly affected the whole organizational performance. The policies reinforced diverse, knowledgeable, experienced, exposed, and innovative executive team which has demonstrated differentiated leadership capabilities by developing a unique capability of balancing social and economic value creation and increasing efficiency, effectiveness, productivity, and performance as well as managing inherent risks.

The effective policies emanate from strong entrepreneurial leadership team with great mindset of innovation, problem-solving and fictive original creativity. However, responses also indicated that, some policies such as financial risk management policies worked at the very core heart of the banks' financial health and a little gap under this section would occasion a very big fault in performance.

#### **4.4 Policies that Directly affects Employees**

Policies at defined the conduct and framework towards accomplishing the banks long term and short-term goals. In this determination, the bank employees had a constant interaction with these policies and procedures on daily basis. Equity Bank Employee Policies dedicated towards highest professional practices, innovative, courageous in discharging duties and responsibilities, bold enough to push the limits of innovation and creativity and dare to walk untrodden paths, keeping in mind inherent risks for the purposeful organizational performance.

Regardless of the predetermined objective, policies at equity bank sought to provide a smoothly and efficient framework that would lead teams towards goal completion. Participants also reported that most policies and procedures at the equity bank helped employees work efficiently and save time for better productivity. The bank provided holistic development and growth of employees through training and banks certifications. This long-term value creation to the employees and continuous support to the staff, enhanced competence, knowledge, experience, exposure and innovative.

##### **4.4.1 Impact of Policies on Employee Productivity**

Respondents indicated the organizational policies at equity bank offered direction in the course of job execution. Work policies offered role clarity, target measures as well as quality performance expectation from each assigned task. By understanding what is expected, equity bank employees are in a position execute their task in an efficient manner. Further by providing clarity in task execution, conflict and redundancy is greatly reduced. This ultimately promotes increased individual productivity and quality performance.

#### **4.4.2 Impact of Policy Adoption of Banks Overall Performance**

Participants reported that adoption of the bank policies had significant impact on general performance of equity bank, however not all policies have yielded to positive success. For instance, greater compliance on lending policies ensured that the bank remained financially stable; they limited non-performing loans and granted returns. Sound HR Policies promoted quality conduct within the organization that earned public trust and growth in client base. Marketing policies and strategies were key in ensuring that equity bank captured and maintained its market share.

#### **4.4.3 Impact of Policy Review on Banks Performance Change**

Participants reported that review of policies had influenced organizational performance in two ways. First, change in policies subsequently altered the traditional functioning of the organization and thus occasioning the need for human capital re-adjustment and adaptation to new process, in such instances where preparedness was inadequate, employee resistance to change occasioned negative change on overall organizational performance. Secondly, changes in organizational policy were too associated with positive performance. For instance, where policies were made in view of making the equity bank adapt to current market dynamics, such policies deemed essential in fostering positive organization change. They include ICT policies, lending requirements, and guidelines on employee conduct amongst many more.

#### **4.4.4 Performance Indicators affected by Adoption and Change of Policies**

Reports given by participants show that change of policies has a significant impact on various areas of operation. For instance, change in credit policies have increased credit access while decreasing none performing loans. Changes in ICT policies must increase financial deepening and thus profits from credit issuance, organizational marketing and communication policies have

enhanced client understanding on organizational products which has also promoted customer decision-making.

#### **4.4.5 Key Policies That Have Transformed Performance at Equity Bank**

In the wake of competitive market environment, the ICT policies have played a big role towards enhancing equity banks organizational competitiveness, ICT policies have played a key role in guiding technological adoption, they have also aided in development and innovation of E-banking services as well as in customer utilization of products.

Risk management policies and procedures played a key role in promoting banks financial performance. According to the reports, risk management policies improved liquidity levels and asset quality, results show that risk management policies led to decline in loan default rate and promoted financial performance. Further, the study learned that equity bank had instituted strict loan recovery measures in order to reduce the amounts spent on provisions for bad and doubtful debts.

The HR polices have also been instrumental towards promoting banks financial performance. The study established that with strong HR polices, managers at all levels have been able to make right decisions, relationship between the employees and the banks have also reinforced and that right competences and professionalism among employees have been achieved which gives the bank an upper hand in customer service and organizational performance.

