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2020

Liquidity Risk Management

OD Strategies

Non-performing Loans in Banking

Business Reinvention

Davos Manifesto 2020 - Commentaries

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Our mission is to share and ignite insightful conversations that enhance knowledge, skills, and application; and strengthen synergies among OD professionals and organizations.

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EDITOR'S NOTE

I am extremely humbled to be bringing the second *Issue* of the OLDQ 2020 Edition. The OLDQ is embarking on numerous evolutionary strategies in order to reinforce the broader editorial purpose. We have initiated the process of *indexing and abstracting* all our publications on numerous databases including Cite Factor, Research Bible, Index Copernicus, Directory of Research Journals Indexing, and African Journals Online. The OLDQ Editorial Board is focused on enhancing real scholarship in the field of organization leadership and development. Our publications going forward will seek to ignite insightful conversations through fostering *scholarship of discovery, scholarship of engagement, scholarship of integration, scholarship of teaching*, and in view of the values of OD, *scholarship of practice*.

We have added two supplementary sections to the OLDQ: 1) feature article, and 2) editorial commentary. In support of the scholarship of engagement, integration, and practice; the **Featured Article Section** republishes articles from renowned scholar-practitioners across the globe. All articles under this section are republished in the format agreed by the authors. The current *Issue* covers an article by **Joe Hanson and Norm Smallwood** on "Business reinvention". We appreciate Professor Dave Ulrich for recommending this article to the OLDQ. The **Editorial Commentaries Section** reviewed the article by **Klaus Schwab** (*Founder & Executive Chairman of the WEF*) on the "Davos Manifesto 2020". Much appreciation to **Dr. Dotun Jegede**, **Mr. Tosin Ekundayo**, and **Ms. Gene K. L. Infante** for the valuable contributions. All the commentaries were subjected to a double-blind peer review process. This *Issue* also covers liquidity risk management in Ghana, non-performance loans in Zimbabwean banking sector, and OD strategies in the fashion industry in UAE. The need for organization development and leadership interventions in these areas cannot be overemphasized.

Please note that most of the OLDQ articles and findings will be discussed on the **COLD Webinars**. Thank you so much for taking time to read this *Issue*. The world is no better place without engaging into insightful and transformation-focused conversations. Hence, we welcome your feedback and OD success stories as we advance the field of Organization Leadership and Development.

Be part of our transformative agenda. Share your insights.

Managing Editor

Dr. Justine Chinoperekweyi

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Liquidity risk management and profitability nexus of listed banks in Ghana

Armstrong Ephraim Awinbugri

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Abstract

The study examines the impact of liquidity management on the profitability of banks listed in Ghana Stock Exchange. Purposive sampling technique was used to select 7 banks out of the 10 listed banks. Quantitative research approach was adopted, making use of secondary data comprising audited financial statements as well as other significant reports within a ten-year period (2008-2017). The liquidity variables were investment ratio, quick ratio, capital ratio, net credit facilities/ total assets and liquid assets ratio, whilst return on equity (ROE) and return on assets (ROA) were the proxies for profitability (performance). It was observed that liquidity management have a positive and significant relationship with profitability of banks listed on Ghana stock market. In line with the findings, it was recommended that listed banks in Ghana must adopt effective liquidity risk management schemes to enhance profitability through sufficient holding of cash and cash equivalent resources to mitigate any liquidity gap that might result in reliance on repo markets.

Keywords: *liquidity, liquidity risk management, profitability*

Introduction

Finance remains the lifeblood of every organization, including the banking institutions. When an organization has adequate funds to address its short-term obligations, we say the organization is liquid. Banks act as intermediaries between depositors' funds and buyers of these funds, thereby accumulating pool of funds which is eventually loaned-out to the buyers of bank funds. Banks are exposed to several risks such as credit risk, liquidity risk, interest rate risk, and currency exchange risk. These risks threaten the going concern status and the performance of individual banks; making risk management the foundation of banking activities. This paper submits that efficient risk management is fully needed in Ghana banking sector since banking is a business of risk. Carey and Mark (2011) posited that risk management is quite relevant in the monetary business than in other industries of the country.

Liquidity challenges affect every facet of the economy and does not relate to only monetary organizations. Effective management of organizations' funds guarantees that the organizations have enough working capital to fuel their operations. A standardized liquidity risk management strategy and procedure that guarantee prudent use of funds and eliminate risk; particularly the liquidity risk must be developed and implemented in order to enhance the value of the organization.

Liquidity risk is quite a tough aspect that confronts banking operations because most banks are unable to forecast depositors' demands as regards withdrawals. The Bank of Ghana (BoG), in accordance with Section 28(1) of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930), revised upward the minimum paid-up capital for existing banks and new entrants from GH¢120 million to a new level of GH¢400 million effective 11th September 2017, leading to the liquidation of many banks and financial institutions within the period (Joy Business News, 2017). However, this regulatory action has since caused panic withdrawals by customers thereby initiating the need to conduct an empirical study on liquidity risk management and its impact on bank's profitability.

The result of bank liquidity management is that when banks get it wrong in liquidity management, the results could have severe consequences for the economy. Liquidity management plays an important role in the successful running of a business. Liquidity remains the lifeblood of banking organizations hence, its effective management contributes significantly to the existence of listed banks and the economy at large (Xiao, 2016). Liquidity risk management involves managing both the assets and liabilities side of the statement of financial position to strike an equilibrium balance between liquidity and profitability.

Statement of the Problem

The monetary structure of a country is the mechanism of growth to its economy, because it performs role of converting deposits to huge capital to businesses for economic events. Foreign exchange risk, liquidity risk, credit risk and operational risk are some of the risks that the banks face in executing this role. With the upcoming of the foreign banks in the country, Ghanaian banks are confronted with liquidity risk. Ghanaian Listed Banks have fortified the link with global markets and trades in financial derivatives, in their search of attaining competitive advantage and increased profitability which makes the internal banking system more vulnerable to risk, predominantly liquidity risk. This problem has not been satisfactorily dealt with, and it is contrary to this background that, the study analyzed the impact of liquidity management on the profitability of listed banks in Ghana, taking into consideration the abovementioned problems on liquidity effects on banks, financial institutions, and the Ghanaian economy at large.

Overall Objective of the Study

The main objective of the study was to determine liquidity risk management and profitability nexus of listed banks on the Ghana Stock Exchange. More specifically, the study seeks to examine the correlation between liquidity management and profitability of listed banks in Ghana.

Literature Review

Overview of Banking in Ghana

The framework of banking commenced in Ghana in 1896 when the British Bank of West Africa, now Standard Chartered Bank (Ghana) Limited, opened an office in Accra and offered primary banking services of lending and borrowing of money. The Ghanaian banking industry is relatively small consisting of (23) banks as of February 2019 and (4) other banks (Bank of Ghana Report, 2019). The banking system is based on the concept of universal banking where banks can offer all banking services.

The banking sector has witnessed many reforms. Prior to the reforms, there has been an extensive post-independence government intervention. Public ownership characterized the banking systems. All the banks that were set up between the early 1950 to the late 1980 were either wholly or majority-owned by the public sector. Interest rates were centrally monitored by the Bank of Ghana and there were restrictions on sectoral credit allocation. Financial sector policies were characterized by severe financial repressions, real interest rates were steeply negative and most of the credit was channeled to the public sector. This triggered a series of reforms which included the liberalization of allocative controls on banks, restructuring of insolvent banks and reforms to prudential regulation and supervision (Brownbridge and Gockel, 1996).

The programme also led to the restructuring of distressed banks and cleaning up the non-performing loans in banks' balance sheet. The post-reform period has witnessed major transformation in the financial system. The institutional structure of the financial system has become more deepened and diversified. The banking sector in particular, has witnessed immense developments which include an increase in the entry of private banks (including foreign banks) into the market, and the expanded use of branches by the existing and new banks. Notwithstanding the natural barriers to entry which may exists due to tight regulation, risk, and capitalization requirements, the banking industry has witnessed the entry of eight banks from the sub-region and Asia in the last five years. That accounts for 42% growth in the number of banks in the industry over the period. In operation within the financial system are a significant number of insurance companies, a vibrant stock market and an ever-increasing number of non-bank financial intermediaries.

The financial system also operates in a legal and regulatory framework. These frameworks define the legal and regulatory environment in which banks operate. Some of such frameworks include: The Companies Act, 1963 (Act 179), Constitution of Ghana 1992; Securities Industry Act 1993 (Act 333); Bank of Ghana Act, 2002 (Act 612); Banking (Amendment) Act 2007 (Act 378); and the Non-Bank Financial Institution Act 2008 (Act 774).

The phenomenal growth in the industry, coupled with expansion in branch network, and re-injection of capital across the spectrum of the industry have not succeeded in reducing the high interest rates. The industry still operates in a high interest rate regime despite attempts by Bank of Ghana in reducing the policy rate to which the interest rates have been pegged. Commercial banks are expected to change their lending rates in response to change in the policy rate by the Monetary Policy Committee of Bank of Ghana. The high interest rate may account for the business and financial risk, market power or inefficient management in the sector. An empirical study may help answer these questions. The capital re-injection may improve the margin of protection for risk absorption. However, new regulation would continue to add to the complexity of the business environment. The new Basel Capital Accord (Basel II) which is expected to be operational in 2011 will constitute the most significant change to banking supervision. Under the Basel II Accord, a bank's capital requirement will be based on their risk profile.

According to the Ghana Banking Survey 2010 by Price Waterhouse Coopers in collaboration with Ghana Association of Bankers, Ghana Commercial Bank Ltd has remained the industry leader in terms of total assets over the last ten years but only toppled by Barclays Bank Ghana Ltd. in 2007 after its nationwide expansion in branch network. Ghana Commercial Bank Ltd., Barclays Bank Ghana Ltd., Standard Chartered Bank Ghana Ltd., Ecobank Ghana Ltd., and Agricultural Development Bank Ltd., control more than 50% of the total market share in terms of total assets. It is therefore obvious that the industry is a highly concentrated one. The largest banks are not necessarily the most profitable. Although the industry profits, when measured in terms of return on shareholders' fund have remained high, it exhibits a declining trend. According to the 2010 Banking Survey, Standard Chartered Bank Ltd., appears to be consistent in bringing high returns to shareholders. The industry return on equity dropped from 22% in 2008 to 12.1% in 2009 (Ghana Banking Survey 2010). This was possibly as a result of the recapitalization requirements and a general decline in profits. However, the ROE increased to 14.9% (August 2017), 16.9% (August 2018), and 20.9% (August, 2019) (Bank of Ghana, 2019).

Case Analyses: Bank Failures in Ghana

From the reasons given below, it is apparent that all the reasons enlisted hinges on inability to properly manage liquidity risk.

UT Bank LTD

Loan against Collateral

In his recently launched book, former UT Bank employee Samuel Okyere observed that bank loans were granted solely as collateral loans, without any further analysis.

Poor Credit Management Practices

A significant cause of bank failure is poor credit quality and deficient credit risk assessment and measurement practices; and therefore, the failure to identify or recognize an increase in credit risks in a timely manner can cause major problems. An observation was made that there was non-adherence to credit management principles and procedures as due to the high exposure of the bank to insiders and related parties. Samuel Okyere also noted that the loans approval process was the responsibility of one person, whose work was not properly checked. Some auditors, Boulders Advisors Limited, in a document stated that their review of "Loans Granted to Related Parties not connected to the UT Group" found out that there were "poor credit management practices, poor credit governance and supervision".

Capital Bank LTD

Debt

Capital Bank was declared insolvent by central bank of Ghana. Its liabilities greatly exceeded its assets. According to the financial analyst, Sydney Casely-Hayford, noncollectable debts of GH¢11 billion owed to Capital Bank and UT Bank resulted in the collapse of the banks.

Questionable License Process

It was reported that Capital Bank LTD procured its license under false pretense.

Bad Risk Management and Funds Embezzlement

A report was made that Capital Bank collapsed because major shareholder William Ato Essien treated depositors' funds and public funds as though they were his personal funds. The liquidity support of GH¢620 million, that was issued by the central bank of Ghana to Capital Bank to cure its liquidity struggles was allegedly mismanaged, leading to its collapse.

uniBank Ghana Ltd

Undercapitalization

According to the press release document by central bank of Ghana, during its Asset Quality Review (AQR) of banks conducted in 2015, and reviewed in 2016, uniBank Ghana LTD was identified to be significantly undercapitalized. Although the bank subsequently submitted a capital restoration plan to central bank of Ghana, the plan failed in returning them back to solvency and compliance to prudential requirement. Hence, it was found that the bank was beyond rehabilitation.

Royal Bank LTD

Undercapitalization

The updated Asset Quality Review (AQR) of the central bank of Ghana revealed that, just as in the case of uniBank Ghana LTD, Royal Bank LTD was also significantly under-capitalized, plans to restore them back to solvency could not materialize. Hence, Royal Bank LTD was declared to be beyond rehabilitation.

Construction Bank LTD

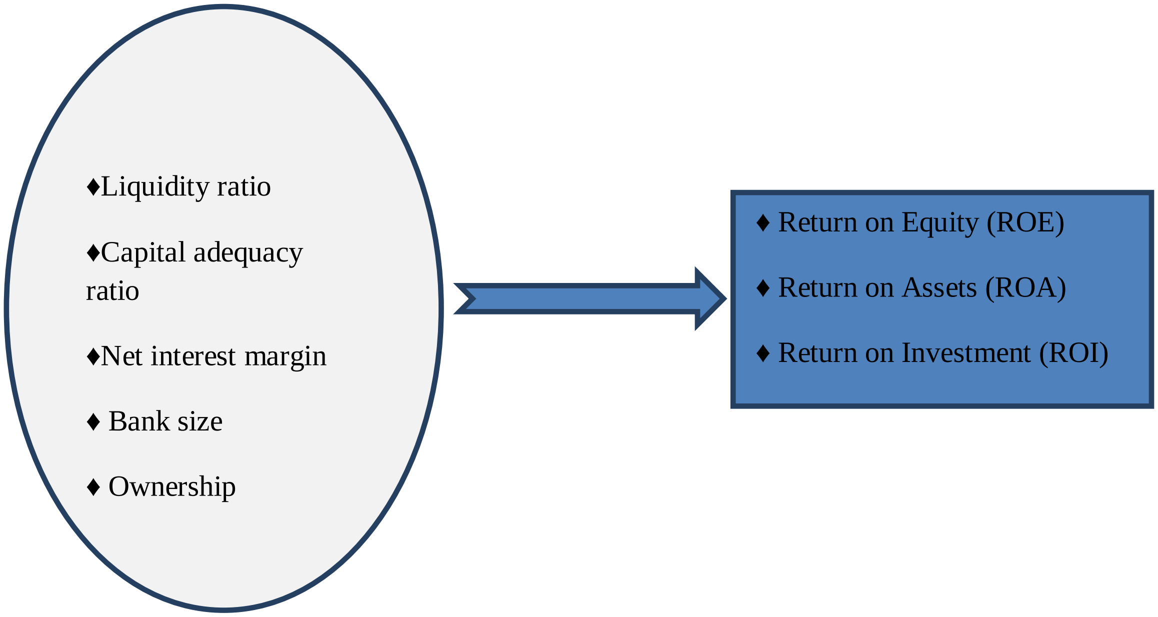
Obtaining License under False Pretense

Construction Bank was granted a provisional license in 2016 and subsequently launched in 2017. According to the central bank of Ghana report, it emerged that Sovereign Bank LTD license was obtained by false pretenses through the use of suspicious and nonexistent capital.

Conceptual Framework

Liquidity

The liquidity phenomenon has been used in varied contexts. An asset's liquidity can be used to describe how quickly, easily and costly it is to convert that asset into cash and cash equivalents (Berger and Bouwman, 2008). Liquidity can also be used to describe a company by the amount of cash or cash equivalents a company has; the more liquid assets, the higher a company's liquidity. Financial ratios that measure liquidity are referred to as a company's liquidity or current ratios. One of such ratios is the current ratio which determines a company's ability to pay short term obligations from its current assets as they fall due (Van Ness, 2009). Liquidity acts as a catalyst to address financial health and suitability of the bank. In this study, liquidity means the ability of an organization to settle its short term obligations when they fall due. There are varied means of measuring liquidity but the commonest approach is an accounting technique using the Current Ratio.



Author's Construct (2019)

Liquidity Risk

Liquidity risk is connotes inability of a company to pay its short term obligations as they fall due. This inability can lead a company to face serious financial problems. In addition to this, liquidity risk can also be defined in terms of the counterparty to a transaction. In this sense the term means the risk inherent in the fact that the counterparty may not be able to pay or settle the transaction even if they are in good financial standing, because of a lack of liquidity (Petria and Petria, 2009). The liquidity in the commercial bank represents the ability to fund its obligations by the contractor at the time of maturity, which includes lending and investment commitments, withdrawals, lodgments, and accrued liabilities (Amengor, 2010).

