The effects of liberalisation of the Zimbabwean economy on the financial services sector and its stakeholders, and the role of a turnaround strategy by financial institutions in adapting to the new environment.

BY

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CONFIDENTIALITY CLAUSE

SEPTEMBER 2003 TO 2013

TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated in the contents remain confidential and not be circulated for a period of ten years.

Sincerely

A. MATEMEZANO (MR)

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed...

Date........12/9/03.............096497..............

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A. MATEMEZANO

ABSTRACT

The research study looks at the financial sector of Zimbabwe as it responded to the challenges posed by the trade liberalisation, which had been embraced by the government of Zimbabwe. In this effort, particular focus was made to one of the financial institution in Zimbabwe, Zimbank (The Zimbabwe Banking Corporation) which found itself having to craft and implement a turnaround programme in order to adapt to the new environment. The study looks at the challenges it experienced and the impact this had on its stakeholders, particularly the customer.

The liberalisation of the financial services sector in Zimbabwe brought about a new period which saw a lot of barriers of entry being removed. This resulted in the formation of new banks and increased the level of competition in that sector.

A two pronged approach was adopted to the research (desk and field research) to gather data on the effects of the turnaround programme. The data collected and analysed revealed that the turnaround programme saw the bank (Zimbank) surviving the competition as it came up with innovative products that added convenience to its customers. A clear link was established between the turnaround programme and the provision of better services to the customers.

However, it was also established that the bank still has to do a lot to keep its customers aware of the strategic moves being taken by it. When the turnaround programme was adopted, its customers were not so much aware of what was happening. It was therefore recommended that the bank should improve its communication with customers, as there are partners in business.

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CHAPTER ONE

1.1 Introduction

Zimbabwe's financial sector is relatively sophisticated, consisting of a Reserve Bank, discount houses, commercial banks, merchant banks, finance houses, building societies, the Post Office Savings Bank, numerous insurance companies and pension funds and a stock exchange. As a result of the liberalisation of the financial sector in 1991. the establishment of local banks has grown considerably. The Reserve Bank of Zimbabwe (RBZ) expect that this is likely to improve efficiency and lead to an expansion of a range of financial sector products available on the market. Barriers to entry are currently low which means that market differentiation is not made particularly on price but on customer segmentation. This has led to a tailoring of services towards the relatively wealthy personal sector; high net worth individuals and the top end of the corporate markets.

Whilst all of the commercial banks will compete for the business of the trans-national corporations there is relatively little servicing of the lower end of the corporate market. For example there is no venture capital house within the country that will consider funding start up situations. However, Zimbabwe's financial system came under great stress in 1998 with the collapse of the United Merchant Bank. One response by RBZ was to increase the capital adequacy requirement for banks, compared to the internationally accepted minimum ratio of 8%. This has also brought about a greater awareness of the importance of credit policies and the need for regular assessment of assets.

The investment climate at present is very difficult with minimal investments made in view of inflation (360%), interest rates (MLR is 85%) and the structure for capital allowances (4 years). The EIU rates Zimbabwe's banking sector as high risk, which they attribute to Government intervention during the past two years.

A number of banks provide special credit lines to the tobacco industry, which is Zimbabwe's main commodity export product. The only other exception is the Zimbabwe Development Bank, which focuses on the transport and construction industries. A majority of financial institutions are active within Zimbabwe and some banks, such as the African Development Bank and IFC, have a presence in the region. A majority of finance available in Zimbabwe is considered short- to medium-term, with the length of investment ranging from usually 1-5 years. The average size of investment is relatively small, which is symptomatic of the unavailability to long-term finance. This is generally made through leasing instruments for plant and machinery and typically will be less than US $ 20,000. Larger financing requirements are very much dependent on the level of foreign exchange earnings the corporate may generate.

1.2 Background of the research

The attainment of political independence by Zimbabwe in 1980 created some enthusiasm in all sectors to develop the economy against a background of economic suctions which the country was experiencing prior to independence. In an effort to create racial harmony by burying past political differences, the government declared the policy of reconciliation under which all the people of Zimbabwe were to let bygones be bygones and forge ahead to rebuild the country. However, the Zimbabwean government realized that internal efforts alone were not sufficient to bring about the desired economic progress. but had to actively interact with outside world.

In order to be a true member of the international community, the Zimbabwean government became a member of the World Bank, IMF, UN, and O.A.U amongst other world bodies. Further, it decided to liberalize its economy in order to benefit from the advantages of open trade. Amongst other economic areas, the financial sector was also affected by these initiatives.

1.2.1 The Financial Sector

The liberalization of the financial sector in Zimbabwe was an integral part of the Economic Structural Adjustment Program (ESAP), a program which was introduced by the government in 1991. It was aimed at restructuring the economy from a predominantly state-interventionist type of economic management towards a more market-driven system. The adoption of the ESAP and its successor programs, namely the Zimbabwe Program of Economic and Social Transformation (ZIMPREST) for the period 1996-2000. was a notable trend in most African countries where the failure of 'socialist' experiments and other models of state management of the economy. led to a situation where countries had to resort to the World Bank and the International Monetary Fund (IMF) for financial support. The Structural Adjustment Program (SAP) is typically the prerequisite for assistance from those two multilateral bodies.

Prior to the introduction of the reforms, the sector was very heavily controlled by the state. Fixed by government were interest rates, lending rates to be charged by banks. deposit rates to savers and a string of other controls. There were credit ceilings that channelled resources to specified sectors and there were restrictions as to who could carry out banking business. The sector was heavily segmented, with categories of institutions being confined to specified types of banking business, for example, that building societies could only engage in mortgage finance, commercial banks to provide short term funding for working capital, merchant banks for wholesale banking etc.

