AN INVESTIGATION INTO THE CHALLENGES FACED BY NEW BANKS IN ZIMBAWE AND STRATEGIES TO INCREASE PROFITABILITY AND MARKET SHARE - A CASE OF ECOBANK ZIMBABWE

BY

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AUGUST 2013
DECLARATION

I, Hazivibiri Njokoya (R113077N), do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

__________________________  ______________________
Student signature

Supervisor’s Name:__________________________  Date:________________

Supervisor’s Signature

__________________________________________________________________________
DEDICATION

I dedicate this piece of work to the Almighty God who gave me the tenacity and ability to go through the Master of Business Administration program and eventually this research project. To my wife and children for their support and encouragement during the time of my studies.
ACKNOWLEDGEMENTS

My sincere gratitude goes to the Graduate School of Management and the University of Zimbabwe for availing an opportunity for me to study for the Master of Business Administration degree. My supervisor Mr. R. Mudala deserves a special mention for his professional guidance and tolerance when I could not meet set timelines due to work commitments. Without his patience and tender guidance, I would not have managed to complete this study. My wife Rosewita proved that a good wife is more valued than any precious stone. Her support and encouragement cannot be priced.

I would like to acknowledge the support I received from the top management at Ecobank whilst carrying out my study.
ABSTRACT

The Zimbabwean banking sector suffered profitability challenges between 2006 and 2008 due to hyperinflation in the Zimbabwean economy during that time. This period ended in March 2009 when the Government of National Unity operating in Zimbabwe during that period introduced a multi-currency system which led to banks opening new foreign currency accounts for their existing customers. The Zimbabwe dollar (ZWD) accounts were set aside. In 2012, the Reserve Bank of Zimbabwe introduced a new policy on mandatory capitalization levels for financial service providers.

Ecobank is new to the Zimbabwean market, having joined the Zimbabwean banking sector in 2011 after acquiring Premier Merchant Bank Holdings. It is wholly owned by Ecobank Transnational Incorporated (ETI) established in 1985 under the Federation of West African Chambers of Commerce and Industry (ECOWAS) initiatives. Since 2011, Ecobank has struggled to increase market share and profitability against older banks, regardless of numerous marketing and branding efforts.

This study aimed to understand the nature of challenges faced by Ecobank since coming to Zimbabwe with the aim of generalising the information to other banks seeking to enter new markets. A qualitative study was carried out over a period of six months among the Ecobank branches located in Harare. Ecobank was used as a case study for new banks in Zimbabwe. Key informant interviews were carried out with eight senior managers from six out of the eleven Ecobank branches.

Results show that market share and profitability are affected by client attitude, length of operating period, government regulations, media reports, and service quality and to some extent technology and marketing efforts. It was concluded that market perception is a major challenge in Zimbabwe. Strategies to increase market share and profitability include improved corporate governance, corporate social responsibility, increased use of technology and innovation as well as branding.
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<th>Acronym</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>CBZ</td>
<td>Commercial Bank of Zimbabwe</td>
</tr>
<tr>
<td>ESAP</td>
<td>Economic Structural Adjustment Program</td>
</tr>
<tr>
<td>GTA</td>
<td>Gross Total Assets</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MBCA</td>
<td>Merchant Bank of Central Africa</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>ROI</td>
<td>Return on Investment</td>
</tr>
<tr>
<td>ZB</td>
<td>Z B Bank</td>
</tr>
<tr>
<td>ZABG</td>
<td>Zimbabwe Amalgamated Banking Group</td>
</tr>
</tbody>
</table>
CHAPTER 1
INTRODUCTION

1.1 Introduction

Banks entering new markets have always faced numerous challenges ranging from little knowledge about the new country to shocks received from the regulations and laws of the country invested in (Mavhiki, Mapetere & Monde, 2012). These challenges normally have a huge impact on the profitability and market share of the bank. Profitability is defined as the potential of a business venture to be financially successful. It is also defined as the state or condition of yielding a financial profit or gain. Market share is the percentage of an industry or market’s total sales that is earned by a particular company over a specified period of time (Investopedia, 2013). Berger & Bowman (2009), give two possible descriptions of market share, either as a bank’s share of aggregate gross total assets or the bank’s share of aggregate bank liquidity creation. Market share can be a sign of relative competitiveness of a company’s services or products. Market share and profitability are closely related since profitability heavily relies on how well a company maintains and grows its market share over a period of time. According to Suttle (2013), market share is one of the primary indicators companies use to measure how well they are doing compared to competitors.

The Zimbabwean banking sector experienced a challenging period during the climax of the economic meltdown. Chagonda (2010) notes that 55% of the commercial market share was in the hands of only four international banks, Stanbic, MBCA, Standard Chartered Bank, and Barclays Bank. However, CBZ, ZB Bank and ZABG were gaining market share due to preferential treatment from the state (Chagonda, 2010). Soon after the dollarisation of the economy in February 2009, the banking sector is major challenge was to recapitalise their banks and open new accounts for
customers. New banks also started to eye Zimbabwe for investment as the economy started showing signs of recovery. However, this period was marked by an economy coming from a zero base with the adoption of the multicurrency system (Kramarenko, Engstrom, Verdier, Fernando, Oppers, Hughes, McHugh and Coats, 2010). At the same time, a sharp reduction in the volume of business was experienced in both the banking sector and other sectors as organisations faced a liquidity challenge (Chagwiza, 2012). Existing banks which had a solid clientele base had to open new accounts for all their existing customers. On the other hand, new banks coming into Zimbabwe during this period started concerted efforts to garner a market share and command a level of profitability. This coupled with the change in monetary and other government policies posed some operational challenge for new banks in Zimbabwe.

1.2 Background to the Study

The banking sector plays a crucial role in the allocation of resources and determination of growth in the production sector of any state (Albertazzi & Gambacorta, 2006). Mavhiki, Mapetere and Monde (2012) reiterate and note that commercial banks have a role to play in the recapitalisation of a country’s productive sector. However, Scott and Arias (2011) rightly warn that the banking industry has experienced some profound changes in recent decades as innovations in technology and globalisation created opportunities for growth but at the same time brought challenges which threaten profitability in an increasingly competitive environment.

1.2.1 Overview of the Zimbabwean Banking Sector

Zimbabwe’s economic growth is highly dependent on a smooth financial services sector as acknowledged by many researchers. Scott and Arias (2011) indicate that a retarded financial services industry can represent a major impediment to a nation’s overall real economic performance. Retardation represents a burden on the final
consumers of financial services and potentially reduces the level of private social welfare (Chu et al 2008). Saunders and Walter (2011) concur and argue that the financial services can be regarded as being inputs to a crucial production process of a country and the level of national output and income and the rate of economic growth are directly affected by the efficiency characteristics of the financial services sector. In Zimbabwe, the financial services sector is made up of banks, insurance companies and micro-finance institutions among others.

The Zimbabwean banking sector is composed of around 31 institutions, a mixture of merchant banks, commercial banks, building societies and micro finance institutions. The total market potential for the Zimbabwean banking sector was estimated to be US$5 696 billion by December 2012 (Chirume, 2013). The Zimbabwean banking sector is still struggling to recover from a period of hyper-inflation, which saw some banks closing while others reduced their branch network.

Since the introduction of the multi-currency system in 2009, the economic situation in Zimbabwe has been characterised by low disposable incomes, low business viability and changing government regulations (Solidarity Peace Trust, 2010). In June 2012, the RBZ introduced a new capitalization policy which prescribes required capitalization levels for all players in the financial services sector. The policy required financial service providers to have raised at least twenty five percent of the required capitalization levels by December 2012, fifty, percent by June 2013 and seventy five percent by December 2013. The required levels should be completely achieved by June 2014. By December 2012, fourteen financial service providers had managed to meet the capitalization requirement twenty five percent of the capitalization levels.

As financial service providers struggle to raise the required capitalization levels, the media has followed their progress closely, hence acting as a source for information for the general public. The public in Zimbabwe are likely to close their accounts with banks which fail to comply with capitalization regulations, an attitude which they
developed as a result of previous closures of banks which led to them losing their deposits.

The financial performance of Zimbabwe as a country is still low after the introduction of the multi-currency regime which is characterised with liquidity crunch. Depositors are wary of the banking system after the experiences during the hyper-inflationary period in 2006 to 2008 when depositors had no access to their deposits and the whole situation culminated in the opening of new accounts with zero balances for all customers in 2009. Market confidence is still low even where business levels have slightly improved.

The Zimbabwean market is still trying to recover from a period of hyperinflation and near-collapse of the banking system in 2008. The dynamics of the market are related to interest rates, state of the economy, loan to deposits ratio and government policies affecting the banking sector.

The banking sector experienced an increase in the nominal lending rates to between 10 percent and 15 percent per annum from between 6 percent and 13 percent in November 2012 (Reserve Bank, 2012). This is against the backdrop of increasing demand for cheaper funds to boost the performance of the production sector. The Monthly Economic Review for February 2013 indicates that borrowing has become notably more expensive for customers with low capacity while it became cheaper for borrowers with higher capacity. This may imply that some borrowers with lower capacity have been excluded from the market. Table 1.2.1 gives a summary of the state of affairs as at 1st January 2013.
<table>
<thead>
<tr>
<th>End Period</th>
<th>Commercial Banks Lending Rates</th>
<th>Merchant Banks Lending Rates</th>
<th>3-Month Deposit Rate</th>
<th>Savings Deposit Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nominal Rate</td>
<td>Weighted Average</td>
<td>Nominal Rate</td>
<td>Weighted Average</td>
</tr>
<tr>
<td></td>
<td>Individuals</td>
<td>Corporates</td>
<td>Individuals</td>
<td>Corporates</td>
</tr>
<tr>
<td>Apr-12</td>
<td>8.00-30.00</td>
<td>15.00</td>
<td>13.00-25.00</td>
<td>18.37</td>
</tr>
<tr>
<td>May-12</td>
<td>6.00-30.00</td>
<td>14.98</td>
<td>15.00-30.00</td>
<td>15.78</td>
</tr>
<tr>
<td>Jun-12</td>
<td>6.00-35.00</td>
<td>13.81</td>
<td>15.00-30.00</td>
<td>17.86</td>
</tr>
<tr>
<td>Jul-12</td>
<td>6.00-35.00</td>
<td>14.32</td>
<td>15.00-30.00</td>
<td>17.92</td>
</tr>
<tr>
<td>Aug-12</td>
<td>6.00-35.00</td>
<td>15.65</td>
<td>15.00-30.00</td>
<td>17.94</td>
</tr>
<tr>
<td>Sep-12</td>
<td>6.00-35.00</td>
<td>13.25</td>
<td>15.00-30.00</td>
<td>17.98</td>
</tr>
<tr>
<td>Oct-12</td>
<td>6.00-35.00</td>
<td>13.35</td>
<td>15.00-30.00</td>
<td>17.98</td>
</tr>
<tr>
<td>Nov-12</td>
<td>6.00-35.00</td>
<td>15.25</td>
<td>13.00-25.00</td>
<td>17.91</td>
</tr>
<tr>
<td>Dec-12</td>
<td>10.00-5.00</td>
<td>15.08</td>
<td>15.00-25.00</td>
<td>17.93</td>
</tr>
<tr>
<td>Average</td>
<td>14.67</td>
<td>11.41</td>
<td>17.78</td>
<td>14.27</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of Zimbabwe Monthly Economic Review, January 2013
1.2.2 Zimbabwean banking sector and monetary developments

The Zimbabwean banking sector went through a tough period characterised with risk, uncertainty and low profitability after the introduction of the multi-currency system. The developments during this period can be explained by the fact that economic performance was generally low between 2009 and 2010 although the multi-currency system brought some hope for improvement. Sufian (2012) mentions that economic growth has a considerable influence on bank performance and the overall market size. Market size is defined as the total market deposits in a given market. The situation in Zimbabwe was made worse by the negative attitude exhibited by customers who had lost their savings after the introduction of the multi-currency system when banks re-opened all accounts without transferring the balances which were in the Zimbabwean Dollar (ZWD) accounts to the USD accounts. This resulted in all depositors losing value and savings.

Statistics available at the end of 2012 indicate a decline in the total bank deposits (net of inter-bank deposits) from around thirty percent in December 2011 to twenty eight percent in December 2012 (RBZ, 2013). The RBZ associated this development to the general decline in the annual economic growth.

1.2.3 Composition of total bank deposits

There was a notable decline in the total bank deposits by December 2012 as indicated in Figure 2.2. The decline in long term deposits and increase in demand deposits imply the transitory nature of deposits in Zimbabwe, a situation which may have resulted from the fact that banks in Zimbabwe are being used mainly as channels though which corporates pay employee’ salaries (Toindepi,2012).
Long term deposits had increased in November 2012 to close to two billion USD. However in December 2012, long term deposits declined to close to half a billion. The Reserve Bank of Zimbabwe, according to the Monthly Economic Review (2013) feels that there is still a challenge in mobilising deposits.

**1.2.4 Loan to Deposit Ratio**

Banks in Zimbabwe also experienced a decreasing loan-deposit ratio (LDR) which is used as an indicator of sector stability and liquidity. The LDR declined from ninety one percent in November 2012 to eighty nine and half percent in December 2012 (Monthly Economic Review, 2013).