Link between Liquidity and Profitability

Profitability essentially entails excess of total revenue or turnover over total expenses. Many theories demonstrate the link between liquidity and profitability of the banks. Research conducted in banking sector of United States posit that more liquidity is typically costly for banks, signifying that more liquidity cuts profitability of the banks (Osborne *et al.,* 2009). Osborne, Fuertes, and Milne (2016) opined that liquidity levels vary from time to time, and that holding larger capital would risk their profitability and affect lending. Liquidity problems can interrupt a bank's incomes and risky circumstances may result in the downfall or bankrupt (Arif and Nauman; 2012, Duttagupta and Cashin, 2008).

According to Boxall *et al.,* (2007) financial performance is measured using indicators such as sales growth for one and three years, profit growth for one and three years, net margin, and return on equity. Other includes innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. Boxall *et al.,* (2007) mention accounting- based performance using three indicators: Return on Assets (ROA), Return on Equity (ROE), and Return on Sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales respectively.

In general, studies have used various means for measuring the financial performance of organizations to ascertain their level of achieving objectives. These include evaluation from the perception of employees, customers, executives on commitment of employees, and other behavior aspects. Financial and market indicators have also been used to measure the performance of organisations (Janssens and Steyaert, 2009). Boxall *et al.,* (2007) added that performance theory should focus on the following areas; performance standards, performance expectations in relation to performance levels, important dimensions of performance, the quantity of the performance levels and restrictions on how the situation should be measured when assessing performance.

According to Sebe-Yeboah and Mensah (2014), financial performance analysis is aimed at keeping the organisation in checks by highlighting low and high-performance areas with the understanding that it will bring about improvement in performance. Financial analysis is vital in projecting the outcome of any institutional restructuring (Sebe-Yeboah and Mensah, 2014). The financial performance of banks can be measured using different indicators, summarized in an acronym as PELARI (Profitability, Efficiency, Liquidity, Asset Quality, Risk Measures and Investor analyses) in addition to financial ratios (Armstrong and Gyimah, 2019).

Theoretical Approach

The study used the Resource-Based Theory. The motivation for the selection of this theory is that banks ought to manage their strategic resources well, including depositor's funds to generate the needed profit. Penrose (1959) provides theoretical basis of the resource-based theory where the organization was seen as managerial firm and the gathering of internal resources that have significant effects on the firm's strategies, efficiency and performance. Therefore, in order to transform a short-run competitive advantage into a sustained competitive advantage, there is need to have heterogeneous resources which are not completely mobile (Preuss, 2013). In a more efficient manner, this converts into priceless resources that are neither absolutely imitable nor substitutable without great effort (Preuss, 2013).

The theory focused on some key important areas namely firm attributes and information, assets abilities of the firm and the acquisition of knowledge by employees and management. These identified valuable resources are managed by the organization which help them to implement strategies or measures that enhances efficiency and effectiveness (Miles, 2010). The resource-based theory explains that the valuable resources acquired by the firm lead to a competitive advantage. This means that the valuable resources are completely controlled by the organization to improve its contribution to achieving competitive advantage in its industrial context (Hoffman and Sandelands, 2005). Islam and Siwar (2013) mentioned that the environmental situation of a firm can influence the sustainable competitive advantage of the firm. They argued that organizations that manage the environmental factors can generate more sustainable competitive advantage towards employee efficiency (Li and Geiser, 2009).

According to Hindle (2005) a competitive advantage changes into assets in conditions that an organization is able to apply resources in the competitive environment. This indicates that organizations are to examine their internally resources using conditions such as scarcity, imitability and value (Koszewska, 2004). The condition of value explains the opportunities available for the firm to exploit to improve profitability. The scarcity of rarity is the resources managed by the organisation's competitors. The imitability condition is where the organization acquires few resources and is likely to lose cost advantages compared to other competitors (Hindle, 2005).

Methodology

This study used the quantitative research method. Quantitative research is the collection of data so that information can be quantified and subjected to statistical treatment in order to support or refute alternative knowledge claims (Creswell, 2003).

Population and Sampling

The populations for the study included all listed banks in Ghana as of 2018 numbering about ten (10) whilst purposive sampling technique was adopted to sample seven (7) listed banks based on availability of data. The study employed secondary data extracted from published financial statements as well as published directors' report obtained from the stock exchange websites as well as from the websites of the selected listed banks. This study focused on banking institutions listed on the Ghana Stock Exchange, namely: Fidelity Bank (Ghana) Limited, Access Bank Ghana Limited, Cal Bank Ghana Limited, Agricultural Development Bank (ADB), Societe-Generale Ghana Limited, Ecobank Ghana Ltd, as well as Ghana Commercial Bank Ltd. The choice of these banks was mainly influenced by data availability and nature of business so as to ensure uniformity and facilitate comparability.

Table1. Operationalization of variables

Variable(s) Acronym	Measurement unit	Variables explanation
IR	Investment Ratio	Net credit facilities / Total deposits
NCF/TA	Net credit facilities/ Total assets	Net credit facilities / Total assets
CR	Capital ratio	Capital / Total assets
LR	Liquid ratio	Acid liquid assets / Total assets
QR liabilities	Quick-Acid ratio	Current assets - Inventory / Current
ROE	Return on Equity	Net Income/ Owners Equity
ROA	Return on Assets	Net Income/ Total Assets

Source: Authors' construct

Investment ratio: This ratio shows the appropriateness of investing the available funds emanating from deposits, to address the demands of credited loans and advances. Investment ratio is measured as = Credit facilities /Total deposits.

Net credit facilities / Total assets: This depicts the bank's strength in utilizing existing funds in at a gain, as well as outlining the financial burdens that assist the banks in ascertaining the level of risk.
Capital Ratio. This is a measure of a bank's financial strength and of the adequacy of its capital, which outlines the overall financial ability of the bank.

Liquidity ratio: This measures the ratio of Acid liquid assets, in the form of cash & equivalent and cash reserve at the central bank (Bank of Ghana), short-term lodgments in banks and other governmental and non-governmental guaranteed securities as a percentage of total bank assets.

Quick- Acid ratio: This ratio measures the bank's ability to repay short-term obligations during a very limited period (a few days), and by juxtaposing them with short-term assets in the same period. Quick- Acid ratio = (Current assets- Inventory)/ current liabilities.

Return on Equity: This ratio is used as a measure of a bank's profitability by detailing the level of profit a company generates with the money shareholders have invested. Return on Equity = Net Income/Owner's Equity.

Return on Assets: This ratio is an indicator of how a bank is profitable relative to its total assets, and highlights an idea as to how management is efficient in using the bank's assets to generate earnings. ROA = Net Income/total assets.

Regression Method

In order to examine the relationship between liquidity management and profitability of listed banks in Ghana, the following generic panel regression model, adopted from Kuznetsov and Muravyev (2001) was used:

$Yit= \alpha + \beta Xit + eit$ (1)

Where:
i = the individual cross-sectional dimension (i.e. Banks), and t = the time dimension (i.e. 2008-2017);
α = constant/intercept; β = the coefficients;
Yit = dependent variables/Profitability measure (which is measured by return on assets and return on equity);
Xit = the independent variables of the model (bank liquidity and other control variables);
eit = the residual error of bank i at time, t.

ROAit = β0 + β1 LIQD1it + β2 LIQD2it + β3 NIMit + β4 CARit + β5 SIZEit + β6 OWNit +B7EXPERT_+B8INDEP εit (2)

ROEit = β0 + β1 LIQD1it + β2 LIQD2it + β3 NIMit + β4 CARit + β5 SIZEit + β6 OWNit +B7EXPERT+B8INDEP+ εit (3)

Presentation of Findings

Table 1 Correlation Analysis between ROA and independent variables

Variable	ROA	LIQD1	LIQD2	NIM	CAR	BSIZE	OWN	ACEXPERT
ROA	1.000							
LIQD1	0.256	1.000						
LIQD2	0.3467	0.3568	1.000					
NIM	0.3481	0.1053	0.1134	1.000				
CAR	0.3378	0.1126	0.2565	0.2607	1.000			
BSIZE	0.6027	0.4437	0.2136	0.3154	-0.003	1.000		
OWN	0.2247	0.2453	0.4568	0.0223	0.0073	0.3122	1.000	
ACEXPERT	0.0372	0.1245	0.3012	0.02130	-0.2854	-0.423	0.2054	1.00

Source: Author's Construct (2019)

Table 2 Correlation analysis between ROE and independent variables

Variable	ROE	LIQD1	LIQD2	NIM	CAR	BSIZE	OWN	ACEXPERT
ROE	1.000							
LIQD1	0.6436	1.000						
LIQD2	0.0417	0.1251	1.000					
NIM	0.7424	0.3012	0.2334	1.000				
CAR	0.4025	0.1106	0.3505	0.4101	1.000			

BSIZE	0.6328	0.4238	0.2136	0.4152	-0.0361	1.000	
OWN	0.7672	0.3454	0.4568	0.3233	0.174	0.3122	1.000	
ACEXPERT	0.0431	0.2465	-0.3012	0.02130	-0.1853	0.321	-0.3053	1.000

Tables 1 and 2 explains the research objective on the correlation between liquidity and profitability respectively and the results depict that there is a positive relationship between liquidity and banks profitability measured by ROA and ROE thereby reiterating that banks with greater liquidity perform better as regards profitability than those with little liquidity. The results is not in tandem with finance theory which stipulates a negative correlation between liquidity and profitability as higher levels of liquidity seem to show less risk and hence lower profitability. The result however, agrees with the findings of Musah (2014) which reported a positive association between liquidity and profitability in Ghana study and also are consistent with the findings of Khan and Ali (2016) study on Pakistan banks where they found a positive relationship between three different measures of liquidity and profitability.

Additionally, correlation results show a weak direct association between profitability and interest margin at 0.35. This shows that increased interest margins will lead to increased profitability of the listed bank measured by Return on Assets. This direct association is however similar to findings from (Raharjo *et al.,* 2014) which had a positive and strong relationship between profitability and net interest margin using Indonesia banks. Malik *et al.,* (2014) also had a positive relationship between Net Interest Margin (NIM) and profitability using Pakistan banks.

The results further show a strong correlation between liquid assets and profitability with a co-efficient of 26% and 64% in both models respectively. This suggests that banks keep cash and cash equivalents aimed at boosting profitability.

Audit committee expertise also had a weak but positive relationship between liquidity and profitability with a co-efficient of 4% in either models. Therefore, corporate governance structures in the form of robust audit committee must be established within the banking establishment for effective liquidity risk management and profitability.

The control variables, the correlation results also show a direct association between capital adequacy ratio and profitability measured by ROA (34%) and ROE (40%) respectively. This seems to be contrary with the findings of Raharjo *et al.,* (2014) who discovered a negative relationship between capital adequacy ratio and profitability of Indonesia banks. Similarly, bank size benchmark using market capitalization was highly correlated with profitability with a correlation coefficient of 60% and 70% for the first and second models respectively thereby reiterating the logic that the bigger the size of a bank, the greater its profitability. Perhaps, this is the more reason foreign banks in Ghana are performing better than local banks because, these foreign banks are already well established in their countries of origin and would thus be setup in Ghana with its already existing logistics and human capital unlike local banks that are starting afresh.

Conclusions

The study pointed out that high rate of non-performing loans, low profitability, assets and liabilities maturity disparity, low capital adequacy ratio, low grade of marketization and more importantly poor risk mitigating techniques are some of the numerous long lasting issues about listed banks. According to Sam (2015), "a run on a bank arises when all the clients of a bank want to withdraw their deposits for fear of the fact that the bank will be unable to meet their withdrawal needs in the future".

Marwa (2013), in his study recognized that, the survival and sustainability of the banks both operationally and financially is largely dependent on the internal controls of these banks particularly, in the management of liquidity risk. The duty of banks in risk management is dependent on its policy, caliber of staff and ownership of the bank. Banks should divide the liquidity management among treasury, the risk section, and Assets-Liabilities Committee (ALCO) members, for optimum liquidity risk management.

Kroszner (2008) stated in his study that, little attention has been given to liquidity risk which is part of the major risk that banks, monetary institutions and monetary system face since the global financial crisis in mid-2007, whereas lots of theoretical and regulatory discussion on main banking risks including market risk, credit risk, and operations risk are made by these institutions. Banking in almost all countries has been subject to lots of regulations particularly the liquidity reserve ratio requirement because, the importance of liquidity risk management cannot be talked down because of its numerous advantages to the society (Hull, 2012). In case of unforeseen liquidity problems, listed banks must comply with minimum capital and liquidity reserve ratios among the regulations to absorb loss and enhance the going concern status of the banks.

Based on the findings of this study, the researcher also concludes that:

- There is positive relationship between liquidity and profitability of listed banks in Ghana.
- There is direct but significant relationship between liquidity risk management and profitability of listed banks, measured by ROE and ROA.

Recommendations

Liquidation of a banking institution is undesirable, either to employees, investors or depositors. Liquidity risk management must thus be taken seriously to ensure that banks make the required profit and secure their Going Concern Status. The researcher recommended the need to invest the excess liquidity available at the banks in plethora of portfolio available so as to maximize returns. Similarly, there is the necessity to embark on rigorous analytical study of the liquidity evolution rates to examine the banks' strength to strike a balance between acquisition and utilization of funds as well as adopting scientific methods towards the detection of the strengths and weaknesses points of liquidity, as regards the sudden circumstances that may be exposed by banks.

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An investigation into the Organization Development (OD) strategies for PalSuiss competitive positioning in UAE

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Abstract

Competitive position is a key theme for the success of contemporary organizations. In view of the pervasive epochal change in the business environment, the achievement of competitive advantage is determined by the different organization development strategies adopted by an organization. As a multi-disciplinary field, organization development (OD) strategies are essential in facilitating corporate stability, continuity, and sustainability. The research investigates the organization development strategies for the establishment of PalSuiss as a new fashion industry firm in Dubai, UAE. Organization development refers to "an effort planned, organization-wide, and managed from the top, to increase organization effectiveness and health through planned interventions in the organization's 'processes,' using behavioral-science knowledge." The competitive nature of the UAE industry as necessitated by the increasing pace of globalization and liberalization of markets has led to the need to investigate the available organizational development interventions available for PalSuiss. The company provides good conditions to start the business within the UAE. In view of the anticipated the huge completion there are good chances for the business considering special direction and fashion design models in the UAE.

Keywords: Organization Development, Competitive Positioning

Introduction

Fashion plays a very important role in the population standards of living, hence the pivotal role played by the fashion industry in economic development. Beside the huge competition, UAE belongs to the top 15 countries in the world in fashion. A huge gab is still to be filled in by some of the fashion field, from which PalSuiss will take benefit. The population standards of living are increasing day by day. According to the Chamber of Commerce, the retail sector has evolved significantly in the UAE to become the largest and most important income generating economic sector. Historical statistical review shows that in year 2016 the accessories sector grew significantly and projections points out to the fashion sector generating approximately USD7.4 billion in 2020 with very stable growth (Johnson 1997). This calls for increased study into the organization development interventions that drive organizational effectiveness within the fashion industry. Organization development has the capacity to foster creativity and ambidexterity among firms in the retail sector.

PalSuiss is a fashion multifunctional company in the UAE. The company was founded in September 2017 under Swiss regulations and is committed to provide customers with high quality products in not limited fields and manufactured under own trademark. In order to maintain and gain competitive advantage, PalSuiss cooperates additionally with top brands, who share same ideology by achieving first-grade products in line with the expected ethical standard (PalSuiss LLC, 2017). PalSuiss operates in the fashion industry providing fashion products, preferably in business fashion, Islamic fashion, bags, belts and related accessories. The company recognizes the significance of sustainability as a key organization development value.

Statement of the problem

The fashion industry plays a significant role in the growth and development of any economy.

The UAE Islamic fashion spending amounted to $243 billion in 2015-2016. The UAE fashion industry seems to be highly competitive as a result of the resultant effects of globalization and liberalization of markets. As a result of the era of epochal change, the fashion industry is also highly volatile, uncertain, complex, and ambiguous as a result of the intensity of competition and the position of the UAE as an emerging economy. There seem to be lack of information with regards the organization development interventions of organizations in the UAE fashion industry. The achievement of a sustainable competitive position demands that firms in this industry adopt context-specific interventions in order to survive. A failure to identify and adopt strategic organization development strategies will negatively affect individual firms and the UAE economy. This will also send negative effects in view of the upcoming Expo 2020.

There seem to be a widening gap in the fashion industry regarding the adoption of development focused interventions in order to capitalize on the changes happening in the market. However, the UAE is number 11 in the world by importing clothes and how the population contributes more that $175 million towards the economy. The revenue forecast of fashion business in the UAE is nearly $36 billion for the next 4 years. This study therefore, seeks to investigate the available organization development strategies for the growth of PalSuiss as an emerging firm in the UAE fashion market.

Research Objectives

The main objective of the present strategic development focused research is to investigate into the organization development strategies for PalSuiss competitive positioning in UAE. To achieve this broad objective, the following specific objectives will be pursued:

- To determine the current organization development interventions in the UAE fashion industry
- To explore the available organization development initiatives for the growth of firms in the fashion industry
- To determine the nature of competition within the UAE fashion industry
- To critically analyze the key organizational development drivers for sustainable competitive positioning in the UAE fashion industry
- To explain the available alternatives and considerations for the implementation of strategic organization development strategies towards gaining competitive advantage.