It is generally believed that the structural adjustment model has not worked in Zimbabwe. The reasons for the failure are varied and also controversial. But this is not the major focus of this study. The argument presented here relates more to the component of financial sector liberalization. Contrary to expectations, it appears that liberalization of financial markets has not improved access to credit by the poor and other marginalized groups. Indeed, there were a number of new entrants and players in response to the market signals of liberalized interest rates - both deposits and lending rates - and the new opportunities to do business that resulted due to the opening up of the economy. However, it appears that competition was not total, as the regulatory environment perpetuated segmentation and also made it particularly difficult for small players to enter the market and hence enhance their capacity to service the lower end of the market.

As a result of the liberalisation of the financial sector, the Zimbabwean financial services expanded due to the establishment of local banks. The RBZ expected this to create competition that would, in turn result in greater efficiency and lead to the expansion of the range of the financial sector products available on the market. Barriers to entry were greatly reduced which meant that market differentiation was not made particularly on price but on customer segmentation. The implementation of the liberalisation policies that the auspices of the IMF and the World Bank, put great stress on the financial services sector and its stakeholder. These stakeholders could be classified as internal and external. The internal stakeholders are as follows:

Employees
Shareowners

The external stakeholders are:

Customers
The Government
The Reserve Bank
Pressure Groups
Investors

1.2.2 ZIMBANK

The origins of the Zimbabwe Banking Corporation (which is the subject of the study) go back to 1888 when the Netherlands Bank and Credit Association for South Africa was formed in Amsterdam, Holland, under the Royal Charter granted by William 111 of the Netherlands and signed on 1 March, 1888. The first branch of this new bank was established in Pretoria in the same year.

Fifteen years later in 1903, the bank changed its name to Netherlands Bank of South Africa . The pattern then became one of continuing growth and change, culminating in 1951 when the Netherlands Bank of South Africa Limited was incorporated in South Africa with 25% of its issued capital being held by the public. The following years saw a rapid increase in the South African shareholding of the bank and in 1969 the Netherlands Bank of South Africa Limited(later known as Nedbank Ltd) became a wholly-owned South African company. The bank extended its sphere of operations to Zimbabwe by opening a branch in 1951. The following year saw a branch office opened in Bulawayo and branches were subsequently opened in the nine major centres in Zimbabwe. Today Zimbabwe is served by forty-six Zimbank offices.

On 1 August 1967, a major development took place when the Netherlands Bank of Rhodesia Limited was formed in order to take over the assets and liabilities in Zimbabwe of the Netherlands Bank of South Africa Limited, including its nominee company, NBR Nominees (now Zimbank Nominees). For the first time, the Zimbabwe public had the opportunity of acquiring a shareholding in a bank institution some 37,35% of the issued capital of the bank in now held by the public.

The new bank commenced its operations with total assets of just over Z$30 million and with issued capital and reserves of Z1 967 096. Also on 1 August 1967, the new bank acquired the entire issued capital of Scottish Rhodesian Finance Limited, a registered financial institution specialising in the hire purchase and leasing. Later that year, another wholly owned subsidiary, NEFICRCHO Limited was registered as a financial institution concentrating on medium-term industrial and commercial loans.

From this beginning in 1967, the Netherlands Bank of Rhodesia Limited maintained a rapid rate of growth and continued to increase the services it offered to its clients. In 1970, the bank acquired a shareholding (now 14,8%) in a freight forwarding and travel group, T.I. Group (commonly known a Travel International and a shareholding in

SYFRETS Insurance Brokers, (now called SYFIN Holdings Ltd) which has a 28% beneficial interest in local brokers, Willis Faber and Associates (PVT) ltd.

On 1 March 1971, NEFICRHO Limited was registered as an accepting house in terms of the Banking Act, 1964, making available to the public the full range of merchant banking facilities. On 4 May 1971, in keeping with its new status, this company changed its name to NEFICRHO Acceptances Limited. During this period also, the bank established international divisions in both Harare and Bulawayo where specialised services were offered in al foreign business transactions to promote both local and overseas trade.

In accordance with modern banking practice, the Group has endeavoured to provide an ever increasing range of financial services to the public and inevitably, this process led towards the creation of banking corporation. During 1971, the Nertherlands Bank of South Africa Limited changed it name to Nedbank Limited as it had become an entirely South African owned organisation. This together with the increasing Rhodesian character of the bank resulted in the changing of name to Rhodesian Banking Corporation Limited the effect from 1 April 1972.

A subsidiary, Rhofin Limited, was incorporated on 22 November 1972 to hold Group non-banking interests. Nedbank Limited's 49% stake in this subsidiary was acquired by the Bank after Government acquired Nedbank's shareholding in the bank. In the same year, another subsidiary, NBR Executor, NBR Executor & Trust Nominees (PVT) Limited was formed to register mortgage bond participations managed by Neficrho Acceptances. In December 1980 this company's name was changed to Syfrets Corporate (PVT) Limited to reflect its main activity.

On 1 April 1974, the Rhodesian Banking Corporation (Rhobank) acquired the entire shareholdings of Syfrets Trust and Executor Limited (Sytrust) and in two nominee companies, Syfrets Nominees (Pvt) Limited. Neficrho Acceptances Limited changed its name to Severest Merchant Bank Limited (Sybank) on 1 May 1974.

Certain activities of the Rhobank Group and Sytrust were complementary, thus rationalisation benefits arising from to merger were implemented. Sytrust retained its activities in the administration of deceased estates and trusts, whilst the management of clients share portfolios, participation bonds and other investments were absorbed by Sybank.

The name of the bank was changed from Rhodesian Banking Corporation Limited to Rhobank Limited with effect from 16 July 1979. On the same date, Scottish Rhodesian Finance changed its name to Scotrho Finance Limited.
In April 1980, Zimbabwe was granted independence and on 26 February of the following year the Government of Zimbabwe took steps to acquire the 61% shareholding in the bank held at that time by Nedbank Limited, South Africa. It was subsequently considered appropriate to change the name of the bank from Rhobank Limited to Zimbabwe Banking Corporation Limited (ZIMBANK) on 1 June 1981.