The Monthly Economic review (February 2013) suggests that for the LDR to be within the internationally recommended level, it should be around seventy to ninety percent. Therefore in November, the banking sector had reached an internationally recognized threshold only to plunge in December 2012.
1.2.5 Corporate Sector Developments

The Zimbabwean economy needs the corporate sector to be viable in order for growth to be realised. The current literature available (Monthly Economic Review, February 2013, RBZ Reports, 2013) on the corporate sector shows a situation which lacks signs of recovery. As indicators on loans above show, Zimbabwean banks have relied more on individual loans than corporate loans. This situation leaves a lot to be desired since the productive sector needs to recover for the country to grow economically. The corporate sector in Zimbabwe has faced the same challenge of lack of capital funds since the introduction of the multi-currency regime in 2009. The Reserve Bank has estimated only 3% growth in 2013. Without a major intervention to avail funding for the distressed Zimbabwean corporate, banks may not rely on corporate lending for profitability for a long time. The low growth projections display a bleak situation for banks since studies have shown that bank growth and profitability relied both on internal factors of return on equity (ROE and external factors of market growth of the country of operation (as measured by deposit growth and projected population growth). These factors have a positive influence on the bank's capacity to expand and grow its market share (Saunders and Walter, 1998). Neeley and Wheelock (1997) also discovered in their study that bank performance is positively related to the annual percentage changes in a country's per capita income.

The reduced activity in the corporate sector is also another characteristic of the Zimbabwean market. This is a worrying situation for banks since the corporates are the ones who borrow more amounts of money. The rate at which the economy as a whole is utilising Information and Communication Technology is also rather slow. Berger and Deyoung (2006) acknowledges the need for information and communication technology in the banking industry as it enables easy expansion of international banks to a country. New banks expanding to a new country will need to rely heavily on ICT to groom junior managers located at distant locations. Scott and Arias (2011) mention Automated Teller Machines (ATMs) and transactional internet
websites as major tools which allow banks to interact more efficiently with their customers (Chu et al, 2008).

In June 2012, the Reserve Bank of Zimbabwe (RBZ) introduced a new policy which requires all financial institutions to recapitalise according to set mandatory thresholds. The new policy requires every commercial bank to have a minimum capital of USD100 million, from USD 12.5 million which was the case from 2009. Table 1.2.5 gives a summary of the recapitalization levels required for financial institutions in Zimbabwe with effect from June 2012.

**Table 1.2.5 Required recapitalisation levels for financial institutions**

<table>
<thead>
<tr>
<th>Sector</th>
<th>New Required Capitalisation level</th>
<th>Old Capitalisation levels</th>
<th>Percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>USD100 Million</td>
<td>USD12.5 Million</td>
<td>700%</td>
</tr>
<tr>
<td>Merchant Banks</td>
<td>USD 100 Million</td>
<td>USD 10 Million</td>
<td>900%</td>
</tr>
<tr>
<td>Building Societies</td>
<td>USD 80 Million</td>
<td>USD 10 Million</td>
<td>700%</td>
</tr>
<tr>
<td>Micro Finance institutions</td>
<td>USD 5 million</td>
<td>USD 1 Million</td>
<td>400%</td>
</tr>
</tbody>
</table>

The policy requires that by December 2012, banks were supposed to have raised twenty five percent of the required capital level, fifty percent by June 2013 and seventy five percent by December 2013. Commercial banks were given up to June 2014 to ensure that they have secured the required minimum capitalization levels.

Indigenisation laws which were enacted in 2007 threaten foreign owned banks. Under this new law, all foreign owned companies should have a shareholding of at least fifty one percent by local investors and at most forty nine percent shareholding by foreign investors.
Generally, the financial performance of Zimbabwe as a country is still low after the introduction of the multicurrency regime which is characterised with liquidity crunch (Chagwiza, 2012). Depositors are wary of the banking system after the experiences during the hyperinflationary period in 2006 to 2008 when depositors had no access to their deposits and the whole situation culminated in the opening of new accounts with zero balances for all customers in 2009. Mavhiki, Mapetere & Monde (2012) note that Zimbabwe has been experiencing low savings due to the short term nature of deposits, low income levels and low interest rates paid on deposits. Resultantly market confidence is still low even where business levels have slightly improved. This confirms IMF(2010) ‘s observation that the Zimbabwean financial sector is prone to systematic vulnerability mainly due to the absence of lender of last resort, lack of liquidity and the inactive interbank market.

New banks are defined in this research as those banks that joined the Zimbabwean banking sector after 2010. Old banks those banks which existed before 2010. Old banks survived the period when some banks were closing down. Customers have learnt to trust them since their survival can be regarded as a sign of stability and sustainability. New banks may face a challenge in cultivating trust, hence may face challenges in commanding a decent market share and profitability.

The Ecobank Zimbabwe is new to Zimbabwe. It is owned by Ecobank Transnational Incorporated (ETI), a Public Limited Liability established in 1985. To date Ecobank has operations in 32 African countries.

Ecobank Transnational Incorporated entered into the Zimbabwean market through the acquisition of Premier Merchant Bank Holdings in 2011. The acquisition enabled them to convert the merchant banking license to a commercial banking license. Ecobank joined the Zimbabwean market during a time of banking sector reforms as the RBZ had just introduced new mandatory capitalization level for commercial banks. The period was also associated with more stringent monitoring of the banking sector by the Reserve bank of Zimbabwe. Ecobank has three main units, corporate banking, and domestic banking and Ecobank capital.
1.2.6 Corporate Banking

This unit provides financial solutions to global and regional corporate, public corporates, financial institutions and international organisations. Products focus on lending, trade services, cash management, internet banking and value chain finance.

Ecobank Zimbabwe has a total of eleven branches six of them in Harare, and the other two in Bulawayo. The bank is on an expansion drive with seven more branches being expected to be opened by the 30\textsuperscript{th} of June 2013 and the branches will be opened in major towns such as Mutare, Gweru, Masvingo and Kwekwe (www.ecobank.com, 2013)

Since Ecobank is a relatively new bank in Zimbabwe, it still needs to grow its market share. The market potential of the Zimbabwean banking sector was ranked at USD 5 696 billion by December 2012 (Chirume, 2013). The distribution of the market share shows that older banks have managed to steadily grow or maintain their market share after the introduction of the multicurrency regime. According to a survey carried out by MMC Capital at the end of 2012, signs of high concentration are starting to show in the banking sector, where by market power is reverting to fewer banking institutions. By December 2012, CBZ had the highest market share of nineteen and half percent and USD$1 115 billion in assets. BancABC had assets of fifty five million USD and a market share of over nine and half percent. CABS had assets amounting to USD$488 million and a relative market share of over eight and half percent while Stanbic had assets amounting to USD$395 million and a market share of over six and half percent. The Standard Chartered bank had USD$389million which translates to over six and half percent market share.

During the same year, Ecobank had asset value of USD$80.4 million by June 2012. This was after a growth from USD$58.9 million in December 2011. The bank had come to Zimbabwe expecting a better or faster growth rate result than this. The bank is also concerned about the quality of customer portfolio it has managed to attract.
which comprises mainly individuals instead of more corporates. The bank also had to content with the cost of attracting highly qualified personnel who could perform at the expected level. This aspect posed a major challenge since the period 2009 to 2011 was also associated with high competition for qualified personnel after many workers left Zimbabwe for ‘greener pastures’ in neighboring South Africa and other countries during the period of hyper-inflation. Experienced personnel demanded higher pays before joining Ecobank.

Ecobank had planned to increase profitability and grow its market share in 2013. However, the bank is still small, the economy of Zimbabwe is struggling (Reserve bank, 2013, potential customers' disposable incomes are still fragile (ZCTU Research Unit, 2010) and world-wide, the economic growth rates are negative. This poses an array of issues facing Ecobank. It boggles the mind to figure out the strategies which Ecobank can adopt in order to increase profitability, raise market share and maintain it in the face of all the possible challenges. Against that background, this research sought to unveil the challenges faced by Ecobank as a new institution in a market with high competitive rivalry and suggests strategies which can be adopted to increase profitability and market share.

1.3 Problem Statement

Ecobank Zimbabwe is a new commercial bank with two years of operating in Zimbabwe. Since its entry into the Zimbabwean market, the bank has faced challenges in trying to grow their market share and ensure profitability in a market segment characterised by a low customer base. The main customers for the bank include corporates, individuals and government organisations. Most of the corporates in Zimbabwe are operating at above fifty percent of their production capacity. The low productivity by companies has also resulted in high unemployment rates estimated to be over eighty five percent, further limiting the number of individual customers demanding banking services (ZCTU, 2013). Most customers targeted by Ecobank have existing relationships with older banks.
The limited financial resources following the dollarization of the economy has also presented Ecobank Zimbabwe with challenges on how they can grow their loan book which is critical for revenue generation. Ordinarily the bank should mobilise cheap retail deposits to grow its loan book. The growth in retail deposits is also a function of the bank’s coverage of its branch network throughout the country. There is intense competitive rivalry from well established players in terms of pricing who have already managed to grow their cheap retail deposit book and can offer loans at very low interest rates. Can the organisation pull ahead of competition, grow its market share and become highly profitable in the current market conditions?

1.4 Research Objectives

The researcher intended to achieve the following objectives

1. To investigate the challenges faced by new banks operating in Zimbabwe.
2. To ascertain the market perception about dealing with new banks
3. To ascertain the effect of changes in market dynamics on profitability of new banks
4. To establish ways or strategies of how the bank can increase its market share
5. To establish strategies for increasing profitability

1.5 Research Questions

The research answers the following research questions;

1. What are the challenges faced by new banks in Zimbabwe?
2. What is the Zimbabwean market’s perception on dealing with new banks in Zimbabwe?
3. How do changes in market dynamics affect the profitability of new banks?
4. What are the possible solutions to increase market share and profitability?
1.6 Research Proposition

The study was based on the proposition that, the challenges faced by new banks can be overcome resulting in increased market share and profitability.

1.7 Justification of the Study

The financial service industry in Zimbabwe plays a key role in the development of the economy. It is through the banking industry that the financial resources are mobilised from those with surplus funds to those sectors of the economy which are in deficits. Although the RBZ, presents a growth from USD0.6 billion at the introduction of the multi-currency system, in 2009 to US$4.4 billion by December 2012, (RBZ, 2013), Zimbabwe’s market potential was estimated projected at USD5.6 billion by December 2012 (Chirume, 2012). This implies an estimate of USD 1.2 billion unbanked deposits. The presence of unbanked deposits in the economy means that there is potential to grow market share and profitability although one needs to understand what to do in order to claim the available unclaimed market share.

The mobilisation of the financial resources by the banking industry has enabled the sector to deploy significant loans to the various sectors of the economy. As at 31 December 2012 a total of US$3.5 billion was disbursed as loans to the various sector of the economy. The breakdown of the beneficiary sectors of the economy are as shown on the table below.
### Table 2.7.1 Beneficiaries bank loans as at 31 December 2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>% contribution to total loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>19</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18</td>
</tr>
<tr>
<td>Distribution</td>
<td>17</td>
</tr>
<tr>
<td>Household</td>
<td>16</td>
</tr>
<tr>
<td>Service</td>
<td>11</td>
</tr>
<tr>
<td>Others</td>
<td>19</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** RBZ January 2013 monetary policy statement

The distribution of loans among customers from the various sectors of the economy is worrying since Agriculture and Manufacturing sectors are shown to be getting a percentage of loans almost at par with individual households. This situation may show that banks are not yet able to offer long-term loans which are needed in the Agriculture and Manufacturing sectors. Studying the banking sector is important so as to unveil possible strategies to be used to address this situation.

The case of Ecobank in this study is also key as it is expected to contribute significantly to the success of the economy. In its two years of operation in Zimbabwe it has contributed to the economic development of the country through
injection of new capital and deploying resources to deficit sectors of the economy in need of capital. However challenges such as changes in market dynamics, increased competition, and low customer base will determine its continuity to offer banking service in Zimbabwe. The profitability and market share of Ecobank will determine its continuity to operate in Zimbabwe. This study suggests strategies that can be adapted by management to salvage the engine of economic growth of the Zimbabwean economy which is the banking sector. The current market share and profitability of Ecobank Zimbabwe definitely justified the study.

The research has also closed a gap in literature on Zimbabwean banking sector as a potential investment target. It informs the potential investor on the challenges they should expect if they decide to enter the Zimbabwean banking sector.

In summary the research is meant to benefit the following;

1. To the researcher, to further understand and comprehend the challenges faced by new banks from a both theoretical and practical perspective
2. To Ecobank; to unveil strategies which can be adopted in order to increase market share and profitability
3. Other new banks in Zimbabwe will gain perspective of the reasons behind some of the challenges they are facing and the nature of strategies which can be used to help the situation.
4. The banking sector as whole will benefit from the research through recommendations to take corrective management action to achieve growth in the industry

The study further provides a platform for future research and literature for the academic community.
1.8 Scope of the Study

The research investigates the challenges faced by new banks operating in Zimbabwe. The study confines itself to look at Ecobank Zimbabwe and other key stakeholders of the organisation. The key stakeholders include customers, regulatory institutions and other banks. The major respondents of this survey are the staff and management of Ecobank, selected members of the public and regulatory institutions.

1.9 Ethical Issues

The research is in line with ethical guidelines in that permission was sought from management of Ecobank regarding the topic of study and the use of Ecobank Zimbabwe as a case study. It is important to note that throughout the research participation was voluntary and confidential. The objectives of the research were explained to the respondents before their participation and they were given the freedom to choose whether to participate or not. The responses were kept as confidential as possible and no names were asked for the respondents to avoid intimidation of respondents. No name or identification were required from the respondents. The information gathered during the research is used for academic purposes only. Ecobank management were given feedback on the findings of the research and where useful recommendations are made, the management has the freedom to utilise the research findings.
1.10 Limitations to the Study

The researcher had to contend with limited time and financial resources in carrying out this research. However Ecobank Zimbabwe was supportive in terms of allowing time for this study in order for all information to be gathered, analysed, interpreted and be reported upon in time to meet the deadline. Other limitations to the successful carrying out of the study include low response rate, low understanding of the questionnaire by the respondents and are time consuming for respondents. To boost response rate, the researcher adopted methods of data collection which allowed for the presence of the researcher and which are easy and allow the respondents to give information in a relaxed environment, for example informal interviews and self-administered questionnaires and telephone interviews. The questionnaire was also pre-tested on a few respondents in order to pick any ambiguity of questions and where these occurred, they were corrected.