#### **4.5 Relationship between the Bank Policies and the Customer Service Satisfaction**

Reports show that, there is increased customer satisfaction which can be attributed to banks quality management procedures that are anchored on sound policies. The study established that through quality transformative ICT policies, customers were able to enjoy better delivery of quality prompt

services such as mobile banking, better handling of complaints as well as redress of customer queries and concerns.

Participants reported that through customer satisfaction surveys, Equity bank customers were convinced that the bank offered the best interest rates compared to the rest in the industry, majority were willing and would recommend a friend or family member to join equity bank, and that the client base had significantly increased over consecutive years.

#### **4.6 Quality with Bank Policies in Attracting and Retaining Customers**

Participants reported that the current policies at Equity bank had high potential in attracting and retaining customers, however there is need to continue tailoring these policies to suit market dynamic to remain competitive. For instance, Equity bank needed to relook on lending policies especially during this Covid 19 period so to accommodate changes occasioned by the disaster. For policies to remain attractive, there is need for credit policies to be restructured in a way that borrower feels that their welfare is well accommodated.

##### **4.6.1 Relationship between bank policy framework and customer service**

Participants reported that policy framework at Equity bank provided the interface between a bank and the customer, having a strong policy framework enable the equity bank measure customer experience and identify ways to improve in this area. Further participants added that Policy framework at Equity bank is designed to unearth understanding on organizational strengths and weaknesses in all areas including customer services, this is paramount because the banks considered quality client service as the only mechanism to differentiate itself from the rest of the players in this sector.

#### **4.7 Discussion and Summary**

The research findings concluded that organizational policies are key to the performance of the organization. Organizational policies were continuously improved to suit customers tastes and preferences. Policies aimed at cost efficiency, productivity, effectiveness, and sound performance of Equity Bank. The bank exploited numerous ways to ensure immeasurable performance and competitive advantage over the competitors. Technological advancement and product differentiation ensured cost and time saving while promoting convenience.

The study was in harmony with literature review and theories underpinning the study. Resource-based theory reinforced the policies that enhance unique, imitable, and non-substitutable usage of resources to achieve superior performance. Profit maximization and competition-based view supported Equity Bank in maximizing prolong profit while developing policies sustainable and promoting competitive advantage. Human based View fortify the importance of staff in development of policies that enhance Equity Bank performance.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION**

### **5.1 Introduction**

The chapter presents the summary, recommendation, limitation, and areas of further research. It also offers the lifeblood implications of the study on theories, policies and practices that are paramount in this regard.

### **5.2 Summary**

Policies regulating Equity Bank were subjected to continuous improvement to enhance quality performance. The intention was to provide holistic effectiveness, efficiency, productivity, economies of scale while enhance organizational performance. The Equity Banks growth and performance resulted from timely policies that mandated organizational projections and map out the futuristic direction in terms of performance and growth.

The findings indicated that Equity bank has engaged in broadening product, market segmentation and virtual market in their policies guidance to ensure that business remain afloat in adverse economic states. Furthermore, digitalization and mobile banking increased transactions. The customer took advantage of convenience, cost and time saving methods of transactions.

The Automated Decision Making as a checklist of credit affordability blueprinted advancement of loans to trustworthy customers. This reinforced timely repayment while enhancing performance. Organizational policies promoted innovations and creativity while reinforcing competitive advantage. Technological advancement resulted from organizational policies that incubates creativity and continuous improvement. The continuous organizational policies change promoted the adjustment to dynamic market changes and demands.



Organizational policies strengthened rapid supplementary income transaction. It increased customer base and promoted convenience, cost and time saving through innovative organizational policies that suits customers tastes and preferences. The scalable technological advancement prompted for decisive policies that reinforces growth and performance of Equity Bank.

### **5.3 Conclusion**

The study concluded that organizational policies are key towards Equity Bank performance. They are key in realization of bank's performance. The obligation of Equity Bank in addition of value to shareholders' wealth will result to customer satisfaction in its products and services. The objective guiding the study dwelled on organizational policies and performance of Equity Bank.

Organizational policies ensured Equity Bank stayed afloat in a competitive environment. The policies cultivated holistic staff environment that upgrade knowledge, skills, experience, and competence suitable for Equity Bank performance. The organizational policies measure initiated include HR policies, technology-based policies, and customer-centered policies. The policies became yardstick for service delivery.