Significance of the study

The fashion industry plays an important role in the development of national economies. The UAE is an emerging market and as such its success depends on the organization development initiatives of firms in almost all sectors of the economy. UAE is the largest design market in the Middle East and North Africa (MENA) region, with a 27 per cent share and 27.6 billion USD in revenues in 2014. The UAE chambers of commerce 2016 reports indicated that accessories alone in the fashion sector are expecting to hit $7.4 billion by 2020 with very stable growth. The competitive nature of the fashion industry in the UAE calls for in-depth inquiry on the available organization development initiatives available for the existing firms in order to sustain a favorable competitive advantage. The present study is important in determining the available organization development initiatives in the fashion industry. The research will also add insight into the subject of organization development and competitive positioning in the fashion industry, using a case study approach of PalSuiss.

Literature Review

A comprehensive review of literature is essential in order to ensure reliable research findings and overall strategic development. This study relied on related, empirical, and theoretical literature in order to explore the two main variables of the study: organization development and competitive positioning within the UAE fashion industry.

Case Review: PalSuis

PalSuiss is a multi-functional company in the Unites Arab Emirates and owns the license to globally operate in the field of general trading. The company was founded at September 2017 under Swiss regulations and is committed to provide customers with high quality products in not limited fields and manufactured under own trademark. PalSuiss cooperates additionally with top brands, who share same ideology by achieving first-grade products in line with the own ethics (PalSuiss LLC, 2017). PalSuiss overall goal is clearly to become one of the best brands in the global fashion industry. PalSuiss vision mentions "services" and "high quality", which is related to partnerships. PalSuiss makes clear that beside the own manufactured products a further business direction of being a partner of other high-class brands and represent them in Middle East region is desired (Hitt, 2007). The mission and vision statements of PaSuiss reinforce the need for OD interventions.

PalSuiss values are based on strong principles; accurate, reliable, disciplined, and perfectionists in work. As a values-driven organization, PalSuiss believes that services matter. PalSuiss believes that ethical practices are important as a part of the organizational structure and behavior that can impact the corporate message positively. Based on Swiss work ethics the company aims to make the difference in its business approach.

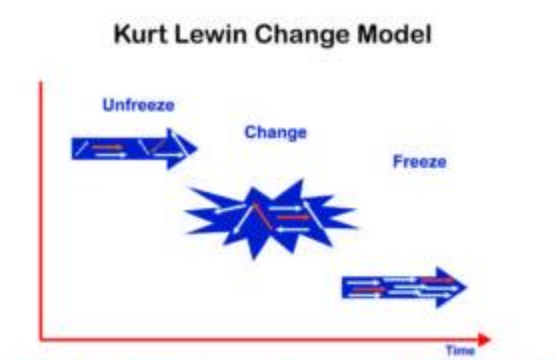
PalSuiss own the right to operate in a wide range of products as it is holding the general license. In the first step, the main focus is to make the company familiar in the market and shall focus in the fields of fashion and textile accessories, this besides the building of business cooperation with big-name manufacturers in the same field of business. PalSuiss will focus on best quality-price-ratio (PalSuiss LLC, 2017). PalSuiss will also focus mainly on business fashion, Islamic fashion and additional accessories such as fashionable bags, belts, etc.

Organization Development

In view of the field's dual identity of science of change and practice of changing, OD is a strategic and operational imperative in today's organizations in order to deal with planned and emergent change. The focus of organization development is on culture and organizational processes, encouraging collaboration within an organization, accomplishing key tasks, and total system change. There are three basic components of organization development: diagnosis, action, and program management. Diagnosis represents the continuous collection of data about the operations of the whole organization. Diagnosis is mainly problem rather that possibility oriented. Action involves taking the necessary steps to address the organization's challenges as determined by the diagnosis stage. Program management activities are adopted to ensure the success of the action activities and address the total system change. Organizations should adopt organization development initiatives in order to improve efficiency and increase productivity. This is a necessity in ensuring competitive positioning. Organization development is also essential in driving an organization's growth, improving work processes, and ensuring product innovation (Hedman & Kalling, 2003).

Organization Development (OD): Historical Review

Organization Development is different from Organization*al* Development and Organization Design. The discipline of organization development is an applied behavioral discipline that started in the United States of America. It's principle is the organization culture, attitude and behavior, problem-solving and framing improvement by targeted action. OD started in the 1940s by Kurt Lewin. Kurt Lewin introduced the widely used change model that include unfreeze, change, and refreeze (Blake, 2001).



The Kurt Lewin change model help organizations to deal with radical change, minimize structural disruption, and ensuring change is adopted permanently. The field has evolved significantly from the first generation methodologies through the second and third generation OD methodologies. Numerous change management models have been developed with the focus of addressing planned and emergent change. According to Chinoperekweyi (2019, p.104), OD methodologies are the "set of methods, tools, techniques, or defined processes used to inquire and/or take actions to improve an organization's effectiveness." *First generation* OD methodologies assume that change can be managed by objectively identifying and quantifying problems within an organization. *Second generation* methodologies build on action research, action science, and organizational learning in orchestrating organizational change. The *third generation* methodologies are based on the premise that organizations or systems already have positive examples of what they want more of or what is needed for a desired change (Chinoperekweyi, 2019).

Key Essentials of Organization Development

The three key essentials of organization development are 1) people, 2) to know the tools and theories, and 3) to be sustainable. People should be at the center of organization development. The people element of OD forms the basis of organizational development and Human Resource Management. The different theories that guide organization development include Complexity Theory, Action Research Theory, Lewin's Change Theory, and System Theory (Hedman & Kalling, 2003). The overall outcome of OD is facilitating organization stability, continuity and sustainability.

There are four major interventions that are useful in sustaining these elements: action search, appreciative inquiry, future search, and whole system interventions. In an era of epochal change contemporary organizations need to prioritize the adoption of these OD interventions as gateways to building and sustaining competitive advantages. The OD key elements and interventions are fundamentally essential in building sustainable organizations.

The Quality Circles in OD

Quality circles include a group concept of problem solving and goal setting. This is a necessity in organization development initiatives. The use of quality circles is essential in building and sustaining competitive advantage. In view of the varying causal mechanics of organizational challenges, there are numerous interventions that an organization can adopt. According to Blake (2001), the interventions include: discrepancy intervention, theory intervention, procedural intervention, relationship intervention, dilemma intervention, perspective intervention, organization structure intervention, and cultural intervention.

Below are some of the different organization development activities that organizations can adopt in order to manage change:

- Diagnostic activities
- Team building activities
- Inter group activities

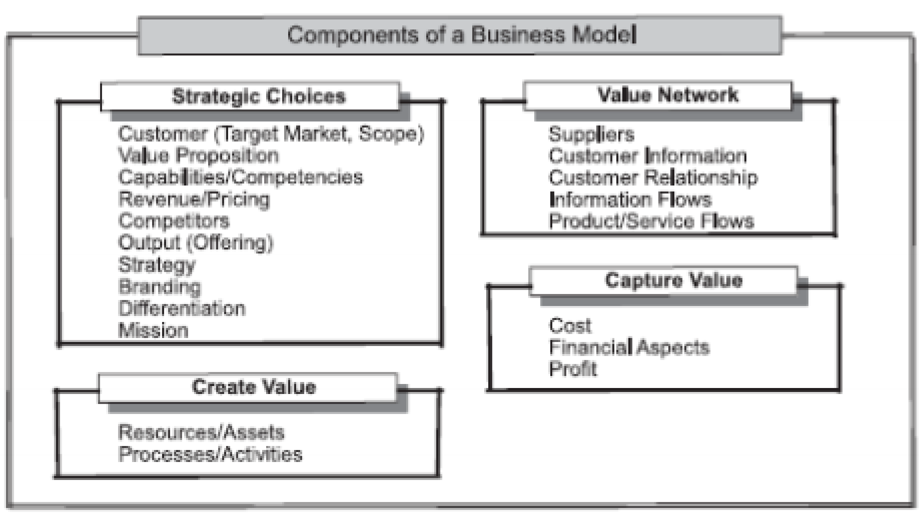
As part of organization diagnosis, organizations should also be involved in environmental scanning in order to determine the organization development strategies to implement. Environmental scanning involves a review of the internal and the external operating environment of businesses. The analysis can be done through PESTEL Analysis, SWOT Analysis, and Porter's Five Forces. An analysis of the marketing mix elements is also essential in designing organization development strategies (Magretta, 2002).

Competitive Position

The pursuit of competitive advantage is the goal of most businesses. Competitive advantage helps organizations to gain a favorable position relative to other firms. There are different measures of competitive advantage. Porter (1980) identified the five forces that determine competitive advantage: bargaining power of buyers, bargaining power of suppliers, competitive rivalry, threat of new entrants, availability of substitutes, and intensity of competition.

There are different theories of competitive positioning: Resource Based View, Market Based View, Capability Based View, and Knowledge Based View (Hamel & Prahalad, 1994). The ability to implement value creating strategies is at the center of the determination of competitive advantage. This requires the adoption of organization development interventions in order to out-compete rivals (Barney, 1991). Any organization development initiatives should help the firm to determine opportunities much better than competitors.

Organization development initiatives drive competitive positioning because of its capacity to ensure firms develop a sustainable business model. A business model is defined as: "simply the way of doing business" that a firm has chosen: its entire system for creating and providing consistent value to customers and earning a profit from that activity, as well as benefit for its broader stakeholders." (Davenport *et al.,* 2006). The different components of a business model are as shown in the diagram below:



Source: Shafer *et al.,* (2005)

The development of the business model leads to a positive relationship between organization development and competitive position (Zott & Amit, 2008).

Research Methodology

This section covers the structure of the research in terms of the research design, population & sampling, research strategy, research philosophy, and data collection methods. The research design covers the structure of the research. The three main research designs are qualitative, quantitative, and mixed method. Qualitative research relies on participants' opinions and perceptions regarding the subject matter. The quantitative design focuses on facts and numerical interpretation of research findings. The mixed method combines both the qualitative and quantitative research methods. This research will use the mixed method approach but will be predominantly qualitative.

The philosophy of the research covers the researchers view about the subject matter. As illustrated above the field of organizational development is a behavioral discipline. In this regard, the research will make use of the interpretivist epistemology and the subjectivist ontological position. This is mainly because the research is predominantly qualitative. The interpretivist position deals with the interpretation of respondents' views.

The present study adopted the explanatory, exploratory, and descriptive research strategies. The Research strategy was informed by the nature of the study variables and the need for an in-depth analysis. The explanatory dimension of the present research will focus on explaining the relationship between organization development and competitive position. This strategy will also be used to explain the organizational development interventions relevant to the case study. The exploratory strategy is useful in discovering more detail about the research variables. The descriptive strategy is used to describe the different models of organizational development and their effect on the case study.

Research Findings

In view of the McKinsey 7s Framework and the Star Model, this study reviews organization development strategies based on organization data, organization structure, and organization strategies. The researcher considers that effectiveness across these areas is essential in driving the achievement of the broader organization development outcomes.

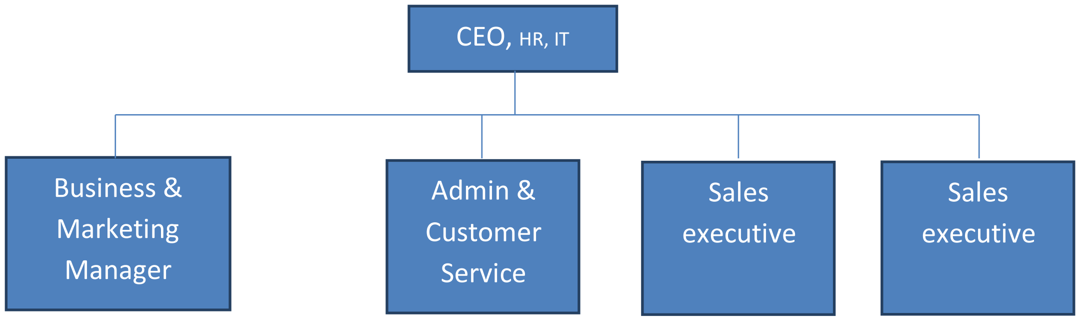
Organization Data (Culture, Structure, Management)

Organizational Culture

The review of secondary data showed that PalSuiss is based on high European Swiss standards and principles, which include values such as honesty, respect and being tolerant in the private and business approach. PalSuiss ethics include the "precise work, accurate actions, logical thinking, social interactions, universal trading, individualized services, smart decisions and strong ethics". It is therefore important for PalSuiss to cooperate with companies who share same philosophies and same values. (PalSuiss LLC, 2017). According to Deal and Kennedy's categories of culture PalSuiss see itself in the category of Work-hard/play-hard, as PalSuiss is a sales organization and where the staff of the company takes a low risk in their actions and shall receive a quick feedback (Lee, 2017).

Organizational Structure

PalSuiss started 5 main employees including CEO, Business and marketing Manager, Admin and Customer Service, and two Sales Executives. The CEO will take responsibility of the whole company activities as well as of the HR and Business Contracting and of IT. The Business and marketing manager will take care of new business opportunities, fashion, design and business activities in the Market, Admin and customer service will follow up with customer relations and pre-sales activities. While the sales people will take responsibility of tackling new projects and post sales activities (Lee, 2017). PalSuiss starts therefore with functional organizational structure:



One of the objectives of PalSusis is to grow in the next years to build the divisional or the mixed organizational structure. A forecast will be held in the next pages as it is one of the project objectives mentioned in the proposal (HR-Strategy).

Management

Generally, the focus of PalSuiss management is that of ensuring collaboration and coherence through team work. The small members and easy structure provide a reliable communication strategy.

Management behavior

In line with Bass (1985) the most ideal leadership model for the implementation of OD strategies is that of *Transformational Leadership*. Transformational leadership facilitates the achievement of OD strategies through fostering individualized consideration, inspirational motivation, intellectual stimulation, and idealized influence. For the personal development, the CEO must be able to create the vision and to inspire for it. The staff has to follow by clear communications, motivation and further skills. The CEO is hereby the main motivator for the employees towards the vision message including mission statement and values. The dimensions of transformational leadership should therefore be prioritized in OD.

Decision making style

One of the fundamental outcomes of organization development is fact based decision making (Chinoperekweyi, 2019). Decision making style depends on the situation and need to be enhanced in any organization. In view of the pervasive change, organizations should ensure that an appropriate decision making style is always adopted.

Market Analysis

As discussed in the succeeding section of this paper, market analysis through PESTEL, is essential in the development of OD strategies. Organizations need to always analyze their customers, competition, and changes in order to develop and implement appropriate interventions. There are numerous tools and models that can be used in market analysis and the process should ensure participatory methodologies are adopted. PalSuiss needs to enhance its market analysis capabilities within the UAE market. Further it is worth mentioning that the basic modeling tools should be used for the strategies due to the small size of the company. The modeling tools use the corporate statements to identify the goals and clarify actions and steps needed including monitoring plans that can be used for adjustment. For the purpose of marketing and communication, as well as other strategic aspects such HR and Sales, different analyses have to be done in a first step (Lee, 2017).

Market Facts and Data

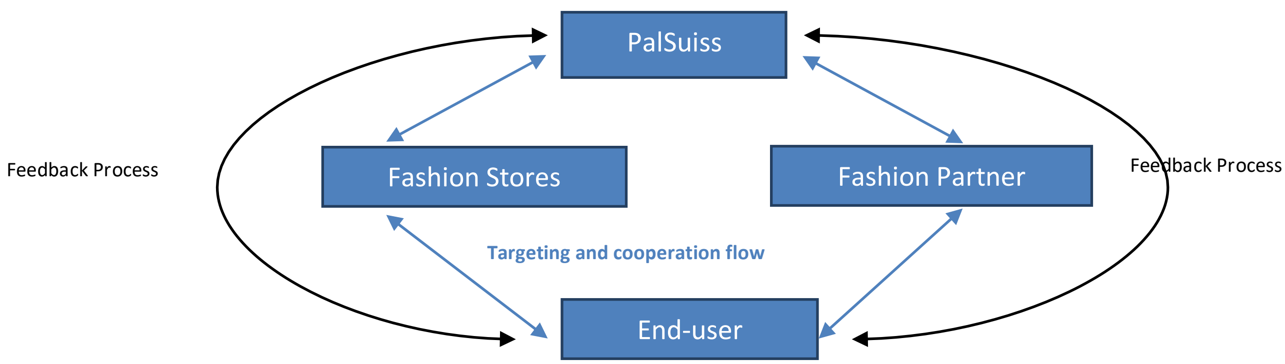
Listed below are some of the main information regarding UAE market and the fashion industry:

- The population in the UAE is increasing by focusing on their life standards, especially clothes and accessories. The manufacturing of the fashion products will be executed abroad in a first step and secondly through the joint textile manufacturing business.
- Most of fashionable textiles, clothes, bags and accessories are imported from abroad.
- The whole manufacturing sector in the UAE builds about 9% of the country's GDP.

- There is still a gap in the market regarding interventions to strengthen the productive capacity of the fashion sector in UAE.
- Dubai is one of the global leaders in the fashion trade. The standards of living in Duabi are increasing day by day. Fashion plays a very important role in determining standards of living in a country.
- The UAE is expecting a significant growth especially in the fashion sector, where UAE is number 11 in the world by importing clothes and how the population contributes more that $175 million towards the economy.
- The forecast of fashion business in some reports and articles, is nearly $36 billion USD for the next 4 years.
- "The UAE is the largest design market in the Middle East and North Africa (MENA) region, with a 27% share and $27.6 billion in revenues in 2014 (Mena Design Outlook 2015).
- The UAE retail sector is on of the largest and most important income generating sectors.