1.11 Dissertation Outline

The report critically analyses the challenges faced by new banks in Zimbabwe and suggests possible strategies for increasing profitability and market share. It consists of five chapters. As this chapter lays out the introduction to the whole report, Chapter 2 gives a detailed discussion of the major concepts that are pertinent to understanding and dealing with challenges faced by new banks in a developing economy like Zimbabwe and the possible ways of growing and maintaining market share and profitability. The researcher shows the views and findings of other authors and past researchers who worked on the particular subject. In Chapter 3, the researcher gives a detailed description of how the survey was carried out. The population, the sample and instruments are all spelt out. Chapter 4 presents the research findings and discusses whether the constructs proposed by several authors in Chapter 2 hold water in this particular context, based on the data collected. It attempts to link the findings to past research in order to confirm trends and show possible diversions from what other authors and researchers have already
discovered about the topic. Chapter 5 gives the conclusions and recommendations that are based on the findings discussed in Chapter 4.

1.12 Chapter Summary

This chapter gives a summarised introduction to the research report by laying out the background to the research and the problem which prompted the researcher’s interest introduces the research. The background to the study expresses the current state of the banking industry in Zimbabwe and shows the level of competitive rivalry among the industry players. It also shows the importance of profitability and market share and further discusses the relative distribution of market share in the Zimbabwean banking industry to date. Objectives of the research study a clearly laid out. The current market share of Ecobank is shown and the need to increase profitability and market share shown. The research’s major objective is to unearth the challenges facing new banks like Ecobank and to suggest strategies to counter those challenges. Although the research was carried out in the face of a number of limitations, the researcher put in place relevant strategies to make sure that the limitations will not negatively affect the results of the research. The research is a case study of Ecobank Zimbabwe and will be limited to four branches of Ecobank found in Harare, selected customers and regulatory organisations. Chapter 2 gives a detailed discussion on what other authors say about challenges faced by new banks as well as their suggestions and understanding of profitability and market share.
CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature related to the challenges faced by new banks in Zimbabwe and strategies to increase market share and profitability. It seeks to provide insight and background information on the theoretical underpinnings of challenges faced by new banks and the concepts of profitability and market share in banks. New banks are defined in this study as banks entering a new market or those which have operated in a new market for less than five years.

Challenges associated with entering new markets have been widely researched in the marketing field. However, in the banking sector, not much is available on challenges a bank should anticipate when entering a new market. Also the link between challenges in a new market and market share and profitability has not been studied before especially in developing countries. Whereas researchers on market share and profitability (for example, Gale, 1972, Shepherd, 1972, Tavakoli and Wilson, 2005, Chu, Chen and Wang, 2008) have successfully looked at bank market share and profitability and managed to measure profitability using varying methods, none has so far looked at the market dynamics affecting a bank in a new market in a developing country. This avails a gap in knowledge concerning developing countries. This is against the backdrop of globalisation and internationalisation of business, where financial services organisations like banks are looking at expanding their operations to developing countries where it is believed they are likely to enjoy better profits due to their economies of scale and industry knowledge (Chu et al, 2008). A thorough search among the research work available also shows a
skew in literature towards the developed countries, with a dearth in literature concerning the developing countries. The situation in Zimbabwe after the introduction of the multicurrency system is unique and needs individualized attention. Unlike most countries used as case studies for studying the banking sector, Zimbabwe is coming out of a period of hyper-inflation where the economy almost came to a stand-still. The current situation can be described as a transition period from the 2006-2008 era of hyper-inflation, lawlessness and economic doldrums to a dollarized period which started in February 2009 characterised by re-opening of bank accounts and the introduction of a set of foreign currencies which are being used in the economy. The dynamics of such a market environment has never been studied before.

The issue of market share is of importance to any existing business. Market share reflects the current competitive position that a firm attains in the market place so that firms with high market share are considered to better satisfy customer needs and enjoy competitive advantage compared to competitors (Buzzel and Gale 1987). All business is there to create customers. Before entering or deciding to enter any market, every organisation will regard the market potential of the whole market and try to estimate what market share it will attract (Scott and Arias, 2011). Since researchers began studying market share in 1972 (Gale, 1972, Shepherd, 1972), they have continuously shown evidence of a positive relationship between market share and profitability (Chu et al, 2008). Although different researchers later questioned some of the methodology which were used to estimate analyse the nature of relationships, research has continues to show a positive relationship.

Profitability is an accounting concept which shows the excess of income over expenditure during a specified time period (Ponce, 2011). The raison de etre (reason to be) of every business is to make profit. Therefore profitability is often used as a proxy for bank efficiency and management capability (Scott and Arias 2011). Many studies have been carried out to establish the factors
affecting bank profitability. Determinants of bank profitability have been identified as featuring in two distinct groups which are bank specific and environment specific. A search through the bank profitability literature has shown evidence of the major role that the external environment has on bank profitability. These external factors are exacerbated by a situation where the bank is new in a specific market, has limited information or the environment is less predictable. Hindle (2008) notes that under such situations of uncertainty, which are often made worse by the ever-changing technology and globalisation, all organisations should add a little bit of game theory in their strategic plans. This is because every business is a game, where players try to predict their competitor’s next move and hence prepare a counter move in the quest to get the most market share and profitability. Scott and Arias (2011) discovered a dearth of research concerning the potential influence of the macro environment as most researchers have concentrated on profitability and bank and industry level. Although a gap still exists on what new financial services organisations especially banks should do to survive in a new and unpredictable market, literature exists on what other banks have done in different operating environments in order to gain competitive advantage.

2.2 The Concept of Market Share in Banks

Market share is a marketing concept which describes an organisations’ share of the market relative to overall market potential (Chagwiza, 2012). Market share is defined by Mahmoud, Khalily and Wadood (2009) as a structure parameter. It defines the relative number of customers served by an individual organisation compared to competitors and the market potential. It is an indicator of a market’s confidence and loyalty to a specific brand on the market relative to alternatives. Market potential is the maximum possible number of customers available in a single market (Pronce, 2012). Sufian (2012) described market potential as the total number of deposits in a market.
Porter (1979) shows in his model that in any given industry, organisations compete for market share. There is always a competitive rivalry among firms in an industry. Market share has also been accredited as one indicator of possibly profitability in banks. The continual existence of a business organisation relies heavily on a growing market share.

Scott and Arias (2011) encourage the use of Client-Arena-Product Matrix (CAP) (Saunders and Walters, 1998) to evaluate the attractiveness of each market segment. They argue that the attractiveness of each cell to the suppliers of financial services is interrelated to the prospective risk-adjusted returns that can be extracted from it.

**The Client-Arena-Product Matrix**

![Figure 2.2](source: Saunders and Walters, (1998:20))
In explaining the CAP Matrix, Saunders and Walters (1998), indicate that, the financial services market is made up of three inter-related dimensions, the customers which the bank serve, the product offered and the arena (geographic locations where customers are found). In the absence of operational limits and inhibitive regulations, a bank should be in a position to reach to all customer groups with relevant products in all the arenas where the customers are found. The wider the geographical arenas a bank can reach with its products, the higher the possible market share and profitability. Walter and Suanders 1998) emphasise that to achieve maximum profits, financial services companies should allocate their available resources to those CPA cells that promise to provide them with the highest risk adjusted returns. In the absence of highly sophisticated technological advancements, banks in developing countries rely on a branch network to cover the geographical arenas where possible customers can be found.

The Zimbabwean market potential for the banking sector was estimated at UDS$ 5.7 billion by December 2012 (Chirume, 2013). The distribution of the market share shows that older and larger banks have managed to steadily grow or maintain their market share after the introduction of the multi-currency regime. This is in sync with Scott and Arias (2011)'s assertion that larger financial services companies enjoy a wide range of advantages by virtue of economies of scale, accumulated tacit knowledge and expertise as well as resources to continue their expansions into foreign markets. According to a survey carried out by MMC Capital at the end of 2012, signs of high concentration are starting to show in the banking sector, where by market power is reverting to fewer banking institutions. However, Scott and Arias (2011) warn that research has not clearly shown the relationship between size and profitability.

By December 2012, CBZ had the highest market share of 19.6% and US$1.1 billion in assets. BanABC had assets of USD$55million and a market share of 9.7%. Cabs had assets amounting to US$488 million and a relative market share of 8.6% while Stanbic had assets amounting to US$395 million and a 6.8% market share. The
Standard Chartered bank had US$389 million which is 6.8% market share. During the same year, Ecobank had asset value of US$80.4 million in June 2012. This was after a growth from with US$58.9 million in December 2011. Chagwiza (2012) associates the growth local banks market share (for example CBZ) to preferential treatment by the government and the Reserve bank. This situation could have influenced high market concentration which was acknowledged by Kiyota, 2012). Saunders and Walter (1998) warn that preferential treatment of companies within the same market can cause financial system inefficiency. They mention high taxation imposed at various stages of the financial intermediation process including securities transfers, taxes and transaction taxes as well as regulations which inhibit organisations from accessing alternative sources of funding and accessing markets.

2.3 The Concept of Profitability in Banks

The term profitability is an accounting concept which shows the excess of income over expenditure viewed during a specified period of time. Profit is the main reason for the continued existence of every commercial organization (Pronce 2012). On the other hand profitability is a relative measure where profit is expressed as a ratio, generally as a percentage (Mbizi, 2012). Profitability depicts the relationship of the absolute amount of profit with various other factors. Profitability is a relative concept which is quite useful in decision –making. The rate of profitability and volume of profits are therefore rightfully considered as indicators of efficiency in the deployment of resources of banks (Kiyota, 2009). It highlights the managerial competency of the banks. It can also portray culture, operating efficiency of the bank and the general banking system efficiency in a specific market (Badescu & Aldea (2012). Profitability is measured using varying methods. Previous research has used both Return on Equity (ROE) and Return on Assets (ROA). The Zimbabwean banking sector has not shown any evidence of favouring any one type of measure. Therefore, in this study, bank profitability will be measured based on both ROE and ROA.
A number of authors have indicated that profitability is the most important and a reliable indicator as it gives a broad indication of the ability of a bank to raise its income level. However, Scott and Arias (2011) warn that most research on bank profitability has relied on econometric methodology which could have been biased or inconsistent.

Pronce (2012) suggests that a bank’s profitability is expected to increase as its portfolio of loans grows in relation to other more secure assets for example, government securities considering the known relationship between risk and return. This is in agreement with Prendergas (1993)’s assertion that bank managers can gain more profits from volumes of loans as compared to risk adjusted profits and argues that most bank distress experienced in the past has been due to over-emphasis on growth in the balance sheet, which misguided the bank managers’ priorities. However, Garcia-Herreno, Gavila & Santabarbara (2009) concur in that sense, and argue that despite higher operating costs associated with holding a large portfolio of loans, bank profitability should increase at a higher ratio of loans to assets as long as interest rates on loans are liberalized and the bank applies mark-up prices. Pronce (2012) reiterates and adds that the greater relative proportion of loans in the portfolio of the bank is usually coupled with greater liquidity risk arising from the inability of banks to increase on the asset side of the balance sheet. Resultantly, a bank holding a low proportion of liquid assets is more likely to earn high profit. A number of studies have supported this assertion (Chiorazze et al (2009)

Profitability is defined as the ability of a business venture to make a profit. Profitability is necessary for a bank to maintain ongoing activity and for its shareholders to obtain fair results. Although banks should achieve higher profitability, they should keep their corporate governance under check. Scott and Arias (2011) and Pronce (2012) generally agree that profitability is vital for the continual existence of a bank.
Pronce (2012) suggests that factors determining bank profitability can be grouped into two groups. The first group comprises those that are bank specific and are the direct result of managerial decisions (asset structure, asset quality, capitalisation, financial structure, efficiency, size and revenue diversification). The second group consists of those factors relating profitability to the industry structure and to the macroeconomic environment within which the banking system operates (industry concentration, economic growth, inflation and interest rates).

2.4 Determinants of Bank Profitability
Profitability of banks is affected by a number of factors. Pronce (2012) in agreement with other authors like Badecsu & Aldea (2012 and Scott and Arias (2012) grouped them into those which can be directly controlled by the bank and those which are beyond the control of the bank. Guru, Kiyota (2009) described the factors which are within the control of the bank as endogenous and those that are outside the control of the bank ad exogenous. What authors seem to agree is that whether factors are endogenous or exogenous, they are usually structural and the bank may not evade their impact of those factors on profitability.

2.4.1 Bank Specific Factors Determining Profitability
The factors which are within the control of the bank have been identified as follows:

- **Balance sheet**: An integral part of financial statements which highlight the financial position of a bank at any given time. Balance sheet items are direct indicators of the earning power and the cost of the bank
- **Asset structure or asset composition**: The asset structure gives an indication of income source. The asset composition uses the loans-deposit ratio as a proxy. All things being equal, the more the deposits that are transformed into loans, the higher the profit level of a bank will be.
- **Credit risk**: Flamini, McDonald and Schumacher, (2009), argue that credit risk has the most influence n bank profitability in Sub Saharan Africa. It defines the relationship between loans and deposits. Credit risk increases where a bank has poor access to borrowers information, when there is a weak legal environment or where there is poor enforcement of creditor rights.
A high credit risk is associated with the promotion of deterioration of credit quality and increase in the probability to default by.