In the 1990's the bank found itself with non-performing loan book of Z$1 billion. This crippled the banks ability to compete favorably as it struggled with liquidity problems. The debt collection and financing costs for the non-performing book was eroding profitability. Further, the liberalization of the financial sector caught the bank in a precarious position. The new banks appearing on the scene were competing aggressively on the market threating to erode its market share. The bank also found itself under capitalised in terms of the new banking regulation relating to capital adequacy ratios. These and other factors caused the bank to adopt a turnaround programme in order to comply with the new banking requirements and survive the competition.

This brings us to the topic of this research:

The effects of liberalization of the Zimbabwean economy on the financial services sector and its stakeholders and the role of a turnaround strategy by financial institutions in adapting to the new environment.

1.3 Motivation for the research

Over the last few years many banks have been opened in Zimbabwe and these created new challenges for the established banks. They had to come up with strategies to retain their customers in the face of stiff competition. The main strategy was to retain the profitable customers through personalized service. Research has shown that totally satisfied customers are six times more likely to repurchase a company's products over a span of one or two years than merely "satisfied" customers. Furthermore a 5% reduction in customer defection can result in profit increases from 30 tom 85% (Management first: 2001).

Many firms tend to use ROI analysis to determine if an investment has produced desired impact. Return on investments includes cost saving as well as revenue growth, but the process of developing an ROI analysis produces other benefits as well by requiring that the institution consider other investment variables such as intangibles and assumptions, risk and timing (Ronald S. Swift, NCR Corporation 2001). Traditional business thinking is that shareholder value is derived from products and services. Accordingly most financial institution have targeted their strategies on enhancing products and on reducing cost in customer service. This is because cost benefits are often based on experience. have clear origins, and a proven "cause and effect" and so can be reasonably precise. But revenue benefits are often based on unsubstantiated anecdote. with little or no experience and often-imprecise origins.

However in their paper (A strategic Framework for CRM 2001), Patrick Sue & Paul Morin argue that customers rather than products and services drive shareholder value. Customers determine both revenue and cost by their choices, behaviours and by how these behaviours consume resources. What the traditional thinking has not considered before is that shareholder value is determined almost entirely by the types of customers a company attracts. Their line of argument is that once we have accepted that customer behaviour, not a product or service, determine a company's shareholder value, it quickly becomes apparent that the objective of a strategy is to influence that behaviour. And because customers are not equally profitable. shareholder value is determined almost entirely by the types of customers an institution attracts. Not all customers are created equally, nor will each customer provide an equal return for the same investments. In view of these issues, this study will seek to establish the effect that the turnaround strategy of Zimbank had on key stakeholders.

1.4 Value of the project

This study seeks to:

1. To develop a body of knowledge that can be used in the marketing of bank products, which can be used by both bank marketing practitioners and academics in Zimbabwe. If this study establishes that the turnaround strategy was successful, then the banking industry can have a sound body of knowledge that can be used as a guideline in future strategy development and implementation. Bankers can also use this body of knowledge to develop reliable stakeholder management policies.

2. To contribute to the growth of knowledge on the marketing of finance. The marketing concept as an integral part of any business entails teamwork and focus on profitability and satisfaction of customer needs. Therefore identifying effective strategies would be a significant contribution to the growing body of knowledge on stakeholder management in developing countries like Zimbabwe.

3. The significant results of this study would also contribute practically to the design of better marketing programs for commercial banks.

1.5 Problem statement

After independence in Zimbabwe (1980), the Government, under the auspices of the IMF and the World Bank. implemented a liberalization of the economy. This liberalization placed great stress on existing financial institutions and their stakeholders. Some financial institutions including the Zimbabwe Banking Corporation (ZIMBANK) adopted a turnaround strategy to adapt to these changing circumstances and so to protect their stakeholders' interests.

1.6 Objectives of the study

This study examines Zimbabwe Banking Corporation and seeks to establish:

a) how the liberalization policy affected it
b) the turnaround strategy developed and adopted
c) the effects of the strategy on the institution and its stakeholders

1.7 Research methodology

A two pronged approach will be adopted for the research (desk and field research). The desk research component will entail the collection of secondary data regarding details of the turnaround strategy. This will allow viewing of the program from an internal perspective. The field research will be quantitative and will target 40 current customers of ZIMBANK. Data collection procedure will involve face-to-face interviews with each qualifying respondent. The sample will comprise both corporate and individual account holders.

1.7.1 Data Collection

All interviews will entail the making of appointments followed by visits to the respondent. In the case of companies, qualifying respondents will be senior managers or their assistants. As the study seeks to draw conclusions that will be applied to the entire financial services community, a random stratified quota system will be employed. All interviews will be conducted in Harare as the capital city is the best representation of what happens in the rest of the country. As such there will be no incremental gain to be obtained by making the study nationwide. The face-to-face, one on one interviewing format will be adopted for the research because of its numerous advantages over the other methods of data collection as discussed below.

1. **Face-to-face interviews** – interviewer visits respondent's office or home, asks the relevant questions and records respondent's answers on a structured questionnaire. This approach enables the interviewer to verify facts, including body language on the spot and it is easier for respondent to clarify unclear issues.

2. **Telephone** – interviews over the telephone are cheaper but in Zimbabwe there is a low incidence of telephones and as such only few people can be reached. Although in the case of this study the target respondents were people with access to phones, the cost of conducting a 45 minute questionnaire would have been prohibitive. Besides, the respondents would not have that much time to speak on the phone, and then each question needed at least a minute of thought before answering.

3. **Mail (including e-mail)** – also a cheap method but experience has shown that few people care to fill in questionnaires and to post/send them back, even when return envelop and postage stamp are supplied.