Market Segmentation and Stakeholders

The study shows that PalSuiss is not targeting a business-to-consumer (B2C) strategy as by most of the fashion industry competitors. The researcher noted that during its early stages, PalSuiss was following a B2B strategy. Store groups within the fashion industry were targeted as main stakeholder. Further the business cooperation with first grade manufacturers and big brands globally builds the second important stakeholder segment for PalSuiss. Nevertheless, the end-user feedback will have its weight in order to continue improving in market need, quality and price models.



Other external stakeholders that PalSuiss need to engage in its change interventions include:

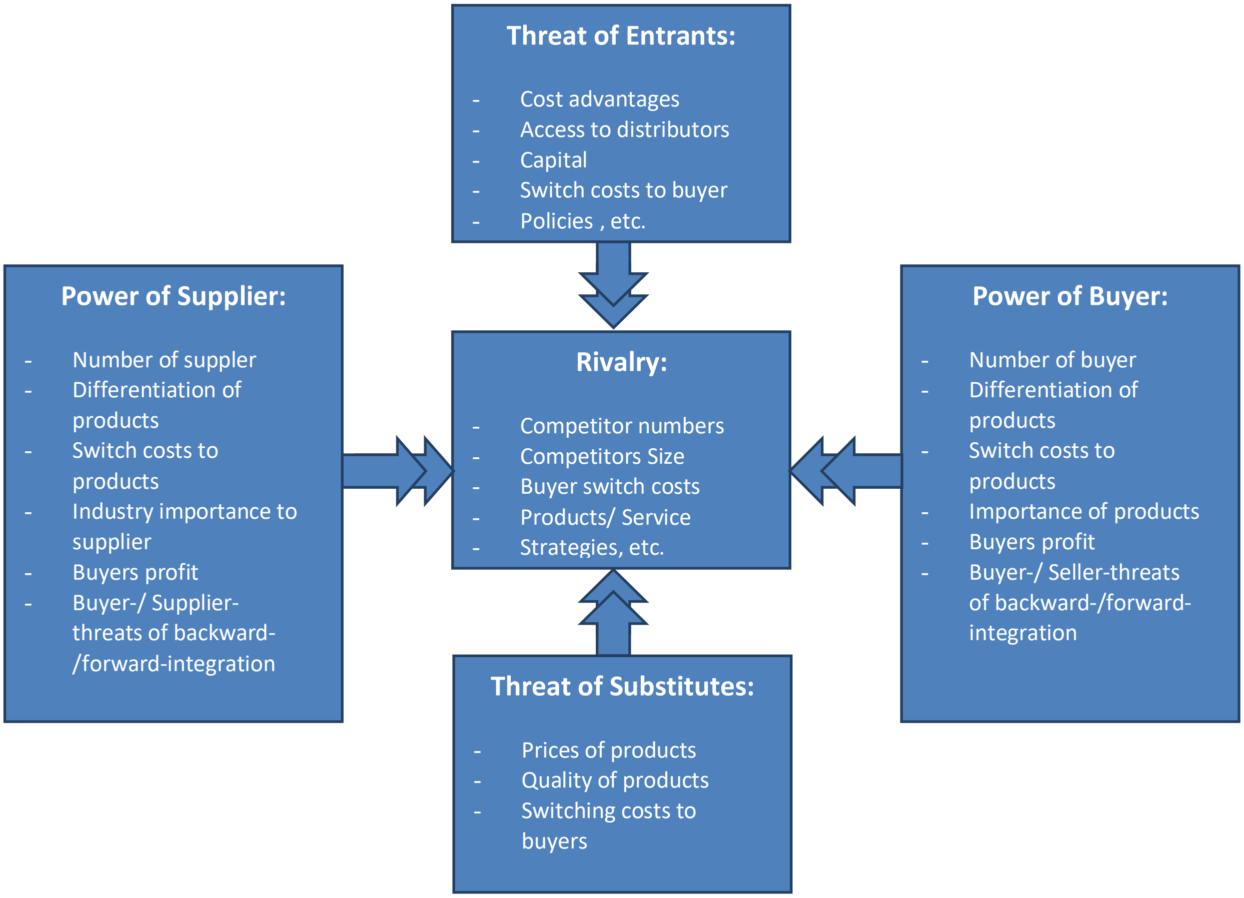
- Financial institutions
- Media, website and newsletter members

Competitor Analysis

Globalization has facilitated the increased intensity of competition across industries. To understand the position in the market better and to be successful in the business, PalSuiss has to understand the main competitors in the market; that is, understanding their prices, and the services. In the first stage, it will be difficult for PalSuiss to analyze in detail about the whole competitors in business and Islamic fashion, fashionable bag and accessories, as the products structure for PalSuiss does not compete. The UAE market is full of big brands and other middle name brands such as Zara and so on.

A model which can give PalSuiss a better competitive position is the 7Ps of marketing or the marketing mix. The marketing mix will give more specific information about Product, Place, Promotion, Price, People and Process.

Porter's Five Forces Model helps to analyze the position in the market regarding competitors as below:



The collection of the data of Porters Five Model, will strongly support gaining competitive advantages through enhancing understanding of the fashion industry. The details and any information about competitors and processes and services will not take place in this document duet to reasons mentioned in the introductions and due to intensity of and sensitivity of the data collection required in this part (Porter, 1985).

While most of the companies in the fashion industry already have their own customers and compete more or less in the same fashion direction, PalSuiss shall fill in the group by focusing on special directions, e.g. Islamic fashion with the best possible price-quality-ratio. In order to achieve these strategic outcomes, PalSuiss should leverage on organization development interventions targeted at all functions of the business. The interventions should be supported by stakeholder engagement and change communication. Data is essential in ensuring the success of the OD interventions. This calls for the need to develop a data value strategy.

Further McKinsey& Company provides a good collection of data information reports regarding to fashion, trends and completion.

PESTEL Analysis

This model helps in understanding the macro-environmental influences. To provide a good understanding of the market situation, PalSuiss needs analysis of the external factors in the business environment. The PESTEL analysis can identify the frameworks of the political, economic, social, technological, ecological, and legal aspects of the environment.

PESTEL Analysis show macro-environmental factors that can influence the activities of PalSuiss within the UAE. The Table below summarizes the PEST Analysis of the UAE operating environment.

Political	Economic
Law and rules are very clear. International Trading adapts with the local law of with Champers of Commerce. Tax regulations; income tax of 5% next year has to be considered. High stability in the country. Excellent conditions related to country relations with neighbour states. Excellent conditions related to Emirates relations between each other's. Big demand of the law reorganizations/ legalizations. Classified court/ governmental systems. National and global obligations of UAE-regulations.	Economic stability can be set as high, inflation rates and GDP of the country. Fashion and retail sector is strong in the UAE and belong to main income sectors of the country Competition is huge in numbers and size. UAE is a hub of global businesses in the Middle East. Salaries regulation over government; not limited; freedom of setting of salary levels but with governmental defined structures. High standards of quality Price sensitive market
Social	**Technological**
Easy access to global social networking and online communication abilities such as media, Facebook, Twitter, Instagram ad so on. Strong media regulations including propaganda. People are mostly social active and connected over more than one social tool. Most of population has high standard of living. Ecological orientation of people is increasing. Religion is Islam by law, a hinge variety of different religions and beliefs in UAE. Multicultural country with multi languages; everyone speaks English.	UAE is very developed. UAE has great infrastructure. Valued standards of communication systems. Valued standards of transport/export/import systems. huge technological transfer. Good R&D efforts. Big bureaucracy High availability of energy.

SWOT Analysis

The SWOT-model supports understanding the strengths, weakness, opportunities and threats of the company. In developing and implementing OD strategies, SWOT Analysis gives the company insights into areas that require strategic and operational focus. PalSuiss shall generally take into consideration by plan of business, marketing and communication, as well as any other corporate and business aspects. OD interventions should be premised on leveraging strengths to deal with weaknesses, and capitalizing on opportunities in order to avoid threats. The Table below shows the SWT Analysis of PalSuiss.

Strengths	Quality of products. Company communication structure Business direction in the field Company relations and connections Values and ethics of PalSuiss Country business orientation Market income in business Field Price-performance ratio Population orientation on business field
Weaknesses	Company size Reputation of company, as it is still unknown in the market Company references in the market Location and place of work as it is still in development Price sensitive market Huge and strong competition Still limited aspects to convince for strong partnerships
Opportunities	International Market Globalization and possibilities to use media and internet. Events and activities and fairs Media, Newsletters and networking Cooperation with small stores and new Entrants
Threats	Current company environment Behavior in comparison with competitors Limited resources for development, still Staff reaction on the market

The analysis show clearly the challenges PalSuiss will face, in order to improve its position in the market, and what new opportunities and chances can be tackled. The SWOT Analysis give a good example that can be used for the marketing and communication plan, for HR and Sales strategies and many other business aspects.

All the models and tools used for the market analyses above can be expanded into more detail which would give more information and draws more "to follow"-steps for PalSuiss. In this research report the current analyses must be enough as an example on which PalSuiss can build its organization development strategies in order to gain and sustain competitive advantage. Following and upon the analyses, the plans will be mainly created for marketing and communication and roughly for HR and Sales strategies as the last part of the report.

Plans and Strategies

PalSuiss need to develop the different plans as in the preceeding sections of this paper. For the plans below the common acronyms shall be considered; Business and Marketing Manager = BM, Sales Executive = SE, Customer Service = CC.

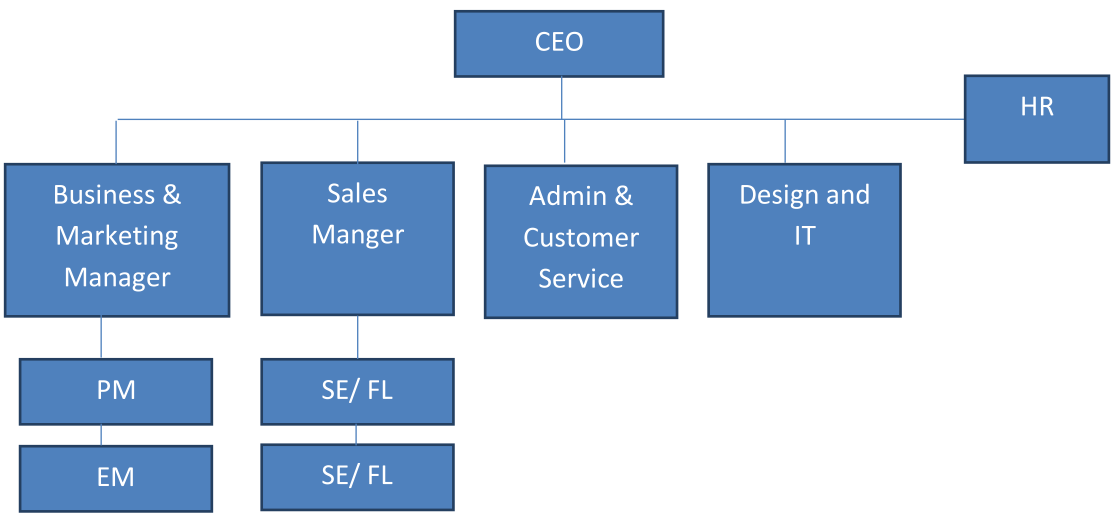
Marketing and Communication

Due to the size of the company, the marketing & communication plan can be a joint plan (Porter, 1985). Beside the main corporate goals mentioned in the statements of the company and in the project planning, the plan has direct objectives that are supportive to the company goals:

HR Strategy/ Structure Growth

The human resource strategy should primarily focus on hiring and retaining the right employees in the company. Talent management interventions should be developed in order to ensure effectiveness.

One of the main of HR will be the right supportive growth of the company. The following structure shows the aim of the company in relation of the growth year by year (3-5 years Period). Hereby, Freelancer = FL, Event Manager = EM, Products Manager = PM.



The company will then in second period add models, and more marketing employee instead of the support of external agencies.

Additionally, PalSuiss HR shall in a first step clear its policies by an external company or consultant within the first month of establishment as a part of the HR policy. Hereby the following subjects shall be included and considered;

- Company Ethics and Rules
- Local law employment conditions
- Equal Employment Opportunities (EEO)
- Affirmative action upon Civil Rights Act of 1964 and of 1991, Equal Pay Act of 1963, Pregnancy Discrimination Act of 1978 and Vocational Rehabilitation Act
- Sexual Harassment.

Further PalSuiss has to consider the following aspects in the HRM Policy. Hereby it is worth to mention that the policy shall be created as a simplified policy for the beginning and opened for updated and development ongoing for the near future:

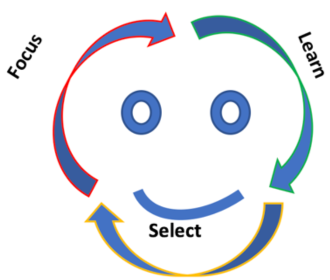
- Employment conditions locally
- Bonus systems for freelancers
- Project Awards
- Technology and productivity
- Competition employment conditions
- Staff development seminars
- Skills requirements
- Recruitment methods

Further to the HR Models; PalSuiss see it as more suitable for the current situation to use the Michigan Model. In later periods the new HRM can consider the Harvard Model as a new HR-System. The Michigan Model was developed 1984 from the Michigan business school and use the "hard-approach "where the company look very strictly at the matching requirements between staff and skills/position and its main criteria are selectivity, consensus and development. The model concept is less flexible than the Harvard Model and is strictly based on the structure and management of the company (Porter, 1985).

Sales Strategy

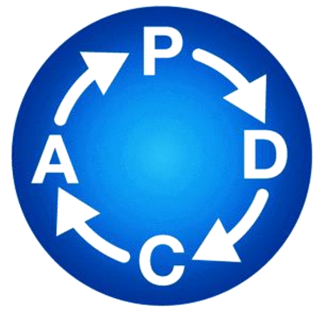
The sales strategy support achieving the company goals and increase the company's market share. Further, the strategy supports the other strategic plans by generating revenue to enhance the achievement of their objectives. In this respect, the "smile-strategy" is essential in driving the growth of PalSuiss within the UAE fashion industry. The "smile strategy" involves three key elements: focus, learn, and select. OD interventions to drive sales within PalSuiss should therefore take into consideration these elements. The 'smile strategy' elements should also be encouraged in other functional areas within PalsSuiss.

The Smile strategy defines itself by the following 3 pillars:



- Select the topic/ goal
- Maximize our focus
- Learn from the results

The 'smile strategy' should be supported by the PDCA Management cycle. The PDCA Management cycle covers the actions:

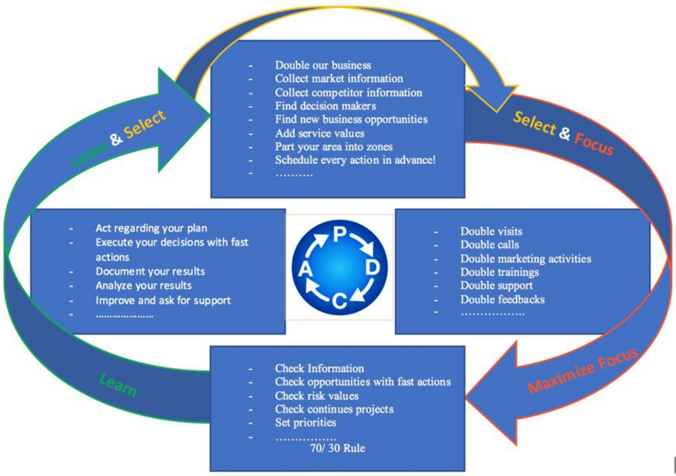


- Plan the next step, define the topic, collect relevant data…
- Do what we need to do, develop or implement a solution, decide how to act…
- Check the topic and confirm the results through pre and post analyses…
- Act upon the plan, document the results, learn from changes, and plan again.

As depicted in the Figure below, the actions of Sales Strategy will be clearer after merging the pillars of the Smile-Strategy with PDCA-improvement cycle.

OD Interventions therefore creates value within the sales function of the business through the integration of these two models. The Sales Strategy draws by the way its actions, in the research I will not go into details regarding to that. Both the Smile-Strategy and the PDCA cycle will generally help to improve the following points;

- Communication,
- Marketing,
- Services and Support,
- Training and development, and
- Feedbacks



Monitoring/ Evaluation

OD interventions need to be regularly monitored and evaluated in order to determine effectiveness and alter the interventions in line with changes in the operating environment. PalSuiss has to monitor the achievement of goals and objectives, tasks and actions regularly. Responsible managers have to evaluate the results, update, monitor, and make sure that tasks are being conducted in line with the plans. Evaluation and monitoring supports a company and its stakeholders to understand the situation and determine strengths and weaknesses of the business. (Zimmerer, 2002) The steps below will help to monitor and evaluate strategies successfully;

- Update data regularly;.
- Keep employee motivation during the evaluation process.
- Appoint responsible agents for different tasks.
- Conduct short reviews and meeting.
- Increase skills through specific trainings.
- Determine specific milestones.
- Provide more motivation with rewards, bonus or extra activities with team.