- **Bank activity Mix:** This is regarded as an important proxy of overall risk to which the bank is exposed. A high activity mix cushions the bank from credit risk and volatility by ensuring various sources of income. It is indicated by the ratio of net interest revenues over operating income. Cover (1999) emphasises the need for banks to focus more on creating new streams of revenue in order to increase shareholder value. On the other hand, Scott and Arias argue that banks should analyse their current customers and determine the ones giving them the highest profit, then decide which ones to pursue and which ones to let go.

- **Capitalisation:** Capitalisation is regarded as an indicator of banks’ stability and security. A bank that is well-capitalised will likely be profitable since it is likely to be stable over a long period of time. Table 2.4.1 shows the capitalization levels required for banks in Zimbabwe.
### Table 2.4.1 Levels of capitalisation required for Zimbabwean Commercial Banks

<table>
<thead>
<tr>
<th>Sector</th>
<th>New Required Capitalisation level</th>
<th>Old Capitalisation levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>USD100 Million</td>
<td>USD12.5 Million</td>
</tr>
<tr>
<td>Merchant Banks</td>
<td>USD 100 Million</td>
<td>USD 10 Million</td>
</tr>
<tr>
<td>Building Societies</td>
<td>USD 80 Million</td>
<td>USD 10 Million</td>
</tr>
<tr>
<td>Micro-Finance institutions</td>
<td>USD 5 Million</td>
<td>USD 1 Million</td>
</tr>
</tbody>
</table>

According to RBZ, capitalisation acts as a pre-cast wall that protects the depositors. The high capitalization levels required in Zimbabwe are meant to protect the depositors as much as possible. Sufian (2012) suggests that the issue of capitalization has a cyclical relationship with profitability. He argues that on one hand capitalization acts as a buffer against economic shocks which can cause a bank to pull out of the market while on the other hand, high levels of profitability can strengthen bank capitalisation levels.

- **Size**: Firm size is defined as a ratio of total assets and total revenue (Gup, 2003). Gup, (2003) notes that although financial services profitability and market share performance are determined by a number of different factors, size of the firm has long been of interest to business researchers. Shaomin, Pan and Tse (1999) reiterate and note that large organizations have more resources to invest in innovation, pursue more aggressive strategies and perform better. Large organisations also have economies of scale, scope and learning. However, Flamini (2003) argues that the link between bank size and profitability may be ambiguous since larger organisations also have more overhead expenses and are more difficult to coordinate. Valid as Flamini
(2003)'s may seem, the majority of researcher maintain a positive link between size and market share and profitability. Pronce (2009) maintains that that a bigger bank is likely to have less struggle to raise capital required and is likely to have a well-established and efficient system to control all bank transactions, reducing the risk associated with loan default and poor assessment of borrowers. Also, size may influence borrower perception since larger banks are considered to be safer. Majnoni, Shankar and Varhegyi (2003) support the fact that size matters when it comes to profitability and market share. Larger banks are in a better position to reap economies of scale and have greater diversification opportunities. Evanoff and Fortier (1988) and Smirlock (1988) however warn that the influence of size on profitability may either be positive or negative. They argue that any advantage resulting from economies of scale may be offset albeit partially by greater ability fo diversify assets resulting in a lower risk and a lower required return.

- **Market Power**: Market power is defined as the level of market concentration within a specific operating environment. It is a major determinant of bank profitability. Flamini et al (2009) point out that, banks in more concentrated markets should be capable to adjust spreads in response to unfavorable changes in the macroeconomic environment to cushion returns. Market power is defined here as market concentration, measured by the ratio of each bank’s total outstanding loans to the net domestic credit of the country or the impact of managerial inefficiency (proxied by the log of overhead costs). Authors have also emphasised that endogenous habits like timeous recovery of loans, and careful control of expenses as vital to enhancing profitability of a bank.

- **Market size**: Chirwa (2010) argues that market demand characteristics have an influence on profitability and market share. Larger markets are regarded as easy to enter. However, bank customers in such markets are usually more sophisticated. Civele and Al-Amani concur and suggest that an a large market or one that is growing enable banks to differentiate its products and
consequently generate more profits. Evanoff and Fortier (1998) argue that any negative relationship may be offset if banks in such markets take riskier portfolios requiring returns.

- **Customer satisfaction.** Guo, Kumar and Jirapon (2010) mention the role of customer satisfaction in ensuring market share and profitability. They lament the low attention the concept of customer satisfaction has received from researchers and indicate that satisfied customers have a considerably huge role in influencing future customers. They act as advertising medium in influencing other customers to utilize the services of the bank. They argue that in order to satisfy customers, a certain level of quality of service is required.

2.4.2 **Macroeconomic Factors Determining Bank Profitability**

Macro-economic variables affecting bank profitability have been identified to include economic growth, inflation, interest rates, levies and taxes as well as economic policies and other government regulations (Flamini et al, 2009).

Bikker and Hu (2012) argue that as economic growth slows down, credit quality deteriorates and default increase and that has a direct negative impact on bank returns. The earlier discussion on the macroeconomic situation in Zimbabwe shows an economy which is struggling to recover from a period of a recession thus bank profitability is likely to be directly affected by the situation.

The most used measure of inflation is the Commodity Price Index (CPI). Although a positive relationship is expected between commodity process and bank profitability, Flammin et al argue that inflation can be used positively by a bank if it can accurately forecast the future inflation movements and adjust interest rates accordingly beforehand (Pronce 2012). This argument by Pronce (2012) echoes the findings by Huizinga (1998) that inflation and bank profitability are positively related.
Regulations in the country of operation has been discovered to have a major influence on a bank's ability to grow, expand and garner a sizable market share. Saunders and Walters (1998) discovered that regulations can present entry barriers into certain groups of potential customers. Regulators may also tolerate a certain amount of anti-competitive cartel-like behavior on the part of domestic financial institutions (Scott ad Arias (2011)).
2.5 Strategies for Increasing Bank Market Share and Profitability

Generally authors have indicated the link between market share and profitability. Pronce, (2012) indicate that the larger the market share a bank holds, the higher the expected profitability. Berger and Deyoung (2006) notes with concern that innovation in technology and forces of globalisation have created immense opportunities for growth but also posed challenges for bank managers to remain profitable in the increasing competitive environment. Hindle (2008) warns that no organisation in this competitive environment can succeed without adding a bit of game in their strategic plans. Roberts and Campbel (2006) outline a number of strategies banks can adopt to increase market share and profitability. The following factors have been indicated as strategies which increase market share and profitability.

- **Branding and ensuring brand health**: Branding is a marketing concept associated with creating a unique name and image for a product in the consumer’s mind (Muzondo (2012). Once a positive image has been created in the mind of the customers, the bank needs to maintain a positive perception in the competitive market place (Roberts and Campbell (2009).

- **Expansion**: Mahmoud, Khalily and Bailey, (2009) indicate expansion as one of the strategies which can help banks gain market share. Although expansion may be associated with an increase in overhead costs which may have a bearing on short term profitability, expansion is one way of increasing market share in developing countries especially in geographical areas where the bank is not well known. Saunders and Walters (1998) warns that banks should only expand to geographical areas where they have analysed the market and developed relevant products for the customers.
• **Service quality**: Due to the high competition and inherent similarity of the nature of services offered by most service firms including banks, quality has been discovered as the only differentiating factor. Hindle (2008) notes that even the highly homogeneous products like bricks, can be differentiated, and gave an example of a firm which differentiated the delivery system for its bricks by neatly organising them on pallets and using a small forklift to offload them from the truck. Banks can also differentiate their service provision and enhance service quality.

Parasuraman, Zeithaml and Berry (1988) developed a framework for measuring service quality. Service quality always involves the customer as part of the transaction. The components of perceived service quality were identified by Parasuraman et al as;

*Reliability*: the ability to provide a service as expected by the customer
*Assurance*: the degree to which the customer can feel confident that the service will be correctly provided
*Tangibles*: the quality of the physical environment and materials used in providing the service
*Responsiveness*: the ability of the service provider to respond to the distinct requirements of the client
*Empathy*: - the courtesy, understanding and friendliness shown by the service provider

Whereas Parasuraman et al. measure service quality as performance minus customer expectations, Cronin and Taylor (1992) argue that simply measuring performance provides a better measure of service quality. Brown (1993) empirically tested this and found that the use of performance only does perform better than the difference score suggested by Parasuraman et al. Bahia and Nantel (2000) developed
a service quality measure specific to retail banking and Malhotra
(2005) examined the relative importance of service quality dimensions
across different cultures in the retail banking industry. Bahia and
Nantel (2012) argues for recognizing the importance of the relational
component. They emphasise that banks need to aim at developing
relationships with customers in order to maintain loyalty in the face of
increasing competition. Angur et al. (1999) argue that with technical
services becoming more standardized, the relational aspect becomes
even more important. This element is more subjective and essentially
is based on how the customer is made to feel when interacting with the
institution and staff. This component affects both current and new or
prospective customers (i.e. those who come in to see someone in the
bank about a banking service).

The Zimbabwe Economic Review (February 2013) notes that the Zimbabwean
banks have a higher rate of lending to individuals instead of corporates. This is
explained by the fact that lending to individuals is considered to be more profitable
than lending to corporates because

- Individuals pay higher lending interest rates than corporates, implying that
  logically banks would prefer lending to individuals as this is more profitable
- Personal loans and advances to individuals are salary based, meaning that
  there is a minimal risk of default
- By lending small amounts to many individuals with varied risk profiles, the
  bank spreads the risk as compared to lending a large amount to a single
  corporate
- Individuals make an effort to repay loans because they want to have a reliable
  borrower reputation with the banks.
- Individuals are less sensitive to higher interest rates than corporate
However, as the Reserve Bank of Zimbabwe emphasizes, there is need for Zimbabwean banks to mobilise lending to the productive sector because the productive sector is the one that drives economic growth. Growing profitability in Zimbabwe therefore implies increasing the number of individual customers instead of corporates.

The authors who researched on the concept of profitability have highlighted well on the determinants of profitability. However, a gap still exists on the determinants of profitability in Zimbabwe. No researcher has so far looked at determinants of bank profitability in Zimbabwe. Zimbabwe is a unique market in that it is recovering from a period of almost total collapse of the banking system and it is characterised with uncertainty in the market developments. The current development in Zimbabwe, with elections on the cards and an economy which is static is a unique market which needs concentration in critically analyzing what market dynamics may affect a bank’s profitability.

2.6 Using Porter’s Five Forces Model in Analysing Profitability and Market Share in Zimbabwean Banking Sector

In analysing the challenges faced by new banks in Zimbabwe, this study utilises a model developed by Michael Porter (1980) to explain the operational environment in which every organisation finds itself. The rationale behind the use of this model is that in every market where a bank enters, there are forces similar to those identified by Porter, which can determine whether the bank will have a sizable level of market share and profitability as well as whether it will be able to expand and grow. The firm should come up with strategies to overcome these forces in order to survive. Although the use of Porter’s model has never been used in banks related research, the nature of thesis which this study seeks to prove calls for such a model of analysis. This may also be due to the fact that the area of challenges faced by new banks in developing countries has not been well looked at by previous researchers. According to Kotler and Armstrong (2004) organizations interact with two types of
environments, the ‘microenvironment’ and the ‘macro-environment’. The microenvironment comprises the company’s suppliers, customers, marketing intermediaries and competitors whist the macro-environment is made up of wider forces that affect demand for a company’s goods. Because the environment is dynamic and is always changing it is important that managers continuously monitor and assess the environment and ensure that their organisations also change to adapt to the changing environment in a bid to increase their market share and profitability.

2.6.1 Porters Market Forces

The Porter’s five forces model assumes that every organisation has to deal with five forces found in a particular industry should understand in order to have a competitive edge (Kotler, 1997). These five competitive forces identified by Michael Porter are:

1. Threat of substitute products
2. Threat of new entrants
3. Intense rivalry among existing players
4. Bargaining power of suppliers
5. Bargaining power of Buyers

The diagrammatic representation of the Porter’s five forces is as follows.
Threat of substitute products

In his studies, Porter (1985) suggested that customers can easily switch to other competitors products if they are not satisfied with a certain product or service offering. Thus, a company needs to be aware of substitute products that are available in the market that can compete with the company’s products or markets as well as to dilute market share.
Companies should be wary that customers can easily substitute their product or service if competitors are offering the same product or service at the same or less price, (Kotler, 1997). Moreover customers will switch to competitors’ products and services if the quality offered by competitors is superior. Porter (1979) indicated that unless an industry (company) can upgrade the quality of the product or differentiates it somehow (as via marketing), the industry will suffer in earnings and possibly growth. Substitute products not only limit profits in normal times but can also reduce the benefits an industry can reap, (Porter, 1979). In the current system in Zimbabwe, there are no evident switching costs associated with changing from one bank to another. Banks therefore need to polish the relational aspect on how they serve their current customers. Banking services also rely heavily on referrals since customers research on a bank’s reputation before using its services. Therefore, before a customer switches to another bank, they rely on recommendations from those currently using the bank, thus implying the importance of maintain brand health.