Having stratified the universe to make the sample random, questionnaires will then be administered to the qualifying respondents by random identification. The targeted sample of 40 is considered adequate by the researcher because it allows a robust base from which to draw conclusions, and even when cross analysing by customer type, one would still have a sufficient number of respondents to draw conclusions from.

1.7.2 Quality control

Quality of data is key in any research exercise. As such quality will be ensured at all stages of the research process by putting in place upfront several quality control measures. Besides 100% post check of completed questionnaires, the following further mechanisms will be effected:

- thorough training and briefing of all people involved in the exercise
- piloting of survey instruments
- double punching of data at data processing stage

1.7.3 Data Analysis

Data analysis is an integral part of any research process, such that without the analysis procedure it is impossible to come up with any meaningful findings. The data analysis will be done with a statistical analysis computer package called Statistical Package for Social Sciences (SPSS), which is a leading desktop statistical package. It is available for mainframe and personal computers and can be constantly updated to satisfy user needs. It has a comprehensive range of data manipulation tools. SPSS has the added advantage of allowing one to score and analyze quantitative data in various ways with the greatest amount of speed. This is a package that is strong on its statistical capabilities and offers one of the best environments in which to do detailed statistical analysis. This is a package that eliminates most of the data limitations found within some of its competitors.

1.7.4 Limitations of SPSS

- It can only handle a maximum of 500 variables

- Cannot run on a computer with less than 32 mega bites
- The cost of the software is prohibitive

1.8 Limitations of the Study

This study will be limited to commercial banks only and the study area will be Harare. This means that marginal tendencies may not be picked up in the study. A bigger sample may also produce more stable results but due to time and cost constraints a bigger sample is not feasible.

1.9 Structure of the study

CHAPTER 1

This chapter covers the general background to the research, the problem statement, a summary of the methodology used, the objectives, organization of the study and the timetable.

CHAPTER 2

A review of the relevant literature gathered is carried out in this chapter. The idea is to come up with a clear theoretical framework to be used in analysing the findings. A summary of the specific conclusions on each item of literature reviewed will also be given.

CHAPTER 3

This covers in more detail the methodology used in carrying out the research. The selection of the method is justified and the content or environment in which the research is carried out defined. Other items covered are the sample unit, selection and size determination, instrumentation, data collection methods and procedures on data analysis and presentation.

CHAPTER 4
Reporting and discussion of results

CHAPTER 5
Conclusion and recommendations

Glossary of Key Terms

Appendices

Bibliography.

1.10 Timetable

The research project shall be executed according to the timetable below.

TASK		DEADLINE DATE
Proposal writing & approval		22.8.3
Questionnaire design & approval		25.8.3
Data collection		28.8.3
Data Processing	Coding and editing	29.8.3
	Data entry	30.8.3
Data analysis & cross-tabulations		2.9.3
Draft report & submission to supervisor		5.9.3
Submission of final report		**10.9.3**

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The business environment we are living in demand that organizations do a lot more than guess work or rely heavily on intuition in making business decisions. Some decisions are so strategic in nature such that if they turn out to be wrong or ill conceived; the financial and opportunity cost to the organization can cause irreparable damage. In order to minimize such possibilities, organizations have to engage in strategic management processes.

According to Richard Lynch (2000 p 17) corporate strategy is important because:

a) It involves the entire organization. Corporate strategy covers all areas and functions of the business and borrows best practice from each part and combines these, thus creating more than just the sum.

b) It concerns itself with the survival of the business as a minimum objective and the creation of added value as a maximum objective.

c) It covers the range and depth of the organization's activities. This means that corporate strategy leaves no organizational area untouched in its quest to ensure that the organization prospers.

d) It directs the changing and evolving relationship of the organization with its environment.

e) It is central to the development of sustainable competitive advantage without which competitive gains will be short-lived.

f) Its development is crucial to adding value which a key area of company competitiveness.

Therefore the role which strategy plays is essential for the long-term survival, profitability, and growth of the organization without which the organization is likely to suffer from a *strategic drift*. Without strategy, the organization has no focus, no defined direction, no milestones and no alignment with the environment in which it operates.
Organizations do not operate in a vacuum but in an environment. which is full of uncertainties. It there becomes crucial for organizations to understand and appreciate the forces that operate within its environment. These forces are generally classified as Political. Economic, Socio-Cultural and Technological influences, commonly known as the PEST analysis.

2.2 PEST ANALYSIS

The execution of a PEST analysis assists in reducing the degree of uncertainty by identifying the characteristics of different types of environments. The classification of the environmental state into (a) simple or complex and (b) stable or unstable/complex, make strategists able to appreciate the kind of environment they are dealing with.

This appreciation makes strategists proactive and initiate actions that exploit the opportunities and avoid or minimize the negative impact of the threats which exist. What it means is that the information that originates from the PEST analysis will partly influence the strategy that the organization will adopt.

Whilst the contribution of PEST analysis to strategy making is appreciated. the information obtained therefrom is far from sufficient to come up with a fully-fledged strategy. PEST looks at the general environment and does not look deeper into issues, which are company-specific such as industry structure, competitiveness and attractiveness. Neither does it tell you anything about your competitor's profile.

It is important to realize that the actual strategy and the planned strategy of an organization are not the same. The actual strategy will not, in the majority of cases, be a carbon copy of the planned strategy. This is so because at the planning stage one can not foresee all future events with accuracy. Therefore, as the external and internal business environment changes so will be the need to modify strategy to align the organization with the environment.

2.3 ENVIRONMENTAL ANALYSIS - ZIMBABWEAN FINANCIAL SECTOR

The operating environment in Zimbabwe is dominated by macro economic instability and political instability which makes it difficult for most businesses to effectively operate as witnessed by the recent large number of company closures which are now in excess of four hundred in number A consideration of the Political, Economic, Socio-Cultural, and Technological (PEST) has been taken below in order to highlight the issues involved.