The monitoring and evaluation activities should be carried out in line with an organization's contingency plan. An alternative plan or plan B, which means a partial change or a whole change of tasks, objective, action or all of the strategy.

Summary, Conclusions and Recommendations

This case study based paper focused on understanding the organization development strategies that can drive competitive advantages in an organization. The review of PalSuiss plans have shown that;

- PalSuiss values are a plus point and can facilitate value adding strategic networks.
- Firms need to continually review their strategic and operational plans to align with the changing environment.
- An organization needs to clearly define its management and leadership style or philosophy.
- The HR function is fundamental to the development and implementation of OD interventions.
- PalSuiss 'Smile-Strategy' has been approved through earlier experience with pure success. It gives positive hopes to realize it again, even in a different field of business (PalSuiss LLC, 2017).

Further the following OD related interventions should be considered by PalSuiss:

- PalSuiss gives more attention to competitor analyses
- Focuses on a specific fashion and service line in the field,
- Follows broad values and ethical standards.
- Further the creation of an on-going evaluation and monitoring process will keep avoiding of failure by negative sudden happenings.

PalSuiss has to choose the right direction of fashion, as the market still has some gaps and wider possibilities.

UAE is a good market for fashion; the population take fashion increasingly into consideration. It gives good conditions to start the business within the UAE.

The market and communication strategy of PalSuiss make stakeholders understand the company position and its ambition to grow much better.

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An analysis of the causes of non-performing loans in the Zimbabwean banking sector (2009-2013)

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Abstract

This study provides insight of the impact of economic sectors on non-performing loans in the Zimbabwean banking sector since 2009. Zimbabwean banking sector NPLs have gone beyond the Basel II Accord's 5% threshold, threatening the sustainability of the banking sector. This study made use of both qualitative and quantitative data. Commercial banks were selected as a sample. According to the results, both internal and external factors were responsible for turning good loans into bad loans. Productive sectors and loans to households dominated the credit portfolios of banks while most banks employed government-led, sector profitability and repayment tenure criteria in allocating credit to various sectors. In the study, it was noted that sectoral distribution of credit had an impact on the quality of the loan portfolio of commercial banks while economic situation, poor bank management, supervision, government interventions, information asymmetry, and poor corporate governance were the major causes of loan impairments. Based on research findings, the study suggested that commercial banks should put in place strategies for credit rationing to sectors according to risk, proactive monitoring and ethical lending practices. The government and the regulator should embark on proactive supervision and monitoring of banks, proper alignment of policies in line with banking laws, establishment of credit reference centres and introduction of measures to sustain the banking sector.

Keywords: *Non-performing loan, Asset Quality*

Introduction

Commercial banks in Zimbabwe have chronically suffered from the challenge of NPL since the economy switched into the multicurrency system in 2009. The adoption of the multicurrency regime was meant to arrest the freedom enjoyed by hyperinflation, stabilization of the financial system and to create a fair environment for better policy making. The present study attempted to ascertain the causes of non-performing loans in Zimbabwean banks during the period 2009-2013. To date, the deterioration of the quality of the credit portfolio in Zimbabwe has become a major worry on the sustainability of the Zimbabwe banking system. The growing trend of asset deterioration through loan defaults has created vicious friction in the credit market with financial stability sitting on a huge risk. The theme of asset deterioration in commercial banks has attracted more attention in the recent years following the collapse of many banks in both developed and developing economies. Empirical evidence has pointed out that for every bank collapse, deterioration of asset quality as measured by NPLs is evident. In this regard, NPLs are a major force behind bank failure. Therefore, large amounts of bad loans pose difficulties for a bank to perform credit creation and to take advantage of opportunities that emerge in the bank's trading course. Bad loans limit a bank from profitability. Several studies examined bank failures and found that asset quality is an indicator of insolvency (Barr and Siems, 1994). NPLs are caused by both systematic shocks and idiosyncratic shocks. Minimization of bank exposure to NPLs is a necessary condition for the growth and stability of the financial system.

Bernanke *et al.,* (1991) explained that in a bank-centred financial system, NPLs can further thwart economic recovery by shrinking operating margin and eroding the capital base of the banks to advance fresh loans. The authors referred this to as "credit crunch". It is in this view that NPLs are unequivocally catastrophic in a bank-centred financial system, that they suffocate potential investible capital entitled for productive sectors, compromising the going concern status of banking institutions.

The great concern on banks over NPLs is that loans constitute the bulk of their assets. The traditional role of a bank is lending and loans make up the bulk of their assets (Njanike, 2009). Reed and Gill (1989) highlighted that traditionally 85% of commercial banks' income is contributed by interest on loans. NPLs corrode this huge profit possibility as NPLs cease generating income for the bank. In this view, measures should be in force to restore the viability of banks.

According to the IMF Report (2014) NPLs in Zimbabwe commercial banks as at March 2014 stood at 16% against the internationally accepted Basel II Accord threshold of 5%. This marked a record high of deteriorating asset quality and growing credit risk grossly threatening the sustainability of the Zimbabwe commercial banks. It is inexplicable that there is a very high difference in loan portfolio performance among the beneficiary economic sectors, hence the need to explain how each sector contributed to the overall credit portfolio. The main objective of this study is to critically analyse the causes of NPLs in the Zimbabwean banking sector.

Literature Review

There is no universal definition of what an NPL is. For instance, as described by Park (2003), during the 1990s, there were three different methods of defining non-performing loans: the 1993 method based on banking laws; the "Bank's Self-Valuation" in March 1996; and the "Financial Revival Laws-Based Debt Disclosure" in 1999. This broadened scope and scale of risk management has called for serious attention of loans to be sanctioned, monitored and controlled in a responsible manner to safeguard the banking industry.

According to a study by Brownbridge (1998), most of the bank failures were caused by non-performing loans. Arrears affecting more than half the loan portfolios were typical of the failed banks. The Reserve Bank of Zimbabwe (2012) also noted that there has been gradual deterioration in asset quality as reflected by the level of non-performing loans trending towards. Khemraj (2005) revealed that the banking crises in East Asia and Sub-Saharan African countries were preceded by high non-performing loans. The very existence of banks however, is often interpreted in terms of its superior ability to overcome three basic problems of information asymmetry, namely, ex-ante, interim, and ex-post (Uyemura and Deventer, 1993), thus be able to reduce the NPLs. Firms in Tanzania on one hand were complaining about lack of credits and the stringent requirements set by banks, while banks on the other hand have suffered large losses on bad loans (Richard, 2008). Literature has shown that problem loans are often used as an exogenous variable to explain other banking outcomes such as bank performance, failure and bank crises (Boudriga *et al.,* 2009).

Classifications of NPLs

Chowdhury and Adhikary (2002) defined loan as non-performing because the loan ceases to "perform" or generate income for the bank. The authors added that this loan is not a "uniclass", but rather a "multiclass" concept. Banks are encouraged to classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90days from the end of the quarter. The authors highlighted that banks classified NPAs in 3 categories based on the period for which the asset has remained non-performing and realisability of the dues remained "castles in the air".

1) Substandard asset

A substandard asset is a loan that has remained bad for a period less than or equal to a 12months. The current net worth of the borrower or current market value of the security charged is not enough to ensure recovery of the dues to the bank in full. Such an asset exerted well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks would experience some loss if no corrective measures were adopted for the deficiencies.

2) Doubtful asset

This is an asset that has remained in the substandard category for periods of 12months. A loan classified in this category has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently known facts, conditions and values.

3) Loss asset

A loss asset is one where loss has been identified by the bank's internal auditors, external auditors or the RBZ inspection but the amount has not been written off wholly. Such an asset is considered uncollectible and of such little that its continuance as a bankable asset is not warranted although there might be some salvage or recovery value to be realized.

Empirical Review: Causes of Non-Performing Loans in Banks

According to Gorter and Bloem (2002) non-performing loans are mainly caused by an inevitable number of wrong economic decisions by individuals and plain bad luck. In such situations, any lending institution generally assume a portion of an allowance for an anticipated share of nonperformance in the form of bad loan provisions, loan loss provisions or they may spread the risk by taking out insurance against those loans. Sinkey and Greenwalt (1991) earmarked some factors, that is, increasing interest rate, excessive lending and economic downturn has a positive relationship with the NPLs. Pesola (2007) considered that loan losses are a key factor affecting the proper functioning of credit institutions. These variables are by no means exhaustive, but they provide a useful framework for monitoring the development of non-performing loans (Guy, 2011). Caprio and Klingebiel (1996) compiled a study based on multiple episodes of banking crises among 69 countries segregated for each country for the respective time period scope and estimated loss of crises mostly based on macro-economic data, they described that poor management, supervision, regulations, corporate governance and unnecessary government intervention are the major causes of banking sector insolvencies during 1980s to 1990s. Some of the major causes of loan impairments are detailed as follows:

Economic conditions

The problem of NPL gained a widespread attention due to the growing pace of bank failure and distress attention. Nishimura, Kazuhito, and Yukiko, (2001) stated that one of the underlying causes of Japan's prolonged economic stagnation was the non-performing or bad loan problem. The authors explained that some of the loans made to companies and industries by financial institutions during the bubble era became non-performing when the bubble burst. This prolonged delay in addressing the economic structures in that economy exposed the financial system from functioning properly.

Factors such as proportion the proportion of interbank loans and interest margins (Fofack, 2005) and bank size (Salas and Saurina, 2002) have been identified as valid causes of banks' trouble loans. The authors suggested that a number of bank-specific variables such as the inefficiencies of banks and the proportion of unsecured loans in a bank's portfolio affected NPLs. These authors placed it on record that real growth in GDP, rapid credit expansion, bank size, capital ratio and market power explain variation in NPLs after conducting a study covering the period 1985-1997 in Spanish banking industry while Louzin, Vouldis and Metaxas (2010) from a study of 9 largest Greek banks covering the period of 2003-9 and found real GDP growth rate; lending and unemployment rates influence the level of NPLs.

Kiss *et al.,* (2006) highlighted that for the particular case of the Baltic States, Bulgarian and Romania, higher BOP deficit is also likely to deteriorate the ratio growth of NPLs. Festic *et al.,* (2011) showed that the mix of slowdown in economic activity, growth of credit and available finance and lack of supervision were harmful to banking performance and deteriorated NPL dynamics in Bulgaria, Romania, Estonia, Latvia, and Lithuania.

Carey (1998) argued that the state of the economy is the single most important systematic factor influencing diversified debt portfolio loss rates. Quagliarello (2007) found that the business cycle affected non-performing loans for a large panel of Italian banks over the period 1985–2002. Kalirai and Scheicher (2002) found lending rate, production of industry, stock market return and business confidence index are the factors which determine the level of loan quality in Australia while conducting a research taking data over a period 1990-2001. Research conducted in the Caribbean includes that of Khemraj and Pasha (2009), who examined the determinants of non-performing loans in Guyana. The empirical results revealed that with the exception of the inflation rate and bank size, all other factors have a significant relationship with the non-performing loan ratio (Greenidge and Grosvenor, 2010).

Mismanagement and Political Interference

Omar, Bellalah, Walid and Frederic (2010) highlighted that credit managers contributed a unique idea that years of service and experience of credit managers were positively correlated with NPLs as decision making of credit managers were influenced by the external factors, that is, personal gain and political corruption.

According to a World Bank report (1994) in Uganda the country's banking industry was described as extremely weak, with huge non-performing loans and most banks were on a high probability of collapse. Mukalazi (1999) noted that reeling from years of economic mismanagement and political interference, Uganda's banking industry was characterized by high realized losses in the early 1990s. This reckless administrative vigilance on risk management has lured the government to intervene in the functions of the bank. The government introduced several statutes to govern bank operations such as insider lending, after a lot of funds were advanced without sufficient collateral to Greenland Bank by the newly privatized Uganda Commercial Bank Ltd. The statutes seek to reduce owner concentration (Mukalazi, 1999).

Hardi and di Pitti (2001) compiled their study with trans log functional form covering the period from 1981-97 to assess the effects of financial reforms on the profitability and efficiency of Pakistani banks. The authors identified in one of that aspects that the credit managers are directly responsible for the bank failures because their involvement were found to use substantial amount of funds for their own benefits in the Pakistani banking crises.

Information Asymmetry

Auronen, (2003) argued that the theory of asymmetric information tells us that it might be difficult to distinguish good from bad borrowers, which might result in adverse selection and moral hazard problems. The theory explained that in the market, the party that possessed more information on a specific item to be transacted was in a position to negotiate optimal terms for the transaction than the other party as cited in Richard (2011). Adverse selection and moral hazards led to significant accumulation of non-performing loans in banks (Bester, 1994; Bafondi and Gobbi, 2003). Waweru, (2009) investigated the causes of nonperforming loans in Kenya and found that the national economic downturn, the failure of customers to disclose vital information during the loan application process and the lack of an aggressive debt collection policy were the key contributors to the NPA problem.

High Loan Prices

Brownbridge (1998) observed that another major factor contributing to bank failure were the high interest rates charged to borrowers operating in the high-risk segments of the credit market as a way to cushion the level of exposure. The interest rate also affects the amount of bad debt in the case of floating rates as there is an increase in the debt caused by the increase in payments of interest rates and hence the rise of non-performing loans (Bafondi and Ropele, 2011).

Ownership Concentration

Berle and Means (1933) in Louzis et al. (2011) argued that dispersed ownership of corporate equity may lead to a poorer performance of the firm as the incentive of shareholders to monitor the management weakens. Keeton and Morris (1987) indeed showed that excess loss rates were prominent among banks that had relatively low equity-to-assets ratio. The negative link between the capital ratio and NPLs was also found in Berger and DeYoung (1997), and Salas and Saurina (2002). More generally, Keeton and Morris (1987) argued that banks that tend to take more risks, including in the form of excess lending eventually absorbed higher losses. Their finding was supported by Salas and Saurina (2002) and Jimenez and Saurina (2005). An opposing view is that an efficient capital market imposes discipline on firm's management and therefore dispersed ownership should not have an effect on firm's performance (Louzis *et al.,* 2011). A strand in the empirical literature tested these contrasting views using loan quality as an indicator of riskiness but evidence was inconclusive (Louzis *et al.,* 2011). Iannotta *et al.,* (2007) found a link between higher ownership concentrations and loan quality using a sample of 181 large banks over the period 1999–2004.

Insider Trading

According to Brownbridge (1998), the single biggest contributor to the bad loans of many of the failed African banks was insider lending. In the author's remarks, a proportion of at least half of the bank failures, insider loans accounted for a substantial proportion of the bad debts. An unprecedented level of insider lending, particularly to politicians has been the major demise of most top Kenyan banks including the Pan African Bank, Continental Bank and Trade Bank. Brownbridge (1998) further detailed that the threat posed by insider lending to the soundness of the banks was exacerbated because many of the insider loans were invested in speculative projects such as real estate development, breached large-loan exposure limits, and were extended to projects which could not generate short-term returns, with the result that the maturities of the bank's assets and liabilities were imprudently mismatched. The motivation for this reckless lending was effected by the excessive concentration of ownership, supported by the growing political pressures on financial institutions which were already undercapitalized.

Moral Hazard

The "moral hazard" hypothesis, which was discussed by Keeton and Morris (1987), argued that banks with relatively low capital respond to moral hazard incentives by increasing the riskiness of their loan portfolio, which in turn results in higher non-performing loans on average in the future. In Africa, Brownbridge (1998) concluded that many of the bad debts in banks were attributable to moral hazards; the adverse incentives on bank owners to adopt imprudent lending strategies, in particular inside lending at high interest rates to borrowers in the most risky segments of the credit market. Borrowers on the other hand seem to misappropriate the borrowed funds into investments of their choices which might be riskier than the intended destinations. However, by engaging in strategies that could boost the profitability of the bank, the credit department usually is forced into participating in elements of moral hazard on the part of both the banks and their deficit units and the adverse selection of the borrowers.

Credit Growth Overdrive

Among the bank-specific variables an overdrive in the credit growth has not been an exclusion factor in the causes-related literature. Bercoff *et al.,* (2002) examined the Argentine banking sector and pointed out that uncontrolled credit growth has a strong impact on the impaired loans. Indeed, excessive loans granted by banks are habitually considered as a main determinant of impaired loans (Keeton and Morris, 1987). Jimenez and Saurina (2006) attributed the increase of loans to the herd behaviour and agency problems that could encourage bank managers to grant credit excessively during periods of crisis.