**Threat of new entrants**

The entrance of a new competitor into the industry or market increases competition, brings new capacity, increases the desire to gain market share and often substantial resources, (Porter, 1979). Companies that fail to defend their competitive position in the market will lose market share to new entrants resulting in low returns (Kotler, 1997). This threat is weak in the Zimbabwean banking sector since the Reserve Bank of Zimbabwe has imposed a minimum capitalization of USD100 million. However, the threat is likely to grow higher if the Zimbabwean economy starts to grow and big international banks enter the market. These big banks will obviously have fewer challenges in raising the capital requirements and will bring advanced methods of doing business which will threaten the existing banks.
Industry Rivalry

An industry’s profit potential is largely determined by the intensity of competitive rivalry within that industry. Industry rivalry means the intensity of competition among the existing competitors in the market. Intensity of rivalry depends on the number of competitors and their capabilities. Industry rivalry is high when:

- There are number of small or equal competitors and less when there’s a clear market leader.
- Customers have low switching costs
- Industry is growing
- Exit barriers are high and rivals stay and compete
- Fixed cost are high resulting huge production and reduction in prices

These situations make the reasons for advertising wars, price wars, modifications, ultimately costs increase and it is difficult to compete.

In the Zimbabwean banking sector, 31 banks compete for the existing market. Customers can easily substitute one bank’s services with that of the other depending on how the bank is satisfying the. Parasuraman et a, 1988) emphasise the importance of service quality in all service organisations. Unless where switching costs exist, customers can easily switch to another bank.

Cover (1999) emphasises the need for banks to take advantages of windows of opportunities which come up in every market. He describe them as windows because, every competitor will be looking at the same customers and trying to raise their own market share. John, Molyneux and Wilson (2004) note that some firms in the same industry possess special knowledge enabling them to prevent imitation or to block entry. Hindle (2008) talks of the need for banks to develop their core competence (Hamel and Prahalad, 2008). Hamel and Prahalad came up with the concept of Core competence where they describe those unique skills and talents and technologies within an organisation as core competencies which are strategic in
maintaining competitive advantage. In a highly competitive environment, banks need to identify, refine and guard their core competencies.

**Bargaining power of suppliers**

Raw material suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of the raw materials (Porter, 1979). It therefore implies that suppliers with a strong bargaining power can squeeze profitability out of an industry or company by ensuring that a company is not able to recover cost increases from its own prices. Soft drink concentrate producers in the United States of America raised prices of their concentrates in 1978 resulting in the erosion of profitability of bottling companies as they faced intense competition from powdered mixes, fruit drinks, and other beverages since the bottling companies had limited freedom to raise their prices accordingly, (Porter, 1979). Porter (1979) argued that suppliers are powerful if they operate in an industry dominated by a few companies, if the industry is more concentrated than the industry it sells to, if the product is unique or at least differentiated or if it has built up switching costs, if it is not obliged to contend with other products for sale to the industry and if the industry in not an important customer to the supplier group. Kotler (1997) in support of Porter also highlighted that suppliers typically have high bargaining power if they are concentrated and well organized, if a few substitutes are available, if there are a large number of customers, or if the product being manufactured is unique. Moreover the bargaining power of supplier in concentrated within the supplier’s domain if there are high switching costs from one supplier to another.

**Bargaining power of Buyers**

Higher bargaining power of buyers can force down prices and can result in customers demanding higher quality or more service at low prices, and play competitors against each other at the expense of industry profits, (Porter, 1979). Buyers will be said to have higher or stronger bargaining power if they are resolute or buy huge quantities, if there are standardized or undifferentiated products or
the products it purchases from the industry form a component of its product (Porter, 1979: 141).

New banks entering the banking sector in Zimbabwe constitute a threat to those banks who have been in existence before. However, once they are in the market, they face the same forces being faced by the banks which are already in the market. The competitive rivalry among banks represent the fight for market share. According to Porter, the level of rivalry in an industry depends on aspects like barriers to entry. In the Zimbabwean banking sector, the only barrier to entry currently is the minimum capitalization level which has been pegged at USD100 million by the Reserve Bank. The Reserve bank has also pledged to closely monitor regional banks to curb issues of governance (Reserve Bank, 2013).

2.7 Porter’s Generic Strategies: Possible Strategies That Can Be Adopted By New Banks in Zimbabwe.

Chu et al (2008) note that most service industries are now at the mature stage in the industry life cycle and are engaging in strategic thinking in response to new competitive situations. Financial service firms should adopt a strategic position if they want to maintain growth, competitiveness and profitability (Chu et al, 2008). Aguila (1997) emphasises the need for environmental scanning which he defines as the acquisition and use of information about events, trends and relationships in an organisation’s external environment to assist management in planning the organisation’s future actions Kroon (1995) also defined environmental scanning as the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market.

Porter (2008) suggested four “generic” business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of businesses’ activities are narrow versus broad and the extent to which a business seeks to differentiate its products, these include differentiation, differentiation focus, cost leadership and cost focus.
Differentiation Strategy

This strategy involves selecting one or more criteria used by buyers in a market and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs and about giving customers clear reasons to prefer the product over other, less differentiated products. In order to sustain this differentiation status, there is need to continuously analyse the buyers unique needs and provide this. Another point that necessitates the need to continuously analyse the buyer’s needs is that the consumer’s unique needs are ever changing, what the buyer require today may not be the same needs the buyers want tomorrow. So in order to maintain a competitive edge over rivals, there is need to constantly ensure that the organization is still meeting the unique needs of the buyers, otherwise the firm will lose its competitive advantage. One differentiation strategy that new banks can follow if cherry-picking (Hindle, 2008). This is a strategy where a new firm in a market carefully choses its customers by calculating which customers are more profitable, then pursue the most profitable customers. Cherry-pickers can be successful where traditional firms in the market do not actually know who their profitable customers are.

Cost Leadership Strategy

Cost leadership is a strategy where an organization aims to attain the lowest production costs. The gist of the strategy is that if the producer manages to sell their products at average market prices, they will be in a position to attain more profits. Costs leadership can be achieved by either advancing technology, having a quality focus and establishing standards. Another way of achieving lower cost is to ensure all organizations processes are arranged or set up in ways to minimize costs. However as the organisation grows, there is need to constantly ensure that costs are maintained otherwise the uncontrolled growth may result in diseconomies of scale.
Hence the only way to sustain the cost leader strategy is to regularly monitor the processes and ensure non value adding activities are minimized or removed.

**Differentiation Focus strategy**

Organisations choosing this approach to business aim to achieve differentiation in a narrow market segment. Concentrating on a narrow segment means that the organisation is most likely in a position to cater for the need of the customers adequately. Chu et al (2008) note that although size of firm is associated with high profitability, small service forms that follow a focus strategy providing customised and exclusive services to customers located in specific segments can be equally as profitable and large banking firms. Hindle (2008) notes that in the banking and insurance sector cherry -pickers (those firm who closely calculate the potential profitability of market segments) have been able to focus on narrow (profitable) segments of the market, avoiding costly traditional distribution channels and have gained market share. The use of internet have made cherry-picking even easier as new firms can easily access markets and can easily pick at incumbent competitors' schemes.

2.8 Chapter Summary

This chapter gave an overview of the findings by other authors on the subject of challenges faced by new banks in new markets and the strategies for increasing market share and profitability. It emphasises the overarching importance a bank growing its market share for increased profitability. However, as Michael Porter rightly indicated in his 1979 model, there is competitive rivalry in the banking industry as in any other industrial sector and there are forces within the control of the bank and those outside the control of the bank. As much as the bank can grow its market share through marketing, promotions and good management, there are some macroeconomic circumstances which are beyond the control of the individual bank. The bank needs to work around these factors in trying to grow its market share and profitability. This chapter unveils the gap in literature on growing market share and
profitability after economic crises in a developing African country. Chapter 3 gives a detailed discussion on the methodology used during this research.
CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter narrates the information gathering process undertaken in this study. The research question was “with reference to Ecobank, what challenges are being faced by new banks in Zimbabwe, and what strategies can be adopted to increase market share and profitability?” The purpose of the inquiry was exploratory and meant to find out what was happening at Ecobank as well as to seek insight into the challenges faced by the bank. Remenyi (1998) observes that there are three major philosophical questions that should be addressed at the outset of every research, that is “why research” “what to research” and “how to research”.

3.2 Recap of problem statement

Ecobank Zimbabwe is a new commercial bank with two years of operating in Zimbabwe. Since its entry into the Zimbabwean market, the bank has faced challenges in trying to grow their market share and ensure profitability in a market segment characterised by a low customer base. The main customers for the bank include corporates, individuals and government organisations. Most of the corporates in Zimbabwe are operating at above fifty percent of their production capacity. The low productivity by companies has also resulted in high unemployment rates estimated to be over eighty five percent, further limiting the number of individual customers demanding banking services (ZCTU, 2013). Most customers targeted by Ecobank have existing relationships with older banks.
The limited financial resources following the dollarization of the economy has also presented Ecobank Zimbabwe with challenges on how they can grow their loan book which is critical for revenue generation. Ordinarily the bank should mobilise cheap retail deposits to grow its loan book. The growth in retail deposits is also a function of the bank’s coverage of its branch network throughout the country. There is intense competitive rivalry from well established players in terms of pricing who have already managed to grow their cheap retail deposit book and can offer loans at very low interest rates. Can the organisation pull ahead of competition, grow its market share and become highly profitable in the current market conditions?

3.3 Recap of the study objectives

The researcher intended to achieve the following objectives

1. To investigate the challenges faced by new banks operating in Zimbabwe.
2. To ascertain the market perception about dealing with new banks
3. To ascertain the effect of changes in market dynamics on profitability of new banks
4. To establish ways or strategies of how the bank can increase its market share
5. To establish strategies for increasing profitability

3.4 Methodological Framework

3.4.1 Recap of major research questions

The research answers the following research questions;

1. What is the bank’ current market share and levels of profitability?

2. What are the challenges faced by Ecobank as a new banks in Zimbabwe?
3. What is the Zimbabwean market's perception on dealing with new banks in Zimbabwe?

4. What market dynamics are at play in Zimbabwe and how do they affect Ecobank as a new bank in the Zimbabwean market?

5. How can Ecobank deal with these market dynamics in order to increase market share and profitability?

6. What other strategies have Ecobank adopted as a new bank in the Zimbabwean market and to what extent have they been successful in improving the bank's market share and profitability?

7. What else can Ecobank do to increase market share and profitability in the Zimbabwean market?

3.4.2 Recap of Proposition

The study was working on the proposition that the challenges faced by new banks can be overcome resulting in increase in market share and profitability.

3.4.3 Recap of Variables

The variables of this study were

1. Challenges faced by new banks
2. Strategies to increase profitability
3. Strategies to increase market share
4. Market perception about new banks
5. Market dynamics and their effect on new banks
3.4.4 Research Limitations

The researcher had to contend with limited financial resources in carrying out this research. However, Ecobank Zimbabwe gave support in terms of allowing time for this study in order for all information to be gathered, analysed, interpreted and be reported upon in time to meet the deadline. The difficulty in getting bank managers to set time aside for in-depth interviews was another challenge. The researcher had to use his relations with the bank managers to negotiate times for interviews. Some customers who were interviewed about their perception about new banks were also not very forthcoming. Other limitations to the successful carrying out of the study include low response rate, low understanding of the questionnaire by the respondents and are time consuming for respondents.

3.5 Research Approach

Hassom (2011) acknowledges that there are a wide variety of views as to what research consists of as much as there are a great difference between what researchers actually experience during research studies and how they do it. The overall mission of research is to generate knowledge. The researcher also gains knowledge during the process of carrying out the study through discussions, reading and investigations. The research and how it is conducted is generally influenced by the researcher’s epistemological standpoint. These are the different theoretical paradigms and perspectives which shape how the researcher looks at the world and act in it (Denzin and Lincoln, 1994). The research approach does not only rely on the epistemological position but also on the type of research question that the study seeks to answer (Yin, 1994, Holme and Solvany, 1991).

The specific objective of the current investigation was to assess the challenges faced by Ecobank as a new bank in the Zimbabwean market and suggest strategies for increasing market share and profitability. The nature of this research objective is more descriptive in nature. In this case, a qualitative approach was chosen in line
with Yin (1994)'s observation that descriptive research favors qualitative approaches.

Qualitative research can be construed as a research strategy that emphasizes words rather than figures (Bryman and Bell (2011:28).

3.5.1 Research Design

Research design determines how chosen methods will be used in the study (Trochim, 2013). Rowley (2003) argues that the choice of research design depends on the study’s proposition, the unit of analysis, the logic linking the data to propositions, and the criteria for interpreting findings. A single case study design was chosen in this study. Yin (1994) differentiates between single case study designs and multiple case study designs. Yin (1994) argues that a case study helps to better understand complex social phenomena. It concentrates on the process rather than on the results, the context rather than the specific variables and on discovery instead of proving causal connections (Merriam, 1998). A case study is considered to be intensive and holistic description and analysis of a restricted phenomenon. The advantage of case studies in this sense is on being particular, descriptive and experiential or heuristic and on relying, to a high degree on inductive argumentation (Merriam, 1998). The particularistic nature of case studies means that they focus on a particular situation, event, phenomenon or person. Its descriptive nature means that the results of the studied phenomenon are comprehensive and substantial while the heuristic characteristic implies that it can increase the readers' comprehension of the phenomenon (Merriam (1998).