(a) ***Political and Legal Factors***

- The controversial land issue.
- Rule of Law allegedly compromised by political violence.
- Uncertainty surrounding the succession plan of the country's leadership.
- The imposition of the Zimbabwe Democracy Bill by the United States of America.
- The Commonwealth and EU (European Union) political stance on Zimbabwe.
- Possible legislation in response to indigenous pressure groups for banks to relax their lending and debt collection policies.
- Possible stringent supervision by the Central Bank (The Reserve Bank Of Zimbabwe) to avoid bank's insolvency and malpractice.

(b) ***Economic Factors***

- Rate of inflation with currently stands at 360%
- High unemployment which is estimated to be 70%.
- Huge government budget deficit.
- Chronic shortages of foreign and local currency.

- High interest rates for lending which currently stand at 80 to 85%

(c) ***Socio-Cultural Factors***

- HIV/Aids
- Exodus of skilled man-power to regional and overseas countries
- Deteriorating health standards
- Unethical business culture arising from economic hardships.
- Increase in crime rate.

(d) ***Technological Factors***

- Impact of new technological applications e. g. internet
- Huge investments in research and developments by banks

2.4 CRAFTING A STRATEGY

The process of crafting a strategy is a direction setting task in which the organization will deliberately choose (among alternatives) to operate in certain markets, using certain resources. occupying a certain position in the market for itself and its products and deciding on how it wishes to go about it.

The strategy making and implementation process consists of five tasks, which are:

1) The formation of a strategic vision of where the organization is going

2) Setting objectives of the organization

3) The crafting of a strategy to achieve the desired outcomes

4) Implementation and execution of the chosen strategy

5) The evaluation of performance and initiation of corrective adjustments in vision, long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions new ideas, and new opportunities.

The above tasks are essential for the long-term survival, profitability, and growth of the organisation without which the organisation is likely to suffer from a strategic drift. It is important to realise that the actual strategy and the planned strategy of an organisation are not the same. The actual strategy will not, in the majority of cases, be a carbon copy of a planned strategy. This is so because at the planning stage, one can not foresee all future events with accuracy. Therefore, as the external and internal business environment changes, so will the need to modify strategy in order to align the organisation with the external environment.

Two schools of thought have emerged in conducting the strategic management process.

2.5 COMPETITIVE STRATEGY

Of great significance to the organisation is its competitive strategy. This is a special area of the overall strategy of the business because it deals specifically with how the organisation wishes to outrun, overrun, concur or do anything that will place it in a better position than its rivals.

It is important for any organisations to understand the degree or intensity of competition which exists in the industry it operates so that it can accordingly be guided in its efforts to craft a winning competitive spirit.

The use of Porter's Five Forces Model (as shown under section 2.6) can be an effective of understanding the industry competitiveness of an organisation.

2.6 BENCHMARKING

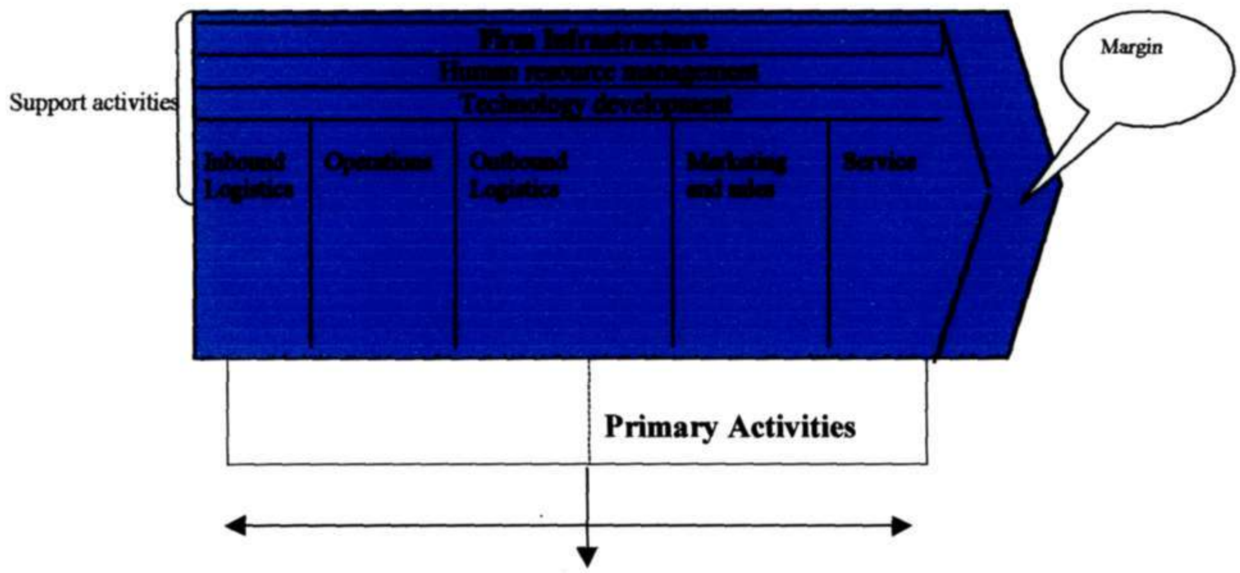
Benchmarking is an effective way of understanding your competitor's performance against yours. This can also be used as a means of understanding the organisations performance strengths and weaknesses. Out of this process, performance targets can be developed to insure that the organization does not lag behind or lose valuable business to its competitors.

In order to make it effective and to enhance its strategic significance, benchmarking should begin with the strategic factors at the business-unit level and proceed to deal with operations and, finally, attend to the processes vital to competitive success.