Research Methodology

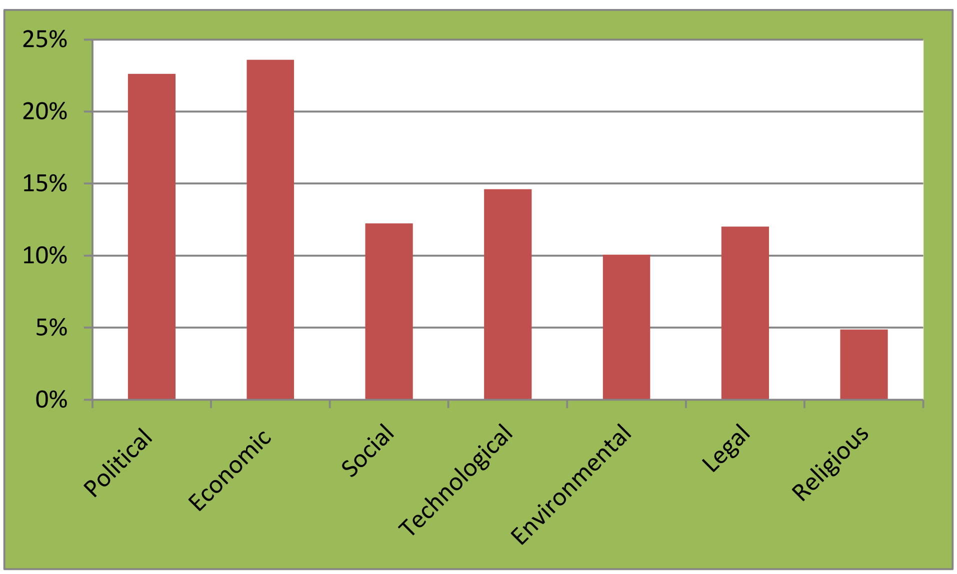
The author used both analytical design through the application of the logit multiple linear regression model and also used descriptive research design. The logit regression was appropriate because of its strength to explain relationship between variables while descriptive design was also appropriate given the nature of the study. Qualitative research was based on respondents' opinions about the causes of NPLs and the criteria used by banks in credit allocation. The descriptive data was generated through questionnaires.

The population used in this study comprised of all licensed commercial banks in Zimbabwe that were operational within a period 2009-13. In this study the population focus was on the entire commercial banks trading in Zimbabwe as the growth in NPLs is a cause of serious concern amongst the commercial banking sector. Moreover commercial banks were considered since they participate predominantly in the credit risk management, lending dissension and administer NPL portfolios. This fulfilled the historical data requirement while primary data was administered through the existing commercial banks by time of study. The institutions were chosen to fulfill the study because there was a growing evidence of deterioration in commercial banks' loan portfolios. Above all, commercial banks constituted 82.69% of credit to borrowers (RBZ, 2014). The study population for primary data included credit managers and credit analysts of the commercial banks. The study population was estimated at 45 respondents consisting of 15 credit managers and 30 credit analysts.

Discussion of Findings

In this study several factors have been coined as the causes of the accelerating growth rate of the NPLs. The following graphs represent summary of the responses from the primary data. For the external factor and internal factor analysis, the researcher allocated scores as a way to quantify the respondents' views. The scores were 7 points for a frequency in class 1, while 1 point was allocated to any factor that was classified number 7. For the causes of NPLs, a score of 7.5points was allocated for a chosen number 1 and a score of 0.5 for the chosen number 15.

Figure 1: Analysis of the External Factors Causing NPLs



Source: Primary data

Government Interference in Credit Market

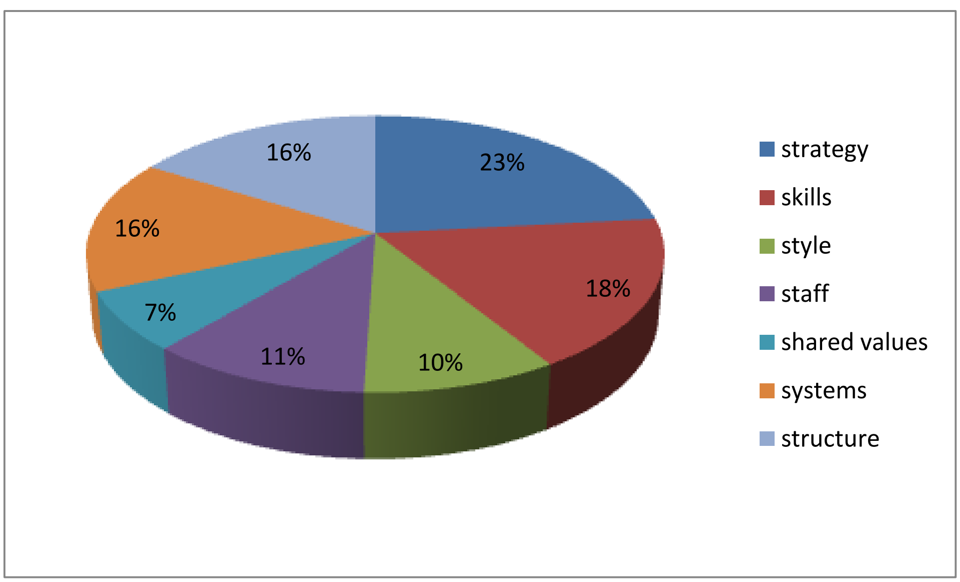
From an external environment perspective the respondents pointed out that governmental politics was the second most significant factor responsible for the mal-performance of the banking sector in Zimbabwe for the period. The blame on the rise of NPLs has been pointed on the lack of clarity and shortchanging of government policies. Indications are that government policies were contradictory leaving most banks losing potential investors due to the discord on shareholding structures in the banking industry. This left many banks undercapitalized while others were used as government conduits in pursuing governmental policies. It was noted that government itself has turned a bad borrower in many of the banks under study with some government officers abusing their power by deliberately neglecting to service their individual obligations too. This left banks with unmanageable rate of NPLs. 13 respondents ranked political at number 1 cause, while 18 ranked it number 2 ahead of economic and 2 respondents ranked it at number 3. After weights were apportioned 23% of respondents felt that government policies were in disarray to foster proper banking performance. Some borrowers were willing and able to service their obligations but were hiding behind government policies compromising the soundness of the bank assets. Some respondents were of the view that the loan loss provisions were not adequate as most banks were poorly capitalized, while the probability of raising investors was slim due to the unclear and sometimes contradictory policies.

Poor Economic Performance

20 out of 33 ranked economic factors at top, while 13 rank it at second position ahead of political factors. This reflected that out of the 7 positions on the liket-scaled, economic factors were in the first two positions. This signified the importance of economic performance in explaining the NPL performance. The persistent closure of companies left many borrowers with little disposable income due to job cuts, piling them pressure in servicing their loan obligations in time, while the companies were also finding it difficult to meet their financial contractual agreements due to slow sales turnover. The response showed that the rest of the external environmental factors have moderate impact.

The views of the respondents concurred with empirical literature where changes in macroeconomic variables translate into changes in loan portfolio quality. Frydman and Liang (2012) affirmed that macro factors were the ones that had a major impact in the determination of creditworthiness of a loan applicant. The liquidity crunch that got vicious since 2011 created low velocity of cash circulation. This made borrowers realizing less from their funded projects, making it difficult to service their loans which relatively more expensive. The continuous closure of companies, deindustrialization and growth of the informal market left economic agents with less disposable income. A growing economy which was industrialized created flexibility among borrowers to service their financial commitments.

Figure 2: Internal Factors Responsible for NPLs



Source: Primary data

Poor Bank Strategies

In light of McKinsey's 7S-Model of analyzing the internal environment, the respondents indicated that poor bank strategies (23%) which were not quickly flexed to reflect the propelling economic environment has been the major internal weakness of most local banks. It was noted that most banks were aggressive in their lending as they aim to grow their market share ignoring the risk in doing so. This found most foreign banks being conservative in their lending. The strategy of aggressive lending was misplaced given the slow movement of the economy.

Poor credit skills

It was also noted that another key internal weakness with Zimbabwean banks under the internal factor analysis was skills. Respondents felt that skills in the market were a cause of concern (18%).

Table 1: Experience and Qualifications of Respondents

Number of years	Qualification	Frequency	Percent
Less than 5 years	10 Degreed, 4 not indicated	14	42.4%
5-10 years	7 Degreed, 1 not indicated	8	24.2%
10-15 years	Degreed	5	15.2%
More than 15 years	4 Degreed, 2 Not indicated	6	18.2%

Source: Primary data

The results in the Table 4.8 above showed that majority of the respondents have worked in the banks in lending units for more than 5 years, indicating that only 42.4% did not manage to serve in the credit business on both the local currency system and in the current multicurrency system. The 42.4% was more significant a number as credit analysts despite that they are all qualified with degrees, they lack proper knowledge of how banks trade in the old currency system, and that experience could have molded them better in how to tailor their screening skills given a new economic dispensation.

Following the dollarization in 2009, the banking sector remained an oligopolistic market with only few banks setting the market pace. In this regard, quite most banks failed to enterprise on special skills that would fit well in the dollarized world. Most banks in their published results indicated growing negative net interest margin, more than 50% cost to income ratio (losses) and weak capital adequacy ratios. At the end loan prices would be driven up to cover for the costs associated, which ultimately fell hard on a borrower, being unable to service the loan, given the lower margins on the borrowers investments. The skills effect could highlight that some bank credit administrators were not carrying a serious analysis that includes data mining, market intelligence and impact analysis. This led to approval of undeserving loans. Well qualified and experienced personnel are necessary in the credit business.

Poor Corporate Governance

Based on research findings, 22 out of 33 successful respondents explained that for non-performing loans in Zimbabwean commercial banks was centered on ethics and corporate governance issues. This 67% highlighted that loans at their banks were allocated easily based on the relationship with the either credit analysts or key management. It came to light that some borrowers would have their papers sorted up after disbursements were approved through a directive from the bank management. It was also noted that functions of committees such as Asset and Liability Committee, Credit Committees and all credit sanctioning committees were shortchanged to be rubber stamping rather than decision making bodies. Under such circumstances, it was difficult to be bold in the recovery of a default loan granted in this way as usually undeserving borrowers' access loans in this way as which ultimately translates to moral hazard and adverse selection.

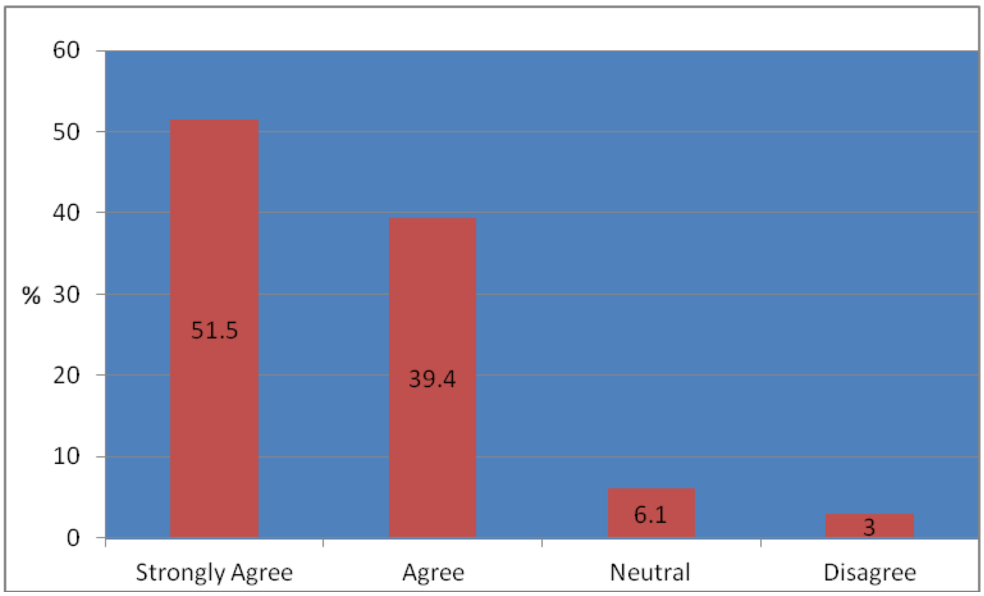
Weak Internal Systems

17 out of the 33% made it clear that system adjustment to reflect the new economic dispensation was slow. They responded in line

with the variation in way of doing business between local currency system and the multicurrency regime. The shift from the Zimbabwean dollar to the multiple currency systems required re-alignment of the usual systems to suit the new environment but the banks were not proactive and were induced to be optimistic of profitability given the stability of the adopted currency. This saw most banks soon after dollarization were engaged in lending over-drive as a way to grow their loan books. Usually when a bank extends credit hurriedly, it tends to loosen its credit standards, which resulted in higher nonperforming loans. Policies and Procedure Manuals were to be reviewed periodically to reflect changes in the environment. Unfortunately, respondents of some banks revealed that they continued operating using policies that were operational in the hyperinflationary period which made it difficult to make sound assessments that portray the new dispensation.

Poor Disclosure Practices

Figure 3: NPLs Dominated Credit Portfolios

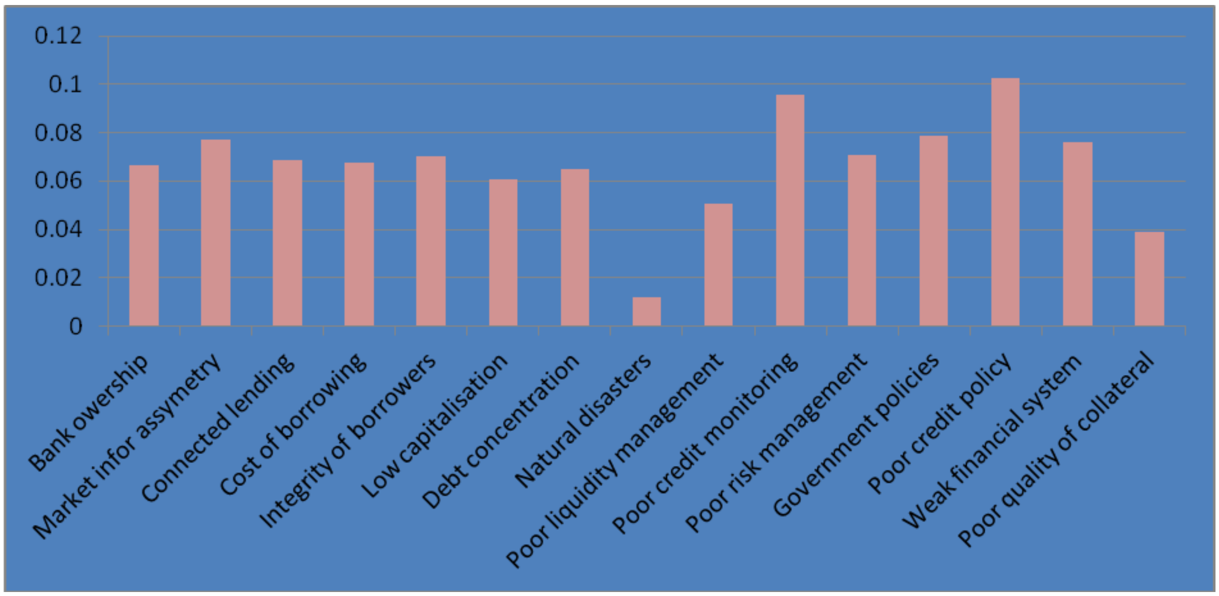


Source: Primary data

From the primary data it was noted that 52% of respondents pointed out that the NPLs constituted a larger proportion of the debtors' portfolio in commercial banks as indicated in Figure 4.3 above. Given the number who confirmed the under-disclosure of NPLs, most banks indicated that impairments were still not fully disclosed and were not within manageable levels with the exception of few banks with little exposure to trouble loans. This reflected that banks were under reporting the exact figure or exposure in their portfolios through to various mechanisms they used to hide the information for fear of bank runs, shunning investors and to avoid the hand of the regulator. By not disclosing accurately the reality in the bank operations, it gives an illusion to the regulators, hence no assistance either in terms of ideas or financial resources can be directed. This made many banking institutions that collapsed in the period under study curated or liquidated whilst they had previously recorded healthy financial statements. An example was on Interfin Bank, when their financial statements were published in a colorful manner, only to surprise everyone when it fell curated few months afterwards. Failure to disclose in the proper way kept those who could assist away.

Most banks have decided to hide the real statistics of NPLs by continuous refreshing of their loans to remain as new. This restructuring exercise was meant to generate negotiation platforms with borrowers on a gentlemen basis. From the response, over 90% agreed or strongly agreed that impaired loans are greater than performing loans. This reflected a disaster in the banking sector. This made it possible to have an account over 90 days due, yet is classified not as NPL. In other circumstances mentioned by the respondents, some of the credit was advanced to the government and its arms. These loans to the government were not considered defaults.

Figure 4 Bank-specific Causes of NPLs



Source: Primary data

In view of the bank-specific factors of NPLs, Figure 4.4 explains how the respondents voted on a 15-factor score. The respondents explained that poor credit policy, poor credit monitoring, information asymmetry, government policy and weak financial system as the major structural weaknesses of banks in handling credit business. The factors have fallen in concurrence with empirical literature on the causes of NPLs and bank failures.

Poor Credit Policy

Credit policy was ranked the top cause of NPLs. Lending policies provides guidelines to the banking personnel on how to appraise an application, approve, monitor and recover loans (McGovern,1993). Lending policies outline the lending procedures, target market, banks' lending philosophy and appetite. Well-conceived lending policy foster a sound financial credit system which can manage exposure to NPLs. Simonson et al (1986) concluded that sound credit policy help improve prudential oversight of asset quality, establish a set of minimum standards, and enables application of common language and methodology in credit risk assessment, pricing, documentation, authorization and ethics. In this view, it is regrettable that most banks after the switch to the multicurrency system continued to use their credit policies which were operational in the Zimbabwean Dollar era. This was a structural lax on the part of banks since each currency has a risk exposure which is customized. The banks seemed to have been static or caught unaware, hence exposing themselves to growing NPLs.