The current study was largely descriptive since it seeks to answer a unique question which has never been explored before in the current context. Although eight branches were chosen to participate in the study, the study is considered as a single case because all these banks are branches of Ecobank.
3.5.2  Research Strategy

Due to the fact that this research intended to look at the experiences of Ecobank, a case study was considered most appropriate. A single case design is akin to a single experiment. Single case studies are appropriate when the case is special (in relation to established theory) for some reason. This might arise when the case provides a critical test to a well-established theory, or where the case is extreme, unique, or has something special to reveal. Single case studies are also used as a preliminary or pilot in multiple case studies. Ecobank was considered a unique case to study due to its newness as a commercial bank in Zimbabwe amid a number of banks which were already operating in the country before the dollarisation period. Therefore, the study of the bank as a single case was regarded likely to produce unique and insightful data which can be generalized to similar banks in future.

3.5.3  Unit of Analysis

Shaw (1999) suggests that in order to decide on the unit of analysis, a researcher needs to ask himself or herself what unit it is that he/she wants to say something about. Yin (1994) also emphasises that a difference exists between a holistic (single unit of analysis) and an embedded (multiple units of analysis). The overarching unit of analysis was the challenges face by Ecobank as a new bank in the Zimbabwean market and strategies the bank can adopt in order to increase market share and profitability, although sub-units were also included in order to expose the unit of analysis as realistically as possible. Sub-units of analysis included customer perceptions about new banks as well as the legal framework within which the bank operates. These sub units of analysis were important in showing the challenges faced by the new bank in more contextualised and holistic manner.

3.5.4  Selection of Participants
Mwaye and Gotu (2001:27) argue that sampling rather than complete enumeration becomes useful in terms of time, cost and available resources and practicability. A sample consisting of branch managers, risk managers, loan managers and customers picked randomly in the six branches of Ecobank was used for the study. The bank has 11 branches in Zimbabwe. The study took advantage of Head Office meetings where all the branch managers were present and asked for a chance to have short in-depth interviews with each of them. At the head office, the company secretary was targeted as he has an overview of the bank’s operations. Altogether, respondents from the bank were ten (10). Ten customers entering the Borrowdale branch were interviewed through informal interviews. The researcher picked every fifth customer entering the banking hall and asked them a few questions about their perceptions about the bank and what they think the bank could improve in order to better compete with other older banks on the market.

3.5.5 Data Collection Methods

Face to face interviews were used in collecting the empirical evidence needed to answer the research question under study. Interviews have a wide variety of forms and a multiplicity of uses. Face to face interviews are the most common type of interviews used. They include a verbal interchange, which can take a form of group interviews, self-administered questionnaire or telephone survey (Fontana and Frey, 1994). The research chose interviews as the major source of empirical evidence as it was the most convenient to confront the bank managers in surroundings where they were familiar and comfortable. Questions were open-ended and allowed the respondents to say as much around the question as possible. The researcher would probe for more information and explanations where necessary. All interviews were recorded using an audio recorder and transcribed verbatim after the research. All participants were given the copy of their transcribed interview to check for any errors and misinterpretations.
Direct observation was used during the researcher’s visits to branches for interviews. The researcher would move around the branch and observe the way customers were served, the nature of inquiries people made as well as the nature of complains customers would make. During these movements, the researcher would also carry out short informal interviews with customers awaiting service.

Direct observation is described by Yin (1994) as the most relevant where a phenomenon of interest is current. The observations were relevant as they were part of creating the researcher’s comprehension and his ability to interpret all information collected from the branches.

Documents collected from the branches included summaries of depositors, reports on profitability as well as reports from the marketing department on the efforts of the bank to increase market share. Documents also showed the current market share and the changes in market share over the past years of operation in Zimbabwe. Previous market research by the marketing department were also necessary for the researcher to gain an understanding of the perceptions of customers on the new bank.
3.5.6 Research Instrument

An interview guide was used to collect data. The interview guide had a few broad questions which allowed the respondent to give more information. The nature of questions also enabled the researcher to probe further for more information from the respondent. The use of interview guide helped to ensure reliability of responses as the same questions will be asked to each respondent. This also reduced researcher bias when asking questions, where one respondent is asked more questions and the other less questions depending on the researcher’s disposition relative to the responded and mood.

3.5.7 Scoping Exercise

A pilot study was carried out at a single branch with one branch manager and five customers. The scoping exercise helped to point out ambiguities in the questions as well as showed that the interview was too long and respondents would lose concentration as the interview continued. After the scoping exercise, the questions were revised and the total time for the interviewed reduced.

3.6 Data Analysis

Yin (1994) defines data analysis as consisting the examination, categorisation, tabulation and recombination of the evidence to answer the study’s proposition. Latz (1993) indicates that it as involves the differentiation of the global experience, seeking features or relations that are “hidden” with the global entity (represented by the massive amount of information obtained from the various methods used to collect empirical data). At this stage, of the study, the author used a process of reflection and cogitation to abstract the described global entity. The global entity in the case study is described by three sources of empirical data, interviews, documents and some extent, direct observation.
Many authors on qualitative analysis recognise that the most common mode of data display is narrative text although it is also despised for being weak and unnecessarily cumbersome. However, Czarniawska (1999) supports the use of narrative text as he indicates that it helps bridge the gap between theory and practice. This study used pattern matching to analyse the qualitative data.

A similarity exists between Miles and Huberman (1984) and Yin (1994)'s recommendations on how the process of qualitative analysis should look like. Hence the analysis in this study was inspired by Czarniawska (1999), Yin, 1994 and Miles and Huberman (1984). However, it is worth mentioning that the author's previous knowledge also influenced the decision on how to analyse the data. Narrative text was used together with pattern-matching and explanation building. Recorded interviews were played over and over again while the contents were typed out as they appear in the interview. Data was then coded by using highlighter colors to show responses answering the same objective. Coded data was then cut out and data on the same objective were filed together. The patterns were picked out by picking frequent statements about the same issues. Rowley (2002) suggest that data analysis of this rich resource is based on examining, categorising and tabulating evidence to assess whether the evidence supports or otherwise the initial propositions of the study. The data was used to build explanations and link empirical evidence with the initial propositions that influenced the study in the first place. The explanations and patterns of data obtained during the process of pattern-matching were also supported with the information found in documents collected from the case branches. The analysis of data followed the proposition that challenges faced by Ecobank as a new bank in Zimbabwe can be overcome resulting in increased market share and profitability. Interpretation of the findings was based on the themes appearing in the data. An intended approach for this research was a situation where several pieces of information from the same case would be related to some theoretical proposition as Yin (2004) indicates to be the expected outcome of pattern matching.
3.7 Validity and reliability

Hassam (2011) notes that the relationship between reliability and validity is a asymmetric when it comes to qualitative research and social sciences. Traditionally, the only way to ensure validity in a study is to apply rigorous methodology that is one which strictly follows a set of objective procedures separating researchers from the researched (Kincheloe and McLarch (1994). This argument implies that the study can only be regarded as valid if the results from the interviews, documents and observation can produce the same results if repeated. Reliability is described as the ability of the study's results to be generalised to other similar cases (Yin, 1994). The ensuing sections describe the efforts of the author in ensuring validity and reliability of the study.

Janesic' (1994) in describing validity in qualitative research poses a question “is the explanation credible?”. Validity is concerned with whether a particular explanation fits a given description. It is worth noting at this juncture that the concept of validity is contested among authors. Altheide and Johnson (1994) argue that all knowledge and claims to knowledge are reflexive on the process, assumption, location, history and context of knowing and the knower. In that sense, one can argue that validity depends on the interpretation of the audience, who may be different from the researcher and the goals of the research. Hence, the validity of a study may be different from one audience to another.

Yin (1994) differentiates between construct validity internal validity and external validity. Internal validity is a major concern in explanatory and casual case studies. Yin (1994) emphasises the need to utilise operational measures in carrying out the study. In that sense, it is important for the authors to describe the phenomenon under study as correctly as possible. This implies that the author’s comprehension and interpretation of the phenomenon studied should be in sync with the real phenomenon.
The study relied on responses from 10 key informants from top management positions in the bank. This was a way of establishing a chain of evidence. Multiple sources of empirical evidence was also employed as interviews, document collection as well as observation were all used to gather evidence. The managers who participated in the study were given a chance to review their responses and to correct any errors and misinterpretations where possible. The questions asked during interviews were homogeneous among all the respondents and were asked in the same order for each respondent. The narratives were captured and typed out verbatim to avoid misinterpretations. Reliability was ensured through the use of the interview guide and one researcher to carry out the interviews. The insistence on face to face interviews also allowed probing and asking for clarification of responses to avoid misunderstanding of the responses.

3.7.1 External Validity and generalisation of findings

Case studies are often condemned for their weakness in external validity. External validity is concerned with whether the study's findings can be generalised beyond the current case study (Yin, 1994, Merriam 1998). Merriam (1998) alludes to the same tenet and emphasises that external validity is concerned with the extent to which results from a study can be applied in a different situation than the studied one. Yin (1994) argues that although critics typically state that single case studies offer a poor basis for generalisation, this conception is only due to the reason that they tent to contrast the situation to survey research where a 'sample' is used and the research is supposed to be generalized to the larger 'universe'. Following Yin (1994)'s argument, when dealing with case studies, the analogy of samples and universes becomes incorrect because case studies rely on analytical generalization. In analytical generalisation, the researcher links the results with existing theory. Porter (1996) is of the opinion that the fact that a case's results are compared to theoretical findings is there to validate and develop the case's argument. This is in support to what Yin (1994) describes to as analytic generalisation.
To ensure external validity, the results of this study were compared to underlying theoretical underpinnings which are inherent in the field of bank profitability and market share.

### 3.7.2 Reliability

Reliability focuses on reducing bias and errors on a study. In the case study, this implied that if another researcher carries out the same study following the same procedures, they should be able to reach at the same results and conclusions (Hassim, 2011). To ensure reliability, a strict protocol was used in selecting the key informants, conducting face to face interviews, and in the informal interviews with customers. The same interview guide was used for each face to face interview with the sequence of sessions being maintained in each case. A copy of the interview guide is available in Appendix 1. A list of documents collected is also available in Appendix 1. In that sense, a different researcher can carry out the study and be in a position to come up with the same results and conclusions if they follow the same procedures. In selecting key informants the researcher made sure that managers with the same capacity and knowledge about the bank’s operations were chosen. This enhanced the credibility of the information collected from them.

### 3.8 Ethics and Values

Respondents were given information about the study before hand and participated voluntarily.

Permission was sought from the top management of the bank before the interviews were conducted in the branches.

Participating banks were informed about the study in writing through email. A short overview of the study and the justification was sent to the bank managers well in advance of the study.
Customers who participated in the study received an oral briefing before the interview to confirm their consent to being part of the study.

3.9 Chapter Summary

This chapter gives a detailed discussion of the methods used in the collection, analysis and interpretation of data for the study. The use of a case study ensured that a single case would be studied in depth within its natural setting. Although the selection of respondents from the bank was judgmental due to the nature of the information needed in the study, the selection of customers responding to questions was purely random. Chapter 4 presents that data collected to show any patterns to either support or reject the earlier proposition.
CHAPTER 4

RESEARCH FINDINGS, INTERPRETATION AND ANALYSIS

4.1 Introduction

The aim of the chapter is to lay down the challenges faced by new banks in Zimbabwe and the possible strategies which can be used to increase market share and profitability. Research findings are presented according to the study’s objectives. Some descriptive statistics are used to describe the characteristics of respondents. Data is presented as qualitative statements since responses given during the study were generally qualitative. Pattern matching was used to draw inferences and show similarities in responses. A discussion follows each finding to link the finding with existing literature. This chapter attempts to either support or question the proposition that the challenges faced by new banks can be overcome resulting in increase in market share and profitability.

The research relied on data provided by ten key informants drawn from the top management of Ecobank Zimbabwe and informal interviews with 15 customers picked randomly from the six branches of Ecobank which participated in the study. Customers were asked questions like, “What motivated you to bank with Ecobank?” Questions which sought to obtain customers’ feelings about new banks were also asked. A document summarising the bank’s mid-year strategy review (Mid-Year Strategy Review 2013) was used for triangulation of information.
4.2 Description of respondents

All key informants drawn from Ecobank were from top management of the bank. Figure 4.1 shows a summary of the positions held by key informants.

Managers who have been working for the bank for a long time were targeted as key informants. All the managers who participated in the research have worked for the bank for at least three years. Some respondents (20%) have worked for the bank for 18 years. This shows the credibility and validity of information obtained during the study. Table 4.1 gives a summary of the length of time the respondents have spent in the bank.
The fifteen respondents randomly selected among customers consisted of 7 males (47%) and 8 females (53%). The selection criteria did not discriminate between customers already banking with Ecobank and those planning to utilise the bank's services due to the nature of information needed. Informal interviews were brief discussions of less than five minutes while the customers waited to be served.

### 4.3 Response rate

A 100% response rate was experienced during the study. The researcher carried out all the interviews. The fact that the researcher himself carried out all interviews increased the reliability of information collected since no variation in questions was allowed. The researcher also managed to probe the respondents for more information where necessary. It also ensured that all chosen key informants answered all the questions tendered to them. One document containing the bank's current and planned strategies was collected for triangulation.

<table>
<thead>
<tr>
<th>Length in current position</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5 years</td>
<td>2</td>
<td>20.0</td>
</tr>
<tr>
<td>5-10 years</td>
<td>4</td>
<td>40.0</td>
</tr>
<tr>
<td>11-15 years</td>
<td>1</td>
<td>10.0</td>
</tr>
<tr>
<td>over 15 years</td>
<td>3</td>
<td>30.0</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.4 Challenges faced by New banks in Zimbabwe

Responses obtained from in-depth interviews with respondents indicated that new banks in Zimbabwe faced a myriad of challenges which include high capital thresholds, low market perception about new banks, high operational costs and high cost of attracting qualified personnel. Although respondents generally agreed on these challenges, the majority of respondents (65%) felt that it is more difficult for new banks in Zimbabwe to gain trust from customers due to the fact that the banking sector has gone through a lot of upheavals in the previous years where some banks closed down and depositors lost their savings.