In a nutshell, organizational policies broaden product range in Equity Bank. It eased the payment and reduced intermediaries. Furthermore, it promoted continuous improvement of Equity Banks products while ensuring it remain afloat. Equity Bank considers growth, liquidity and profitability subsequent trends in analyzing performance.

### **5.4 Recommendation**

The recommendation made in accordance with the findings of the study. Equity Bank should develop policies that are unique, imitable, and non-substitutable. It should reinforce business model, enhance innovation, effectiveness, and efficiency while remaining demand driven,

inclusive, low margin, high volume model and propelled by a scalable and sustainable social and economic twin engine. Equity Bank should come up with business model policies supporting innovation, continuous improvement, and quality performance.

The organizational policies should drive economies of scale while reducing unit costs significantly and bringing extensive efficiencies. It should endeavor to create staff compliment and dedication towards core values while executing track record in the fast-paced business banking industry. It should promote diverse, exposed, experienced and knowledgeable as well as innovative staffs. The capabilities should be showcased and developed to balance socially and economically unique value. This will mitigate against risk and create effective management of inherent risk.

### **5.5 Limitation of the study**

The greatest limitation was delay and hesitance of participants in responding to interviews and questionnaires. They stated that information is very sensitive and had confidential information of the organization. However, the researcher clarified that information was purely academic study. In this regard, the respondents requested that their names should not be indicated anywhere or disseminated. Furthermore, finance and time was a challenge due the long waiting hours and frequent visit. However, the respondents and researcher agreed to meeting in the evening whenever work volumes have declined.

### **5.6 Areas of further research**

The researcher recommends further studies on, Strategic organizational policies and performance of commercial banks. Furthermore, impacts of organizational policies on the innovations of Equity Banks. Moreover, Impacts of organizational policies on the employees'

motivation in Equity Bank and lastly, effects of organizational policies on digitalization of banks.

### **5.7 Implications of the study on theory, policy, and practice**

Equity Bank implementation of policies can be met with implication cost. However, the bank should continuously enhance productivity and staying afloat in a competitive banking sector. The employees should be trained and upgraded on innovative mindset, problem-solving and creativity. This fosters competence, professionalism, and expertise. Further training on innovation, research and development should be provided to all staffs. It will enhance performance of banks while shaping entrepreneurial mindset for innovation and performance.

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## APPENDICES

### APPENDIX I: LETTER OF INTRODUCTION



UNIVERSITY OF NAIROBI  
COLLEGE OF HUMANITIES AND SOCIAL SCIENCES  
SCHOOL OF BUSINESS

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Telephone: 020-8095398  
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Nairobi, Kenya  
13<sup>th</sup> May, 2021

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#### TO WHOM IT MAY CONCERN

The bearer of this letter, **Patrick Kipngeno Rotich** of Registration Number **D61/85245/2016** is a Master of Business Administration (MBA) student of the University of Nairobi.

He is required to submit as part of his coursework assessment a research project report. We would like the student to do his project on **organizational policies and performance of equity bank**. We would, therefore, appreciate if you assist him by allowing him to collect data within your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organization on request.

Thank you.

  
**PHILIP NGIGI**  
FOR: DEAN, SCHOOL OF BUSINESS

Deans Office  
University of Nairobi  
School of Business  
P. O. Box 30197 - 00100  
Nairobi

**APPENDIX II: INTERVIEW GUIDE**  
**ORGANIZATIONAL POLICIES AND PERFORMANCE OF EQUITY BANK**

Level of Education.....

Experience in the bank .....

Current position in the bank.....

1. What various kinds of policies are available in the bank?
2. How many of these policies have you adopted? Which ones?
3. From the policies you have adopted, how does each affects performance of Equity Bank?
4. What aspects and areas of performance are most affected by these strategic policies?
5. Which of these policies are most effective on performance of Equity Bank?
6. Which policies directly affect your employees?
7. How do these policies influence the productivity of employees in the bank?
8. Do you consider adoption of the bank policies a success in terms of general performance of the bank?
9. After every review of the policies, does the aspect of performance change?
10. Which performance indicators are affected the most by adoption and change of policies?
11. Considering the competitive environment of the banking industry, which policies are unique to you? and how do these policies improve the performance of the bank?
12. What is the relationship between the bank policies and the customer service satisfaction?
13. How do you rate these bank policies on attracting and retaining customers which in turn may affect your general performance?
14. In your opinion, does the bank policy framework improve the bank performance in terms of customer service?