In the financial sector, the sources of information for benchmarking can come from the public financial statements, advert, ex-employees and information that is shared freely in trade journals. Some organisations simply choose organizations that they aspire to be and strive to perform as they do by bench marking all their operations against the aspired organisations.

2.7 EFFECTIVE RESOURCE UTILISATION

Organisations which adopt cost leadership as their strategic focus normally aim at doing more with less - cost efficiency. This they do by looking at the value chain process and ensure that every part of the process within it is adding value to the inputs. The concept of value chain is based on the premise that organisational activities should be linked up as a chain in adding value to the input of the organisation. This is in contrast to the functional concept which groups the activities of the organisations into functions (Finance Department, Sales Department, Production Department) which should independently deliver service by performing those functions. This is diagramatically shown below:



Upstream value activities **Downstream value activities**

(Value Chain diagram. S. Hollensen, Second Edition, Page 14, Figure 1.8)

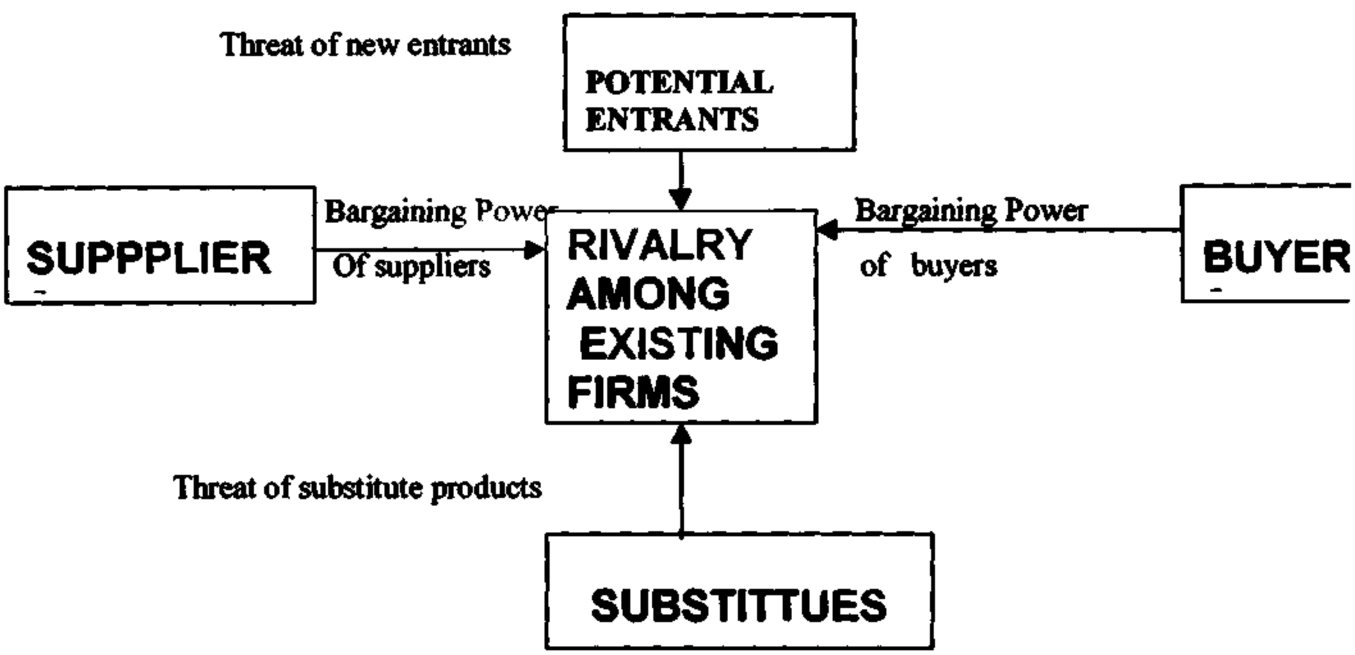
2.8 SWOT ANALYSIS

Before a company embarks on a strategic development process it is important for it to fully appreciate its strength, weakness, opportunity and threat (SWOT). The appreciation of such factors is necessary so that a strategy will be crafted which should minimise the negative impact of weaknesses and threats and capitalise on the strength and opportunities available on the organisation. Strength and weakness are internal whereas opportunities and threats are external factors.

SWOT Analysis is firm specific whereas the Porter's Five Forces relate to the industry in which the firm operates. This analysis (SWOT) has its strength in the fact that what is now making an analysis which concerns the organisation itself and the material that comes out of the analysis forms part of the ingredients of the company's strategy.

2.9 WITH REFERENCE TO ZIMBABWE

Given the large number of banks providing service to the Zimbabwean community, it follows that there is increased competition within this sector, hence, for banks to stay in the business and benefit from it. they have to craft and implement some winning strategies which should see them surviving the ever increasing competition brought about by the liberalisation of the sector. Gone are the days when banks took for granted that they had a reliable and faithful following of customers. A consideration of the factors that determine the intensity of competition in the banking industry in Zimbabwe would assist in highlighting the importance of carrying out competitive and sustainable strategies. In doing so the Researcher applied the Porters Five Forces Model as shown below: -



Threat of Entry

- The ever increasing number of banks as a result of the economic liberalisation
- Barriers in the form of capital requirements, expertise and government intervention still exist.
- Economies of scale pause an advantage to established banks
- Intense competition

Bargaining Power of Suppliers

- Because of the increasing number of banks the investing public and institutional investors have a wide variety as to which bank they can invest their funds with – hence increase competition by banks to attract funds.
- Institutional investors are powerful and can bargain for conditions, which favours them.

Bargaining Power of Buyers

- Corporate Clients who are blue chip companies wield a lot of bargaining power and normally negotiate for facilities favourable for them.
- Non-corporate customers also enjoy a wider variety of services due to the increasing number of banks.