Concentrated Lending

Diversification distributes credit risk. However respondents to the study classified this cause at average level (6.5%) in the distribution of the causes on NPLs. Spreading investments into a broader range of borrowers reduces the upside and downside effects of changes in variables that affect loan quality (Ho and Yusoff, 2009). This is in line with Markowitz's Modern Portfolio Theory, as a strategy of cushioning the bank against risks during economic boom and downturns. In the Zimbabwean banking, the risk emanating from this factor was greatly managed through the RBZ's instrument of the concentration limits of 30% in some sectors (priority) while 25% in the rest of other sectors. This limit also stretched to individual exposures at a ceiling of 25% of the credit portfolio. Demis *et al.,* (1997) argued that banks should concentrate on funding one sector, so as to have enough expertise on how businesses are performing in that sector. This reflected the idea that the more focus credit was centred on few borrowers, monitoring is enhanced. However, the Zimbabwean performance per client or sector at the height of fluctuations and inconsistence as result of external factors such as government policies and the macroeconomic environment.

Bank Ownership

In the results from the respondents, bank ownership hold a moderate scale of the factors causing NPLs. Boudriga and LeNouli (2009) stated that foreign ownership had a positive impact on loan quality, as it promoted human capital, management skills, and technologies transfer. Micco (2004) in relation to a study conducted over 119 economies with different ownership structures revealed that state owned banks in developing economies have high NPLs. Under this scenario, politicians usually use the funds to lobby social support from the public. This raises NPLs. From the responses, it was highlighted that locally owned banks had higher risks to NPLs than foreign banks. Probably, foreign banks were greatly conservative in their lending process coupled with strong customer relationship services which foster joint management of a credit account. Respondents viewed foreign owned banks as being more stable by upholding their credit policy, capitalization of operations and prudential guidelines.

Poor Risk Management

This cause has been voted 7% after the weights were allocated. Risk management was classified as a moderate NPL driver. From a practical perspective, risk management is a continuous process of identification, measurement, monitoring and control of risk emanating from the defaulting borrower. This factor is in line with the requirements of prudential banking practices. It includes establishment of standards and experts, enforcement of adherence to lending policies and manuals, monitoring of assets deterioration, management of arrears and irregular accounts, concentration guidelines and review of advances policies and collateral adequacy (Santomero *et al.,* 1987). This risk management seemed to have been also triggered by the general weakening of the macro-economic variables and the over-commitment of banks in emphasizing pre-loan assessment at the expense of the during and post-loan disbursement monitoring.

Poor Credit Monitoring

Poor credit monitoring scored the second in the respondents' opinion, revealing that it was a major factor driving NPLs. Loans should be monitored to reduce their exposures in banks. Akbari (2010) reflected that banks that fail or relax to monitor their loans were likely to face huge volumes of NPLs. Rouse (1989) and Mwasho (2001) asserted that monitoring of the client was done through client visits, and reviews of the account conduct, compliance level to agreed terms, management accounts and loan repayment behaviour. In this regard, lack of monitoring and follow up of all the portfolio borrowers could trigger them to relax in terms of their credit performance. However, as noted by the respondents, banks' only emphasis on pre-loan assessment has exposed banks to growing rate of NPLs. This could have been necessitated by the need to cut operating overheads by banks by cutting off most of the cost centres. Monitoring of credit deployed manages the level of misuse of facilities against the intended purpose.

Insider or Connected Lending

Insider or connected lending is referred to as the provision of loans to self, friends, relatives and related companies of bank personnel has also scored 7%, meaning it has a reasonable force in explaining NPLs. This type of borrowing is explained by the looting view theory stipulated that there was a general abuse of offices by the directors and senior management to access unjustified loans. This kind of behaviour has been justified by the tight market where the flow of cash was so limited. This has made it harder to access a bank loan hence the bank employees found it with incentive to grow the loan-book from within the organization. This has also been an incentive to employees or senior management and their business conduits. As pointed out by Zingales (1998) explained that such practice is strong where there is limited lending across the banking sector, poor banking system, poor corporate governance, and variation in the loan pricing.

Some banks found insider loans as a better way of managing the performance of the loan-book as most of the beneficiaries' are known to the bank. This was to improve the monitoring process by the bank. This would reduce the risk created by the information asymmetry or lack of the Credit Reference bureau. Theorists such as Lamoreaux (1994) reflected that insider loans and related party lending was associated with reducing NPLs. The author's view was in the perspective of the unbalanced supply of information. However, the RBZ (2012) revealed that insider and related party lending amounted to 24% of the loan-book in Interfin bank while 21% of the delinquent loans were insider or connected lending. This went against various authors' viewpoint. In other words, Zimbabwe lending in terms of insider or connected loans were concerned, RBZ (2014) made it clear that insider loans recorded highest levels of default. The respondents' views implied serious effects of connected lending to NPLs. However, the regulator through the RBZ (2014) barred the issuance of insider loans as a way to manage bank exposure.

Information Asymmetry

It has been noted that information asymmetry was responded as one of the key factors causing NPLs. Borrowers, both individuals, private and public institutions had been taking much advantage of undisclosed and unknown information about themselves, due to the absence of the Credit Reference Bureau in the Zimbabwean market. This has left many borrowers over-exposed due to multiple borrowing across financial institutions that stretch from commercial banks to moneylenders. It was cited from the research that borrowers were overburdened. Most borrowers regardless of their size were over-borrowed from multiple lenders and some clients behaved in this way with no intention of repaying the loans. They thrived on the information asymmetry that prevailed. Individuals were reported to be periodically shifting pay points from one bank to another in-order to have access to loans.

Lack of the information centre has given an opportunity to bad borrowers to gain access to credit as their payment history and level of credit exposure is partially or entirely not known. This information asymmetry made banks being misrepresented by borrowers. Many borrowers are surviving in a vicious cycle of debt where they can take a loan from a specified financial institution to settle an overdue facility from another financial intermediary. However, because of the loan prices, sustainability is not feasible leaving many of the loans being going impaired at the end. Respondents also indicated that when the economy shifted to the multiple currency systems, bank lending was mostly historical, biased towards listed entities for companies. The research findings also indicated that some banks were much depended on financial information provided by borrowers; of which much of it suffered from creative accounting. This lack of due diligence and inadequate information related to borrowers' businesses saw banks advancing credit to borrowers with no capacity to service and repay their loan facilities.

Inadequate Supervision by the Central Bank

From the survey, all respondents pointed to inadequate supervision by the regulator which led to gross violation of prudential guidelines. Insider lending, lending to connected parties and prudential lending limits were violated as the Central bank was virtually out of business. All the above lending mishaps raised bank exposure to NPLs. This was caused by the failure of the RBZ to perform core responsibility of lender of last resort function. Some respondents cited high lending rates as the reason to non-performing loans of which the RBZ had no capacity to tune the rates to reflect the trading environment. Commercial banks borrow at low prices (if not for free from retail depositors) and lend at high prices. The spread between these are what constitute the banks' gross profit.

Poor Quality Collateral

Despite that collateral security scored only 4%, it has been mentioned on the causes of NPLs. The notion here is that due to growing poor loan servicing by desperate borrowers, banks felt that emphasizing on collateral security was to be helpful in managing NPLs. Banks requested for pledge of the collateral security as a way to lock in their value through secondary means. Some banks felt more comfortable having collateral placed before them but however, the collateral was mostly of poor quality which in turn made the marketability of the asset remain complicated because of the illiquid market. The quality of the collateral security was also worsened as the banking institutions were not in a position to liquidate the pledged security willy-nilly. It was only possible to redeem a pledged security after the High Court warrant a court order to do so. Banks have fallen more interested and comfortable with the immovable security not delineating the secondary risk of not able to dispose the asset. Most borrowers aware of the complications in the disposal, decided to risk handing over their mortgages as security. Others decided to use the mortgage more like a sale to the bank after failing to disposed it by themselves.

Conclusions on the Causes of NPLs

The study has detailed a number of causes of NPLs, which stretched from both bank-specific to macroeconomic factors, not sparing the political forces behind the growth of NPLs.

The findings indicated that insider or connected lending coupled with poor corporate governance were some of the causes of NPLs. This confirmed to empirical findings by RBZ (2013), which showed that loans advanced through insider lending were weakly monitored resulting in 67% of it turning non-performing triggered by poor corporate governance practices. This finding was in confirmation with Laz (2002) where the author found a link between insider lending and loan loss.

The research put it to open that most borrowers regardless of their sizes were taking advantage of the absence of the credit information centre to engage in multi-borrowings. Most borrowers in this regard were netted in a vicious cycle of debt, which also spearheaded them unable to service all their loan obligations across various lending institutions. This finding concurred with the BAZ (2012) and RBZ (2013) which blamed growth in NPLs on the absence of the credit reference bureau in Zimbabwe.

The research findings also highlighted that some banks' credit advancement was induced by the quality of the collateral security and desire to grow the balance sheet rather than fundamentals. These findings concurred with the findings of Salas and Saurina (2002) where they disclosed that bank inefficiencies and security driven lending explained growth in NPLs. The authors placed it on record that rapid credit expansion, bank size, capital ratio and market power were also behind NPLs. However in this regard, authors like Fernandez, Jerge and Saurina (2000) justified the above lending practice that it is very difficult to persuade bank managers to follow more prudent lending practices in times of economic upturn, particularly in more competitive environments. Plausibly, most bankers even the more conservative managers seemed to have found market pressure for super-profits difficult to overcome and grew their balance sheet without thorough considerations on the borrowers.

In this study it was noted that poor economic trend, lack of liquidity in banks, lack of proper bank supervision and lax lending practices were identified as some causes of NPLs in Zimbabwe. This matched the findings by Caprio and Klingebierl, (1996), detailed a more comprehensive explanation that suit Zimbabwe context that poor management, supervision, regulations, corporate governance and unnecessary government interventions as causes of banking sector vulnerabilities, although information asymmetry was not pointed. Omar et al also added that credit managers were influenced by personal gains and political corruption leading to compromised lending. As a result lack of shared values amongst the key stakeholders is to blame for the growth in NPLs.

Recommendations to Commercial Banks

The recommendations from this study are discussed below.

Establishment of Good Credit Culture

Banks should embrace on motivation and instruments of credit operation management in both pre-loan, during and post-loan processes, to have every personnel in the credit department hold a shared objective of responsibility to asset quality. The findings indicated that moral hazard, connected lending, overreliance on collateral as a yardstick measure and poor lending policies were some of the causes of loan impairments, hence bank risk managers are advised to have shared value with entire organization. This will help the institution to have a common direction at bank-wide level.

Monitoring the Overall Credit Portfolio (Stress Testing)

Lack of continuous assessment after credit was advanced has been noted as a structural internal weakness. The findings indicated poor credit monitoring as one of the major cause of NPLs, hence developing a sound lending strategy that is supported by post-loan monitoring procedures from credit sanctioning to recovery is vital. This gives the credit analysts important information about sector performance, market risk events and liquidity conditions of their borrowers. In this respect, it helps the bank to be well primed for the risk; hence adequate provisions for loan losses can be ascertained. Continuous monitoring can also help credit restructuring being established properly to manage the previously undetected credit risk.

Establishment of Professional Personnel

The personnel manning credit offices should be professionals, acquainted with knowledge, skills and experience to judge credit business correctly. To manage NPLs, the management team should have a strong foresight of the business, risk, business development and a strong sense of allocative efficiency to enhance profitability. Proper qualification and self-discipline are requisites for the construction of a sound credit culture with motivated staff. It was revealed that banks lack the necessary skills and experience that keeps the entire bank vigilant to market events hence bank management should embrace on competent staff. The study findings indicated that despite the reasonable qualifications held by the credit personnel, over 40% lack adequate experience as they have only been introduced to the lending business after the economy adopted the multicurrency system. Competent personnel help the bank to appraise, document, administer, monitor and recover loans resulting in reduction in the impaired loans.

Credit Insurance

Commercial banks should make it mandatory for clients to purchase credit insurance. In the event of default, the bank does not lose out as it will collect from the insurer. The study exposed that a number of banks were taking comfort from collateral security which was not marketable. In this view, bank loan portfolios were not adequately protected from loan losses hence loan insurance is a necessary secondary contingent. Banks should well analyse their portfolios and tailor potential risks to individual or sector borrowers and raise insurance covers in a diversified manner. This strategy helps to reduce the magnitude of exposure per bank portfolio.

Enhancing Risk Management

To safeguard the bank against potential losses, problem facilities need to be identified early. A proper credit monitoring system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower. The findings exposed poor borrower integrity, weak credit monitoring, poor liquidity management to have led the credit portfolios to ransom. The monitoring activity of the institution would ensure that funds advanced were used only for the purpose stated in the customer's credit application and that the financial condition of a borrower was regularly tracked and management advised in a timely fashion. This ultimately reduces panic and asserts better lending decisions and strategies in the future in line with the risk-return profile of each borrower, hence this improves the quality of the credit portfolio as financial resources are allocated accordingly.

Exclusion of Certain Sectors from the Credit Portfolio

The core function of the commercial banks is lending. The banks could remove the sectors with positive coefficients from their credit portfolios as they are corroding the asset quality and place more concentration on the profit-centres. Banks trades in a unique way. The strategy is a pivotal consideration for asset quality restoration as more funds would be channeled to safer sectors.

Strict Conditions on Certain Sectors

This is a more lenient and rational way of treating trouble sectors by keeping them within the portfolio but with more complicated conditions being required to be fulfilled to access credit. The screening process and the post-disbursement treatment should be more specialized. The conditions could include supplements on top of the general requirements for loan applications. This includes loaning borrowers trading in sectors driving NPLs on condition that they agree to offer additional commitments towards securing the potential loan. This foster borrowers being treated in line with their risk hence better rating scores can be ascertained of the credit portfolio, resulting in adequate loss provisioning and a better protection on loans would be pinned.

Sector Limits

As part of the diversification process of the inherent risk and reduction in concentration risk, as a cause of NPL, banks should adopt a sector limit so that sectors with positive multipliers won't wipe out the entire credit portfolio. Lower and upper limits can be prescribed in line with the magnitude of the risk attached in those high risk prevalent sectors; hence more resources are channeled towards more profit sectors. This improves liquidity in the bank vaults and reduces NPLs as more profit centres benefit from the credit advancements.

Provision of Loan

Potential loan losses need to be provisioned as emphasized by the RBZ or in line with the international best practices. The findings reveal that some banks were not adequately provisioned for loan losses. Large loan loss reserves are a better cushion in the event of a default and would offer better comfort to accommodate NPLs.

Differentiated Monitoring Process

A universal or uniform monitoring process might not be helpful in managing the level of NPLs. More prone sectors should have a more robust, specialized and regular monitoring than the low risk-risk sectors. Overdue loans in these troubled sectors should be followed up quickly as compared with the more stable or profitable sectors. This improves the cashflows and the liquidity level of the bank.

Conclusion

Both bank-specific and macroeconomic factors were responsible for the deterioration of asset quality in banks. As way to compact the NPL trend, exclusion or strict conditions on certain sectors in the credit portfolio, sector limits, provisions on loans and differentiated monitoring process have been suggested at bank level. Research findings indicated both the government and the regulator can embrace the banking sector by setting a tone for bank merging, establishment of a credit reference bureau, establishment of a special purpose vehicle for loans, promotion of structured finance products in the market and realigning governmental policies with the financial sector laws. Implementing these strategies would safeguard the assets of the banks as well as protect investors.

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Business Reinvention Accelerates Growth

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Joe Hanson and Norm Smallwood

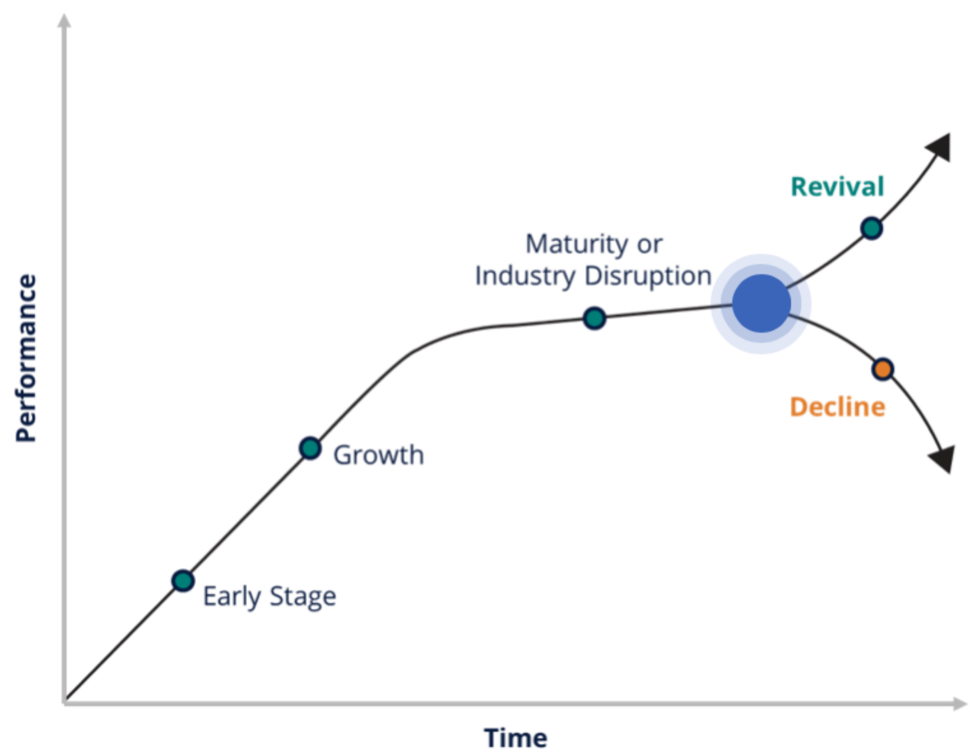
Key Takeaways:

- *Innovative companies have disrupted the way businesses are organized.*
- *Traits from these disruptors can be adapted in other sectors.*
- *Once adapted, reinvention can accelerate business growth from 20-50 percent.*

All successful businesses face flattening growth during their business lifecycles. The more successful the company, the harder it is to respond to slower growth and begin reinvention. The business has typically built strong technical and cultural capabilities combined with committed leaders and employees to continue what has made it successful in the past.