New banks also face challenges to do with the capital thresholds. Key informants felt that the capital threshold imposed by the Reserve Bank of Zimbabwe on commercial banks is too high. However, Trijillo-Ponce (2010) supports the need for high capital thresholds and notes that better capitalised banks are likely to be more profitable. Athanasoglou et al (2008) concurs and adds that capital acts as a safety net in the case of adverse development. Therefore, a bank in Zimbabwe which manages to raise the capitalisation threshold is likely to be regarded in better light by the customers who will feel safer to deal with the bank.

It was also found out that new banks in Zimbabwe suffer from low market perception due to recent bank failures. Respondents noted that this poor perception has resulted in customers favoring traditional banks compared to new banks. This is in line with Kiyota (2011)’s thesis that traditional banks or those who have stayed in a market for a longer time tend to be more efficient and stable, hence customers feel more secure when dealing with them.

New banks in Zimbabwe also find difficulty in attracting qualified employees. Being a service industry, banks need employees who will be able to offer differentiated services. The need to have highly qualified employees cannot be overemphasized.
Respondents also felt that the situation in Zimbabwe is characterised by a shrinking market caused by more than 10 years of economic melt-down which has resulted in the general populace living from hand to mouth without any need to put money through the banking system. Most industries have either closed down or are operating far below capacity leading to loss of jobs and disposable income. The level of economic growth is a determinant of bank profitability. Albertazzi and Gambacorta (2009) assert that an improvement in economic conditions results in improved solvency of borrowers, increases in demand for credit which have a positive effect on bank profitability. New banks coming to Zimbabwe have faced a shrinking economy where the risk of borrowers defaulting is high. This situation poses a challenge in anticipating better profitability.

New banks in Zimbabwe also need to quickly establish a branch network in order to reach all areas where possible customers can be obtained. Apart from a branch network, new banks also need to invest heavily in technology which makes the services more accessible to the public. Mannan (2010) notes that customers prefer dealing with technology oriented banks which bring convenience in the way they offer the banking services.

4.5 Zimbabwean market perception about dealing with new banks

Key informant interviews showed that the Zimbabwean market’s perception about new banks is negative, especially those whose origin is not Zimbabwean. One branch manager had this to say;

“...some corporate customers I have tried to influence to open accounts with the bank have asked me ‘what if you go under curatorship?’”

Customers who were interviewed indicated the same sentiments although some indicated that they have ended up opening accounts with Ecobank anyway after considering things like the technological advancements, bank’s presence in other African countries, good quality of service among other aspects. Figure 4.5 indicates
the motivating factors identified during informal interviews as motivating customers to opening accounts with Ecobank, thereby defying their fears.

**Motivation for opening an account with Ecobank**

![Pie chart showing motivations]

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presence in other countries</td>
<td>27%</td>
</tr>
<tr>
<td>Technology</td>
<td>27%</td>
</tr>
<tr>
<td>More branches than other banks</td>
<td>13%</td>
</tr>
<tr>
<td>Good Quality of service</td>
<td>33%</td>
</tr>
</tbody>
</table>

*Figure 4.5*

Although about 10% of key informants felt that customers preferred banking with international banks that have been in the banking sector for a longer time and are perceived to be stable, 65% of the customers surveyed indicated that they felt it riskier to deal with new banks.

Some customers who participated in the study emphasized that new banks like Ecobank bring with them convenience and technology which makes banking easy. One customer surveyed had this to say:

“I had to brace myself against my friends’ stern warnings about opening an account with this bank when it first came to Borrowdale. You cannot just trust a new bank...”
you know, not after the losses we suffered in 2009. What I enjoy here is the high quality service and the technological advancement. It becomes so convenient and effortless to get services here compared to some available domestic owned banks”

Some customers also indicated that although were attracted to try the new banks, they would always keep another account with a well-established local bank in case the new banks close down.

This finding is in link with Naarborg and Lensink (2008)’s view that domestic owned banks may lack comparative advantage. New foreign banks have comparative advantage resulting from access to new technologies which can enhance quality of service, more efficient organization of staff and better control and access to more qualified labour force which has the ability to utilize the available technologies.

4.6 Ecobank’s major competitors

The major competitors for Ecobank were indicated as Commercial Bank of Zimbabwe (CBZ), BancAbc, Barclays Bank, Standard Chartered Bank and Stanbic Bank (70% responses). From this response, CBZ is ranked the biggest competitor. This is in line with the respondents’s other assertion that customers tend to favour well-established local banks compared to new banks coming from externally. The rest of the major competitors to Ecobank seem to be international banks that have been in Zimbabwe for longer. Kauko (2000) notes that international banks are likely to have a bigger market share in developing countries due to their stability and access to a supporting parent company which help them to be stable and offer a good variety of products at relatively low interest rates.

Mobile companies were indicated by 30% of respondents as one of the emerging competitors for Ecobank. Ecocash, which is a product of Econet Wireless in partnership with TN Bank, has leveraged the banks’ limited geographical presence. The presence of mobile banking services across the country means that people can
access banking services easily in remote parts of the country where banks fail to establish a branch network.

Deposit taking micro finance institutions were indicated to be posing some competition as their products are becoming more and more similar to what banks are offering. Toindepi (2012) noted with concern that microfinance institutions have undergone a mission drift and have increasingly encroached into the commercial banks’ markets by offering similar services.

4.7 Satisfaction with Ecobank’s market share vis-a-vis time of operation in Zimbabwe

A variety of viewpoints were expressed by respondents in assessing the current market share and profitability of Ecobank as a new bank in Zimbabwe. Some respondents (55%) felt that although Ecobank's performance as a new bank in Zimbabwe is fair, the bank could have performed better if the situation in Zimbabwe could have been better. Key informants (36%) felt that if the bank could have been able to garner more capital to roll out a network of branches, it could have improved its current market share. In addition, 20% of key informants felt that the bank could have performed better if a more aggressive publicity campaign was carried out. Being new in a market, most customers need time to know the bank and understand what it stands for. During personal interviews, respondents also indicated that the bank could have performed better in the absence of persistent negative reports about their under-capitalisation, compounded by the collapse of their peers or weak management frameworks. To quote from Key informant number 3’s response to the question, “How satisfied are you with the bank’s performance so far?”

“..not bad. Considering the economic situation in the country. However, it is still below what we expected in the beginning. We never anticipated some of the challenges we faced”

This observation by respondents supports the point raised earlier in this discussion that new banks in Zimbabwe have been adversely affected by the perception of
customers resulting from a period of economic downturn where the customers suffered losses and lost confidence in the Zimbabwean banking sector.

4.8 Major determinants of commercial bank profitability and increased market share in Zimbabwe

Respondents indicated the following as some of the determinants of bank profitability and increased market share in Zimbabwe:

- The capacity of the bank to advance appropriately priced and structured loans.
- Capacity to mobilise cheap deposits to reduce interest costs
- A sound risk management frame to reduce the possibility of non-performing loans.
- The bank’s access to low cost funds which enables it to lend funds more cheaply
- Personal and business loan financing
- Capital, which determines the level of business that a bank can underwrite
- Deposit base, aggressive mobilisation of deposits coupled with prudent lending which ensures good performance of the loan book
- Quality of assets, ability to create quality assets
- Number of distribution channels
- Quality of management
- Investment in advanced and reliable Information Technology system
- Comprehensive product offering
• Liquidity availability
• Good governance and risk practices that enhance depositor confidence
• Low operating costs
• Low interest expense which results from a large pool of non-interest bearing deposits
• Ability of the bank to attract clients with a good credit rating who have low risk of default thus reducing loan loss provisions

The above listed responses indicate a skew in the key informants’ views on the determinants of profitability. Key informants seem to concentrate on bank specific determinants. This is contrary to authors like Scott and Arias (2012) and Trujillo-Ponce (2010) who point out that bank profitability relies on two sets of determinants which are bank specific and industry and macro-economic environment specific.

4.9 Market dynamics affecting new banks in Zimbabwe

Respondents observed a number of market dynamics at play in Zimbabwe which affect new banks. These include customer perception and confidence, flight to quality, tight liquidity environment, high risk, bleak economic environment, absence of lender of last resort and the transitory nature of deposits.

Figure 4.9 indicate that market perception tops the rankings of what key informants felt as the market dynamics affecting new banks in Zimbabwe.

Market dynamics affecting banks profitability
4.9.1 Customer perception and confidence

One of the most important market dynamics was found to be customer confidence and perceptions (37% responses). Respondents felt that Zimbabwean customers generally favor traditional banks and in the event of liquidity constraints, customers divert their banking to traditional banks. Respondents also indicated that customers have lower confidence in the banking sector. The closure and placement under curatorship of some banks have negatively affected the perceptions of customers about the banking sector.

4.9.2 "Flight to quality"

“Flight to quality” a situation where customers rush to well establish banks, was also indicated as one of aspects affecting banks in Zimbabwe. Customers prefer banking with well-established banks who offer better quality products.
4.9.3 Tight liquidity environment

It was also indicated that there is a tight liquidity environment in Zimbabwe which makes it difficult for new bank players to lend long term. This affects the ability of the new banks to compete with older banks which tie their customers with longer relationships. Respondents also indicated that the liquidity challenges have affected the circulation of money in the economy. Albertazzi and Gambacorta (2009) found a positive relationship between economic growth and bank profitability and note that an improvement in the economic growth will result in solvency among borrowers therefore reducing the chances of them defaulting in their loan repayments.

4.9.4 Bleak economic and political situation

Respondents felt that there is currently an impasse in the political sphere and it is making it difficult for one to see where the economy is going. The economic growth was found to affect bank profitability. Most respondents indicated that there is a positive correlation between economic growth rate and profitability. Respondents (12%) understood economic growth rate as an indication of a nation's wealth whereby an increase in economic growth rate is directly related to an increase in demand for goods and services by the general public. Banks suffer losses from non-paid loans if the economy is contracting while a booming economy creates greater and better capacity for banks to write quality loans and access cheap deposits. In relation to Zimbabwe and Ecobank, respondents noted that the economy of Zimbabwe has been slowing down since 2009 and banks have reported the Non-paid loan ratio of around 35%, reflecting that borrowers are faced with changing macro-economic conditions making it difficult to meet commitments. Business assumptions are constantly changing making it difficult for commerce and industry to thrive.

4.9.5 High transitory nature of deposits
The high transitory nature of deposits affect the banks' ability to provide medium to long term funding required in the economy. Some respondents (13%) felt that most depositors in Zimbabwe do not have incomes which they can leave in the bank. The nature of deposits is transitory since most customers use banks for receiving their incomes and immediately withdraw the money. Trujillo-Ponce (2010) observed that the nature of deposits determined the availability of funds which can be used by the bank to finance long-term loans.

4.9.6 High risk

Most new banks in Zimbabwe do not have the adequate capital to underwrite risk associated with operating in the Zimbabwean economy. Some respondents felt that the Zimbabwean market is risky in that customers are faced with an ever changing economic environment which makes it difficult for them to meet commitments. This poses a risk to banks which face the possibility of having many defaulting customers. Trujillo-Ponce (2010) notes that a risky operating environment affect the bank’s ability to develop quality assets. He notes that the presence of doubtful assets (for example loans which may not be honored) will require the bank to allocate a significant portion of its gross margin to provision to cover unexpected credit losses.

4.10 Strategies adopted by Ecobank in increasing market share and profitability

Key informants from Ecobank indicated that the bank has adopted a number of strategies to deal with challenges which it has faced in entering the Zimbabwean market. Information obtained from the Mid-Year Strategy Review 2013 document for the bank supported the key informants' assertions. Advanced e-banking channels, relationship management, adherence to the tenets of corporate governance, establishment of a branch network, utilisation of the Pan African brand, and aggressive marketing efforts.
4.10.1 E-banking

Ecobank has adopted an aggressive e-banking strategy. Apart from establishing a network of Automated Teller Machines, the bank’s strategy also includes incorporating mobile banking in order to increase its outreach to remote customers. Mannan (2012) notes that internet banking has changed the banking industry and customers find more technology oriented banks to be more convenient. Ecobank has taken advantage of Information technology and targets to establish at least 30 ATMs to be in the top ten categories of banks operating in Zimbabwe. By June 2013, the bank had 19 ATMs.

4.10.2 Relationship management

Ecobank has embraced relationship management as a tool to increase market share in Zimbabwe. In view of the nature of the Zimbabwean market which has lost trust in the banking sector, the bank has invested in establishing relationships with customers. This has seen the bank growing its customer numbers to include corporates, government departments and individuals.

4.10.3 Corporate governance

The tenets of corporate governance have been accredited as a source of competitive advantage. As one of the strategies for improving market share and profitability, Ecobank upholds the following corporate governance principles:

- Increased board supervision of management activities
- Raised the required capital levels on time in order for customers to view it as stable and compliant
- Properly mandating and resourcing all committees
• Establishing a clear separation of duties between shareholders and managers of the bank

• Minimising insider loans

• Publishing financial results on time

• Making use of a sound and credible auditing firm

4.10.4 Distribution channels

The bank takes the steady increase in distribution channels as a strategy to increase market share. Although the bank had wanted to have at least 22 branches in the country by the end of 2013, the bank currently has 11 branches. Distribution will also be improved by incorporating mobile banking and Off-site ATMs at Total garages and universities and private hospitals.
4.10.5 Branding and marketing

Branding is one of the most useful marketing concepts used by organisations to gain competitive advantage. Ecobank has used the Pan-African Brand to communicate a message of stability, resilience and reliability. Their tag-line "The future is pan-African" exudes a bank focused on improving the ways they do business in African communities, yet without being too exotic.