Threat of Substitutes

- There is a high threat of substitutes products due to dominance of traditional products being offered by banks, for example bank overdrafts, current accounts. New banks easily copy such products. However, banks normally compete in terms of the quality of service they offer in providing such services.
- Technology is playing a decisive role in providing quality service and innovative products, which sometimes make it difficult for competitors to imitate.

RIVALRY AMONG EXISTING BANKS

- Aggressive competition due to the increasing number of banks.

- Due to the amendment of the Banking Act in year 2000. financial institutions are now at liberty to offer a variety of products thereby increasing competition. Before the amendment there was a clear-cut distinction between the services offered by commercial banks, building societies, merchant banks and insurance companies - these barriers were removed.

- Due to the economic hardships, company closures are widespread. Banks have to create products that suit the new requirements/needs of firms, which are struggling to survive. Customers are therefore price sensitive and quality conscious.

2.10 QUALITY

Integrated Total Quality Management can be confirmed in an organization when it ensures, facilitates and integrates the learning of all of its members continuously transforms itself, towards a condition of complete stakeholder satisfaction.

Customer Satisfaction
People (employee) **Satisfaction and**
Impact on Society

Are achieved through

Leadership driving

Strategy and Policy,
People Management,
Resources and Processes,

Leading ultimately to excellence in

Business Results

The Results aspects are concerned with what the organization has achieved and is achieving.

The Enablers aspects are connected with how results are being achieved.

The objective of a comprehensive quality management self-appraisal improvement programme is to regularly review each of these nine criteria and, thereafter, to adopt relevant improvement strategies.

ENABLERS

1. Leadership
2. Strategy and Policy
3. People Management
4. Resources
5. Processes

How the executive team and all other managers inspire and drive Total Quality as the organization's fundamental process for continuos improvement. An Integrated approach should demonstrate.

1. ***Visible involvement in leading quality Management.***

   Areas to address could include how managers:

- communicate with staff
- act as role models
- make themselves accessible and listen to staff
- assist in training staff

2. ***A consistent Total Quality culture***

   Areas to address could include how managers:

- are involved in assessing awareness of Total Quality
- are involved in reviewing progress in Total Quality
- Include commitment to and achievement in Total Quality in appraisal and promotion of staff at all levels.

3. ***Recognition and appreciation of the efforts and successes of individuals and teams.***

Areas to address could include the role of managers in providing recognition:

- at local level
- at division level
- at organization level
- of groups outside the organization e.g. suppliers or customers

4. ***Support of Total Quality by provision of appropriate resources and assistance***

Areas to address could include how managers provide support through:

- funding team facilitation
- funding improvement activity
- "championing"

5. ***Involvement with customers and suppliers.***

Areas to address could include how managers take positive steps to:

- meet customers and suppliers
- establish and participate in "partnership" relationships
- establish and participate in joint improvement teams

6. ***Active promotion of quality management outside the organization.***

Areas to address could include how managers promote quality management outside the organization through:

- membership of professional bodies
- publication of booklets, articles
- lectures at conferences, seminars and assistance to the local community

2.11 STRATEGIC IMPLEMENTATION AND EVALUATION

When a strategic document has been produced, the biggest challenge arises at the implementation stage. It is at this stage that Managers roll up their sleeves in an effort to turn the lifeless strategic document into a reality.

It is important at this stage that all the members of the organisation appreciates the significance of the new modified direction that the company is taking. It is incumbent upon Managers to sell the strategy to all the members of the organisation or else they will face resistance in implementing the strategy.

The evaluation stage is when the company compares the planned performed against actual performance and corrective action is taken.

2.12 BUSINESS MODEL

According to Thompson and Strickland (2000) a company's business model deals with whether the revenue-cost-profit economics of its strategy demonstrate the viability of the enterprise as a whole.

Regardless of how grand-sounding a strategy might become, its failure to demonstrate an acceptable business model will not impress the stakeholders. In crafting strategies, organizations normally consider a number of strategic options, which naturally will result in different financial outcomes. The role of a business model becomes critical in providing guidance as to which option is most viable. Whilst the role of a business model is appreciated, it is important to bear in mind that stakeholders are also guided by qualitative considerations which include employment creation, environmental issues and corporate image.

2.13 CHANGE

The implementation of a strategy inevitably introduces change in the organization due to the need to move the organization from its current state to a desired one. The magnitude and pace of it is largely dependent on its underlying causes, the urgency with which the organization wishes to move to a new state, the capacity to implement change and the organizational climate.

Change is referred to as an alteration of an organization's environment, structure, and technology or/and people. Changing the structure of an organization includes any alteration in any authority relationships, co-ordination mechanisms, and degree of centralization, job design, and similar organization structure variables.

Altering technology means modifications in the way work is processed or the methods and equipment employed. The primary focus of technological change is continuous improvement initiatives which are directed at developing flexible processes to support better quality operations.

A change in people refers to change in employee attitudes, expectations, perceptions or behaviours. It can be noted that the human dimension to change requires that calibre of workforce committed to the company's objectives of quality and continuous improvement. Changes within an organization need a catalyst - people who act as catalysts and assume the responsibility for managing the change process. The problem though is that not everyone is comfortable with it; not everyone can handle or cope with it. New methods are required to replace old ones and past achievements or strategies do not anymore guarantee future success in a rapidly changing environment. The following are some of the reasons of why people resist change;

- Fear of the unknown
- Fear of losing something of value
- Belief that change is not for the good of the organization

However, when management perceives that there is a resistance to change, the challenge would therefore be to reduce or eliminate the resistance so that the desired change can be a reality. Here are some of the suggestions which brings effective means of dealing with resistance to change: -

a) *Education and communication* can help reduce resistance to change by helping employees to see the rational of embarking on a change process. This is especially in a situation where the source of resistance is as a result of ignorance, suspicion or simply misinformation.
b) *Participation* of the people involved in the change process in decision-making and implementation of the desired changes reduces resistance. This allows people to express their feelings, increase the quality of the process as they participate and also feel committed to decisions made
c) *Facilitation and support* helps employees deal with fear and anxiety associated with the change effort. This may include employee counselling, therapy, new skills training, or a short paid leave of absence
d) *Negotiation* involves a bargain, that is exchanging something of value for an agreement to reduce the resistance to change. This technique is normally applied when resistance emanates from a strong source
e) *Manipulation and coercion* which refers to covert attempts to influence the change. This may involve twisting or distracting facts in order to make the proposed changes appear attractive and acceptable
f) *Coercion technique*, which involves the use of direct force or threat to achieve the desired change.