In our experience, many leaders respond too late and begin reinvention in the midst of decline. During decline, there isn't a lot of time to reinvent (focus is on cost reductions which often accelerate decline) and it's hard to afford business reinvention work due to shrinking margins and revenues. Business reinvention should be started earlier during the maturity and early industry disruption phase.

Figure 1 depicts a typical business lifecycle S curve, from early stage to rapid growth, leading to maturity and entrants that begin to disrupt, then to the inflection point of decline or revival.



The question to consider is where is my company today in this lifecycle? And what is our need and urgency for reinvention?

This article is for those who must lead to reinvent their business in order to accelerate business growth. We believe that no company will be immune to the need to reinvent with urgency. This belief is based on our research that demonstrates that the amount of disruption across industries is accelerating:

Hospitality	Airbnb owns no hotel rooms and offers more lodging than any hotel chain.
Automotive Rental and Taxi	Uber/Didi ride sharing platforms. The largest taxi companies own no cars.
Self-Driving Cars	The car that now transports you does not have to have a driver.
E-commerce, online shopping	Continues to rapidly expand, reinvent the retail model, and provide extraordinary shopping experiences. The store where you shop often has no physical footprint.
Education	Massive open online courses and other forms of digital learning are making quality education universal. The setting where you learn might no longer be a classroom.
Financial Services	All forms of banking are being disrupted.
Health Care	Vertical integration, technology, and consumer education are reshaping the healthcare playing field. Many health care interventions can occur online with a medical professional while sitting at home.
Semiconductor Equipment and Services	Technologies like blockchain, cloud data, big data, predictive analytics, robots and AI are reshaping the technology.
Consumer Products	Innovations in product, sustainability, channels, ecommerce and digital capabilities are transforming the CPG landscape.

In the latest book, *Reinventing the Organization* (Harvard Business School Press, 2019), Dave Ulrich, our RBL colleague and co-founder, and Arthur Yeung identified the most innovative and successful global organizations over the last ten years. These new economy companies include:

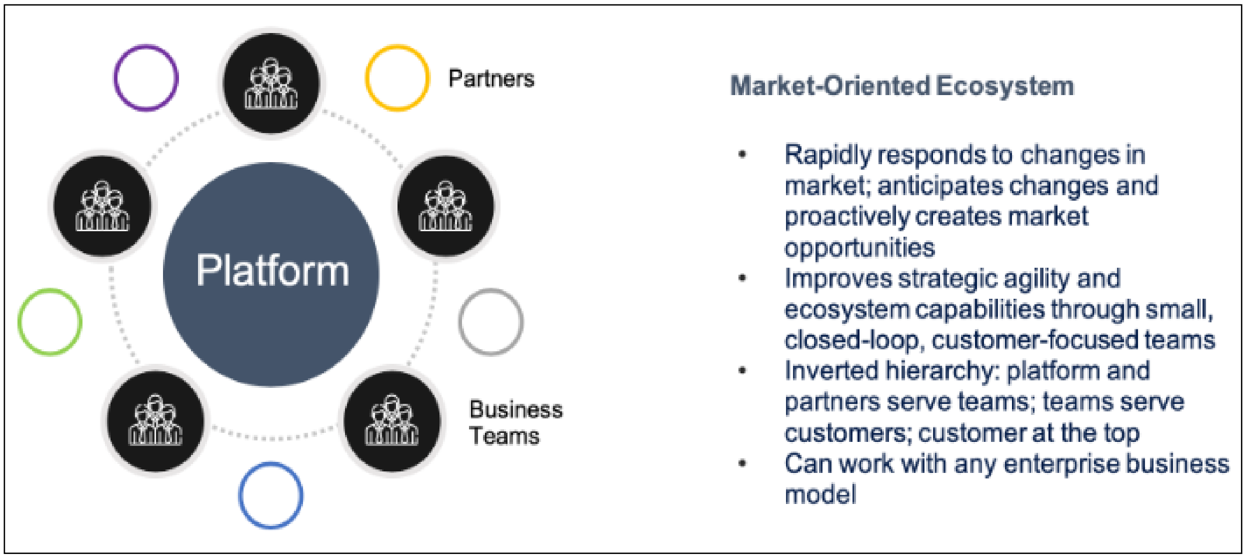
- China- Alibaba, Tencent, Huawei
- USA- Amazon, Facebook, Google
- Europe- Supercell

Dave and Arthur interviewed senior leaders of these organizations to understand how they approach strategy, capability, governance, organization design and leadership development. This research provides insights about how these new economy companies reinvented to achieve innovation, growth, and market leading valuations.

Coming out of this research, RBL has identified specific capabilities these organizations created which can be learned and adopted by others who are trying to reinvent their business and accelerate business growth to better compete in the new economy. These high market value businesses developed critical capabilities to:

- Scan and respond to trends that could be opportunities or threats (external sensing)
- Build new capabilities such as agility, innovation, and customer obsession
- Utilize organization principles based on "market-oriented ecosystems"
- Enable leaders to contribute differently by shifting their approach from hierarchy to ecosystem management.

They organize around a ***Market-Oriented Ecosystem***—a novel way of designing organizations to be both small (independent cells) and large (ecosystems), innovative (new market insights discovered in market-oriented cells) and learning (sharing information across cells).



We have distilled these principles into guidelines and methods to adapt your reinvention approach to accelerate business growth by 20 to 50 percent, or even more, and achieve higher market valuation through greater investor confidence in your future. We are excited to share what we learn from our clients with whom we are working to apply these ideas, as well as share key principles about how Amazon, Google and Alibaba lead, organize, and govern so that they delight customers and outperform industry peers.

Reinventing your business means understanding what the disrupting companies do and then adapting your practices to transform your leaders and your business.

RBL can uniquely share how these insights can benefit your organization in your efforts to proactively transform in the age of disruption. If you want business reinvention, RBL can help:

- Assess where you are against the Growth Maturity Model
- Diagnose and assess your need for business reinvention against the six dimensions of reinvention
- Partner and consult on ways to build specific capabilities and organization designs that improve ability to manage and grow through a market-oriented ecosystem
- Provide executive and leadership education to key principles and approaches to innovation growth capabilities that ensures reinvention is sustainable.

Positioning your organization early and anticipating the need for revival instead of reacting to decline creates greater confidence with investors, customers, and employees. RBL can help you transform your business. Learn more about our strategy integration and business design offerings and let us know how we can work together.

Authors: *Joe Hanson is a Principal with The RBL Group and an experienced consultant recognized for his work leading businesses through turnaround and transformation.*

Norm Smallwood is a partner and co-founder of The RBL Group. His research and consulting focuses on helping organizations increase business value by building organization, leadership, and people capabilities that measurably impact market value. He has written extensively about leadership and organization effectiveness in eight books and over a hundred articles.

Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution

Article by: Klaus Schwab (Founder & Executive Chairman, World Economic Forum

Following are the editorial commentaries by the OLDQ Editorial Board Members in response to the above quoted article on **Davos Manifesto 2020**.

Stakeholder Capitalism

By Dotun Jegede (PhD)

Driving organizational performance through stakeholder's value proposition

First proposed by Klaus Schwab (Chairman - World Economic Forum), Stakeholder's Capitalism means that a firm's principal responsibility is towards its stakeholders; and thus goes beyond Financial and Performance Metrics aside Environmental, Social and Governance (ESG) Goals.

This therefore posits that, in the current dispensation, companies will no longer run with the sole aim of making financial profits, rather, other stakes will have to be incorporated in the wake of business dynamics.

Targeted at the sophisticated global customer dynamics, businesses have to redefine their value propositions, employee's expectations, social impact, investors' confidence and ROI. Constant demands/expectations from stakeholders affect how businesses champion their value as going concerns. With agriculture accounting for more than 60% of her employment and GDP contributions, today's Africa has over 75% of businesses as SMEs that are fast closing down and thus not surviving half a century. Moreso, less than 5% of Africa's indigenous SME businesses and start-ups collapse within their first 20 years of commencement, leaving only a few advancing to become global corporations. For their inability to deliver value to stakeholders, Nigeria's Corporate Affairs Commission (CAC) reported also that - over 30,000 of the nation's businesses collapsed in the last 4 decades.

According to Professor Luiz Moutinho, – 'the greatest challenge to management in the ***next decade*** *will be to change fast enough to keep pace with new technologies; new markets; and new values'.* He further stated that – '*Either we take hold of the future or the future will take hold of us'.* This is all in a bid to create more value for the business stakeholders as – Employee, Investors, Customers & Host Communities.

For businesses to be able to meet up with all stakeholders' expectations as defined in the stakeholder's capitalism, I therefore advise and posit that, for growing business, including start-ups to respond to the value propositions, shifts and demands, must respond to the following changes:

- Redefine value propositions in accordance with various stakeholders expectations – employees, investors, customers, host communities, respectively;
- Develop strong internal capabilities and competencies required to meet all the various stakeholders expectations;
- Develop evolving discipline and corporate cultures order to remain dynamic;
- Incorporate the principle of corporate governance for SMEs in order to strengthen institutional practice.
- Respond to the expectations of new markets, technology, disruption and emerging markets and global business environment;
- Build learning organizations that constantly learn, unlearn, and relearn

on how best to meet the ever changing stakeholders needs;

- Position business as an agent of social change through partnerships with social crusaders in the wake of millennial, responding to social needs, environmental challenges-global warning, empowerments of host communities; and
- Non-interference of corruption, politics and politician's influences in business ventures.

If businesses are able to incorporate some of the highlighted advices, in particular, young firms, they will be able to meet both primary and secondary stakeholders' expectations thus making our world a better place for all.

Dotun Moses Jegede, Ph.D., is Senior Partner at DEE BEE Consulting, Lagos, Nigeria.

Stakeholder & Shareholder in 4th Industrial Revolution (4IR)

By Tosin Ekundayo

There was an era where shareholders and stakeholders were different group of individuals interested in the growth and sustainability of an organization. The business environment was not as volatile as it is today. All the parties interested in an organization knew their place and valued each other's interest respectively without fear or friction. The same cannot be said about the business environment of 4th Industrial Revolution (4IR). A company's stakeholders and shareholders differ by name and designation but remain key ingredients for organization success. Some would argue that there is no stakeholder without shareholders and vise versa. Recent strategies have proven otherwise, stakeholders are now shareholders or at least treated as such. Stakeholders are usually considered as individuals who share vested interest in a company's business. The value attached to an organization's products/services influences their approach and connection to the organization. It includes staff, potential staff, customer and potential customers just to mention a few, if the organization vision is to be achieved in due time. In fact, customer-is-king strategy has risen to the top of managerial tools for business sustenance.

On the other hand, shareholders share organization ownership. Once upon a time, shareholders were considered of higher importance for obvious finance reasons. Today, there might be no shareholders without stakeholders.

The 4th Industrial Revolution (4IR) refers to the era of technological revolution. It is a period where one or more technologies are replaced by another form of technological advancement within a short period of time. At the peak of this period was Jeff Bezos – the Amazon CEO. Shel Kahan, Bezos' Amazon's first employee in 1994 hesitated to join Amazon as a programmer mostly because he had worked for several failed start-ups. But in Bezos's amazing first job vacancy post he included the phrase *"Your compensation will include meaningful equity ownership"*. Yes, Bezos gave out ownership because he realized that employees were stakeholders on which the foundation of a successful enterprise is built. He expressed the foresight of an entrepreneur who realized the time was right to indulge the interest of key stakeholders, the new shareholders - employees. History pens that Amazon's goal was to give customers the best store experience which was only possible with the touch of dedicated employees. It is interesting to note that Amazon started out as book store in the United States, yet, today it is a multinational technology company that focuses on e-commerce, cloud computing, digital streaming, and Artificial Intelligence (AI). It is the first company in modern history to accumulate a fortune of over US$100 billion and currently has a net worth of US$117 billion, according to Bloomberg. Companies now use the same model to engage stakeholders for sustained value creation. They refer to this as stock option.

The era is here, the future even more promising. The stakeholder to shareholder strategy has been repeatedly validated by technological and other modern start-ups in their bid to achieve business growth and sustainability. It further gears global business pursuit for the development of key organization behavior for the optimization of invested resources.

Tosin Ekundayo is an author, business coach, and Senior Lecturer at Synergy University Dubai.

Responsible Capitalism: a sustainable and holistic value proposition

By Gene Kamille Lasquite Infante

Klaus Schwab, Founder and Executive Chairman of World Economic Forum, has written the *'Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution on December 2019'*. Schwab mentioned that a company's purpose is to engage all its stakeholders in shared and sustained value creation. We have learned that value chain is a set of organized activities a firm utilizes to build sustainable competitive advantage. *Is value chain a reality?* One of the dilemmas that our society faces today is that firms focus on external competencies such as revenue growth, profit, cost saving, market share and the external customers, and most of the times forget the internal customers and other stakeholders that contribute to value creation through the completion of the product or service. Though the external competencies are important, the challenge is the exclusive focus on such external results whilst missing the underlying dynamics supporting sustainable peak performance. It is disturbing to note that all that most companies care about today is how to amass wealth that lead to collapse in the long run given that focusing solely on this is not sustainable. A good example is Wells Fargo Bank, one of the largest banks in the US that has one of its values, "*People as a Competitive Advantage*". Though the bank might have been dragged into scandals *'left, right, and centre'*, the bankers have a sense of ownership and keep the customers happy because they themselves feel valued, thus keeping Wells Fargo on top of its game. A company must realize that aside from meeting its revenue targets and customer satisfaction metrics, people in and outside the organization should also be satisfied. I deem that the purpose and responsibility of a firm must be holistically balanced, not only focused on shareholders nor the consumers but also take into consideration all parties from shareholders to suppliers to employees to customers and the global society as a whole. Malcom Forbes once said *"All successful business operations come down to three basic principles: People, Product, and Profit. Without top people, you cannot do much with the others."* In view of the increasing calls for environmental sustainability due to the devastating effects of climate change a focus on *Planet* should be top priority.

The Davos Manifesto 2020 has tackled points that companies must consider to attain its purpose. It also provides a reminder to firms that there is more to revenue generation and fulfilling only the motives of shareholders.

Gene K. L. Infante is doctoral researcher and Director of Institute of Continuing Education (ICE-MCT) Philippines.

Organization Leadership & Development Quarterly (OLDQ)

Leadership and Organization Development Resource

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Submission Guidelines

Language: All submissions should be in English

All articles should integrate scholarly and applied concepts. An author bio of not more than 75 words should be provided including the author's affiliation. Articles should be approximately 4,000 words excluding the abstract, author bio and reference list.

Page format: The manuscripts should be prepared as Microsoft-Word documents in Constantia (Font Size 11) on A4 size. The line spacing should be single-spaced including references and tables. Tables and Figures should be in their respective position in manuscript with title of Table/Legends of Figure.

Abstract: It should not exceed 250 words in a single paragraph and not required sub-headings and should be a brief summary of the work carried out including the objectives of the study, the techniques used and what was accomplished in a concise manner.

Keywords: It should contain up to 3-5 key terms related to the work separated by commas.

Introduction: It should represent the background significance, brief survey of the previous works, purpose, scope and novelty of the article work and should not have subheadings. At least two specific objectives of the article should be stated. The significance of the article should be briefly elaborated in relation to organization leadership and development or related fields.

Literature Review: A brief review of related, empirical, and theoretical literature should be provided. A conceptual framework should be developed to demonstrate new insights and ignite candid discussions and debates. More emphasis should be given to applied engagement.

Methods: Sufficient information in detail regarding the materials and the methods used to develop the research works (analytical, statistical and experimental procedures) should be mentioned to enable the others to repeat the authors work. The Research Onion as developed by Saunders (2007) should guide the structure of the methodology.

Results and Discussion: It should contain summary of the article, results, interpretations, speculations and assessment of future research or prospects.

Conclusion: It should include outcome of the work, important findings and your view(s).

References: They should be arranged at the end of the manuscript. References should follow the Harvard Citation Style.

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