Key Financial Performance

The bank has managed to turn its loss in the first year of trading to profitability due to implementation of the above strategies. The summarized results are as shown on the table below.

<table>
<thead>
<tr>
<th></th>
<th>2013 USD000</th>
<th>2012 USD000</th>
<th>2011 USD000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Interest Income</td>
<td>13,841.00</td>
<td>9,790.00</td>
<td>6,501.00</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>7,515.00</td>
<td>3,990.00</td>
<td>(863.00)</td>
</tr>
<tr>
<td>Non Interest Income</td>
<td>9,308.00</td>
<td>7,408.00</td>
<td>1,922.00</td>
</tr>
<tr>
<td>Total Operating Income</td>
<td>16,823.00</td>
<td>11,398.00</td>
<td>1,059.00</td>
</tr>
<tr>
<td>Admin Expense</td>
<td>(14,414.00)</td>
<td>10,653.00</td>
<td>(8,565.00)</td>
</tr>
<tr>
<td>Profit before Income Tax</td>
<td>2,409.00</td>
<td>745.00</td>
<td>(7,506.00)</td>
</tr>
</tbody>
</table>

In the first year of trading the company made a loss of USD7.5million but as a result of employing the above strategies the company has managed to crawl back from the loss position to a profit of USD2.4million as at 31 December 2013.

4.11 Chapter Summary
This chapter provided a summary of the findings on challenges faced by new banks in Zimbabwe and possible strategies for increasing market share and profitability. The findings generally describe a unique operating environment characterised with a slow growing or stagnant economy which poses considerable risk to banking operators. Strategies have however been adopted in dealing with this situation which include concentrating on relationships, marketing efforts to deal with customer perceptions and offering more customised and innovative product offerings. Chapter 5 concludes the research report and provides recommendations for new banks in dealing with challenges associated with the Zimbabwean market.
CHAPTER 5

RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

This chapter concludes the research report, basing on the findings outlined in Chapter 4 on the challenges faced by new banks in Zimbabwe and possible strategies to increase market share and profitability. Generally findings in Chapter 4 portray that, new banks in Zimbabwe face challenges which include regulated levels of capitalisation, negative perception by customers, transitory nature of deposits among others. Strategies indicated include the fact that banks need to concentrate on relationship management, establish a branch network, utilise technology to reach out more customers and exercise corporate governance in order to increase market share and profitability. This chapter draws conclusions based on the findings and suggests recommendations.

5.2 Conclusions

5.2.1 Challenges faced by new banks in Zimbabwe

New banks entering the Zimbabwean market face the following challenges:

- Transitory deposits which reduces that ability to offer long term loans. The nature of deposits is mainly associated with a mal-performing economy where companies have not yet been able to offer their employees better wages and salaries.

- Since 2009 when a multi-currency system was introduced, Zimbabwe can be described as a market undergoing a transition. Therefore, the market
dynamics in the economy are unique and ever-changing. Under the current situation in Zimbabwe, new banks suffer from information asymmetry since it may be close to impossible for a market research to unveil all the possible challenges likely to be associated with such a market.

- Poor perception of the banking sector resulting from bank failures in the past and the loss experienced by depositors when the banking sector changed over to a multi-currency system in March 2009. Guo et al (2010) suggest that poor perception has a major influence on the overall level of satisfaction as well as the decision to be loyal to a new bank. Yet the same authors emphasize the fact that a bank needs a high level of customer satisfaction for it to be profitable since satisfied customers become advertising mediums who are likely to recommend the bank’s services to other customers.

- An economy which is retarded, which has influenced the ability of borrowers to fulfill their commitment. Chirwa (2010) concluded during his study in Malawi that market growth ranks highly among factors which determine bank profitability in a developing country. A retarded economy is likely to result in low market growth since no new people are getting employment; no new companies are opening or expanding hence the need for more banking services or loans. Chirwa (2010) argues that large markets are easy to enter although customers in such markets are more sophisticated and expect better quality services. Although the market in Zimbabwe is still developing and hence less sophisticated, the rate of economic growth currently has resulted in very high competition for the small market.

- High capitalisation levels imposed by the Reserve bank of Zimbabwe which consumes the capital which could have been used to finance expansion. In June 2012, the government of Zimbabwe a new policy which requires all
financial institutions to recapitalise according to set mandatory thresholds. The new policy requires every commercial bank to have a minimum capital of USD100 million. Table 5.2.1 gives a summary of the recapitalization levels required for financial institutions in Zimbabwe with effect from June 2012.

As the table shows, commercial banks had an increase of 700% in their capitalization levels.

Although mandatory capitalization is not a new system in the world, Zimbabwe is currently the one requiring the highest level of recapitalization level. In South Africa, Commercial banks are required to have USD40 Million while Zambia requires around USD20 million capitalization levels.

The capitalization levels and the time frame given to raise the amounts represent a major challenge which can erode profitability in a new bank.
Table 5.2.1 Percentage change of required recapitalisation levels for financial institutions

<table>
<thead>
<tr>
<th>Sector</th>
<th>New Required Capitalisation level</th>
<th>Old Capitalisation levels</th>
<th>Percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>USD100 Million</td>
<td>USD12.5 Million</td>
<td>700%</td>
</tr>
<tr>
<td>Merchant Banks</td>
<td>USD 100 Million</td>
<td>USD 10 Million</td>
<td>900%</td>
</tr>
<tr>
<td>Building Societies</td>
<td>USD 80 Million</td>
<td>USD 10 Million</td>
<td>700%</td>
</tr>
<tr>
<td>Micro-Finance institutions</td>
<td>USD 5 Million</td>
<td>USD 1 Million</td>
<td>400%</td>
</tr>
</tbody>
</table>

Although some banks can view capitalisation as a challenge, most authors view high levels of capitalization as a proxy for sustainability and security. The RBZ regards recapitalisation as a pre-cast wall that protects depositors against some financial institutions which have abused depositors’ money in the past.

Notwithstanding the protection of depositors, shareholders of new banks like Ecobank are required to inject more funds in order to comply with the regulatory requirements.

- High competition from older banks and mobile banking companies. Older banks have been in the market for a longer time and therefore have managed to gain the trust of customers over a long period of time. Naarborg and Lensink (2008) argue that domestic owned banks can realize higher profits because they do not have structural agency that foreign banks face as well as costs of establishment that foreign banks face. Having said that, the current situation in Zimbabwe which is associated with high concentration of customers in locally owned banks
may not be associated with costs. The high concentration in Zimbabwe may be associated to preferential treatment of domestic owned banks which cushioned them against the negative impacts of the hyperinflationary period. This also includes assistance by the state in re-capitalisation efforts.

- Banks entering the Zimbabwean market will now face competition from Micro-finance institutions which will soon be licensed and regularized. By June 2013, the RBZ records showed that there were 165 registered MFIs. However, the regulation of MFIs to enable them to take deposits may results in more MFIs coming forward to regularize. MFIs pose a major challenge to commercial banks in Zimbabwe because of the nature of the Zimbabwean market. Banks rely heavily on individual depositors and SMEs. Since there are more SMEs than large corporate, commercial banks will feel the competition from MFIs as they will soon start competing for the few customers available in the market.

5.2.2 Factors affecting profitability and market share for new banks in Zimbabwe

The profitability and market share in Zimbabwe is affected by the following:

- A bank's ability to roll out a network of branches in order to reach all customers. A new bank entering the Zimbabwean market should be in a position to quickly spread a branch network in order to reach all the important points in the market. Authors like Naarbog and Lensink (2008) suggest that the availability of technology can assist a bank in this regard. However, the situation in Zimbabwe is unique in the sense that the level of appreciation of the use of technology in banking is still limited and major investments in client awareness and education will need to accompany such efforts to make use of technology to reach out to customers.
• A bank’s size as it is a sign of resilience and staying power, hence a force for positive perception by customers. In Zimbabwe the influence of a bank’s size on profitability is limited by the fact that the market already has a negative perception on new banks. Therefore, a bank coming to Zimbabwe can benefit by ensuring that they have the mandatory capitalization levels and apply above board corporate governance principles in conducting their transactions.

• A bank’s ability to access low interest funds which can be used to fund loans and other products which brings in a profit.

• Ability to come up with a large variety of products

• A bank’s ability to raise the required capitalisation levels. The Zimbabwean market relies heavily on media reports about financial institutions. A new bank coming to Zimbabwe should ensure that they raise the required capitalization levels as soon as is possible in order to gain trust among the customers.

5.2.3 The Zimbabwean market’s perception about dealing with new banks

• The Zimbabwean market is skeptic when it comes to dealing with new banks due to previous failures of banks in Zimbabwe which resulted in loses

• Customers in Zimbabwe prefer dealing with traditional banks which have worked to gain trust over a long period of time
5.2.4 Strategies for increasing market share and profitability in Zimbabwe

In order for a bank to increase its market share and profitability in Zimbabwe it should:

- Establish a network of branches to reach all areas
- Invest in modern technology which provides convenience and ease of access to all parts of the country. Mobile technologies have proved successful in the Zimbabwean markets, however with very high level of promotion and customer education.
- Concentrate in relationship management in order to gain trust and confidence from customers.
- Make use of branding and aggressive marketing in order to communicate their presence in the market

5.3 Recommendations

The researcher makes the following recommendations in light of the discussed findings:

- New banks coming to Zimbabwe need to invest quickly in technologies that are accessible, for example mobile banking. The proliferation of mobile usage in Zimbabwe has grown to be huge and it likely to continue increasing in the near future. The use of mobile banking will ensure easy spread of a new bank into remote areas of Zimbabwe. Most banks in Zimbabwe have invested in internet banking, yet most areas in Zimbabwe have no access to internet. This makes these investments in technology useless since the majority of client arenas cannot access the banks’ internet based services.
- Banks should offer customized technologies to target corporates, for example integrating banking systems with financial management systems of
corporates. Such integration ensures convenience in accessing banking services. Once such innovations are available in a new bank’s strategic portfolio, banks will likely increase their market share and be in a position to breach more and more corporates with their products.

- As more and more organisations have become more involved in communities where they operate, the concept of Corporate Social Responsibility (CRS) has become a source of competitive advantage for banks. Like many other customers world-wide, Zimbabwean depositors want to deal with banks which participate in solving social issues in their communities. Banks can be involved in such activities as sponsoring sporting activities, helping the poor or vulnerable in communities. This strategy can help banks to gain market share and establish a relationship with the communities where their customers come from.

- Foreign owned banks entering Zimbabwe should aim to increase their visibility in the market. This can be done by indigenising the bank by either incorporating local investors into the bank or allowing locals to buy some shares into the bank. In the absence of such an arrangement, the Zimbabwean market will likely need time for just watching the bank without actively dealing with it for a long time as they learn to trust the bank. For a commercial bank like Ecobank, the time spent while allowing the customers to watch implies a period of very low market share and profitability. Allowing locals to buy into the bank solves this challenge over a shorter period of time.

- New banks entering Zimbabwe should be located in areas where people live. In Zimbabwe it is rare to find a bank in the high density areas. Locating banks near areas where people stay will encourage people to utilize the banking services and adds convenience.
5.4 Suggestions for further study

This study focused on challenges faced by new banks in Zimbabwe and based all the research on a single organisation. Further research may need to be carried out to look at the comparative impact of individual challenges. Also, a longitudinal study may be carried out to measure the comparative success as a result of some of the strategies suggested in this study and in other studies acknowledged in this study. Some specific aspects discussed in this study may also need to be researched in-depth. A good example is the re-capitalisation policy. It may be necessary to carry out a study among commercial banks to evaluate the rate at which they manage or fail to manage to recapitalise, the sources of the funds they use and the implications of the capitalization in the long run. The new microfinance bill can be used for future study. It may be necessary for one to look at the impact of the regularization of MFIs who are now going to be taking deposits. The relative impact on profitability and market share among commercial banks in Zimbabwe may need to be evaluated.

5.5 Chapter Summary

This chapter concludes the research report on the challenges faced by new banks in Zimbabwe and possible strategies to increase market share and profitability. Generally, the study established that challenges are present in the current Zimbabwean operating environment but they can be overcome and banks can increase market share and profitability through the utilisation of a number of suggested strategies. There is need for new banks to closely study the operating environment, develop strategies concentrate on maintaining a close relationship with the market in order to be successful.
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INTRODUCTION

My name is Hazvibviri Njokonya. I am carrying out a study in partial fulfilment of my MBA programme with the University of Zimbabwe. The purpose of this interview is to gain more insight into the challenges faced by Ecobank and suggest strategies to overcome them so as to increase the bank’s market share and profitability. You have been chosen to participate in this study due to your position in the bank, which makes you competent to respond to the questions in this interview. As indicated in the Consent form you just signed, you are free to withdraw from this interview at any time. The interview will be recorded for future transcription, but information collected will be used purely for the study.

1. What position do you hold in the bank?
2. For how long have you been with the bank?
3. What challenges do you think are faced by Ecobank as a new commercial institution in Zimbabwe?
4. What market dynamics in the banking sector do you think are at play?
5. How do you think these challenges can be overcome?
6. What do you think have influenced the bank’s current market share and profitability?

7. How can the bank increase its market share and profitability?

8. Do you think customer perceptions about the bank can have influence on the success of the bank and how can the bank command a positive perception from the customers?

Thank you for your time.