Probably one of the most effective ways of bringing about change is the one advocated by the three-step model of change. The model is based on the rationale that a change towards a higher level of group performance is frequently short lived after a "short in the arm"; group life soon returns to the previous position or level. This demonstrates that it does not suffice to define the objectives of the planned change, in group performance as the reaching of a different level. Permanency at the new level, or permanency for a desired period should be included in the objective. A successful change includes therefore three aspects: -

- Unfreezing the present level
- Moving to the new level
- Refreezing the new level

This change process can be described diagrammatically as follows:

The Change Process

Source: Fundamentals of Management, 3rd Edition by S P Robbins, D A DeCenzo, pg 233

2.14.1 FORCES FOR CHANGE

The forces for change can be categorized in two dimensions, namely:

a) External Forces

External forces very much influence the need for change in an organization.
The market place has undergone tremendous transformation and competition is now very stiff.

Technology has created the need for change e.g. Internet and e-commerce have changed the way we get information and how products are sold.

Economic changes affect almost all organizations. The dramatic decreases in interest rates in the late 1990 have fostered significant growth in the housing market. This meant more jobs, significant growth in industries that support the building industry.

b) Internal Forces

The internal forces tend to originate primarily from the internal operations of the organization or from the impact of external changes. For example, the introduction of new equipment in an organization would result in a lot of changes. Employees may have their jobs redesigned, need to undergo training to operate the new equipment or be required to establish new interaction patterns within their formal group. The organizations' workforce changes in , for example; age, education, gender and nationality.

The three categories of change can be categorized as follows:

Three Categories of Change

Structure		**Technology**		**People**
Authority relationships Co-ordinating mechanisms Job redesign	+	Work processes Work methods Equipment	+	Attitudes Expectations Perceptions Behaviour

Source: Fundamentals of Management, 3rd Edition by S P Robbins, D A Decenzo, pg 231

As a consequence it is vital to recognize the need to invest management time, energy, and talent in:

- Managing what we need to do now,
- The transition - change management.
- Managing the new, different state.
- Managing the whole of the above.

The above are the challenges that confronted management in the Zimbabwean financial services sector as it made frantic efforts to adapt to the challenges which were presented by the liberalisation of the economy.

The Zimbabwean banking sector had been known to be stable and that management had been used to stay in their comfort zones. The execution of the change processes had some fundamental effects on banks and their stakeholders.

2.15 TURNAROUND STRATEGY

A business turnaround appears on the surface to be a difficult task for any manager. The reasons for the company downturn are always unclear. You never know for sure if a poor decision, a poor leadership team or general industry downturn is to blame. Nevertheless, what is clear is that the firm needs a business turnaround - and in most cases - fast! While the reasons for the business turnaround are unclear, strategies have to be crafted so that the business can regain its viability or else it will not survive.

2.16 REASONS FOR DECLINING OGARNIZATIONS

There are a number of reasons why companies fail to perform to stakeholder expectations. The reasons can be conveniently classified as internal and external as follows:

a) External Factors

Technological change: A new technical process or new product can cause the decline of existing product. The new product may subsume the existing product and may also meet a wider range of customer needs. The advent of plastic money and Internet banking has reduced the use of the cheque payment system.

Changes in social values or fashions: These may result in significant decline in particular products. Factors such as the AIDS pandemic has had a huge impact on the socio-economic lives of people such that it will affect the kind of products financial institutions offer in response to new market demand.

Saturation of particular segments: Due to the liberalization of the economy, there has been a proliferation of banks offering the same service in more or less the same markets.

This has been happening against a situation where the Zimbabwean economy has been experiencing a declining Gross Domestic Product (GDP) and rising unemployment.

Competitive actions: The concentration and nature of competition within the sector is a significant determinant factor of profitability levels.

Changes in industry structure: The occurrence of mergers, takeovers and liquidations can impact on profitability levels.

Declining Industry sales: This could be due to an economic recession or loss of confidence in the banking sector.

b) Internal Factors

Poor management: According to Slatter (1984), features of poor management are, one man rule, combined chairman and chief executive with no effective watchdogs roles, an ineffective board of directors, neglect of the core business by management, and lack of management skills.

Inadequate financial control: Poor information system for the provision of costs, budgets, cash flow, etc will contribute to decline.

Inadequate marketing: A poor marketing plan, no concept of marketing, poor marketing research amongst other factors are indicative of this problem.

Poor production/operations management: Companies in a state of decline normally experience product or service delivery problems, and in particular, they may have too high a cost structure. This is normally as a result of poor employee relations, production inefficiencies or poor trained employees.

Overtrading: After the liberalization of the economy, many banks found themselves locked in the problem in there pursuance for growth but without sufficient capital base to support the increased trading activities.

Investment: Companies may invest in big projects which cause declining profitability or collapse. The project can absorb a large amount of cash and the returns may be slow or insufficient to nourish the company back to good health.

The above are the major underlying causes for under-performance in most of the institutions. These root causes create the need for turnaround strategies in order to restore good performance.

2.17 PROSPECTS FOR RECOVERABILITY

Not all non-performing businesses have the potential to turnaround. Generally, the business has good prospects of recovery (amongst other factors) if there are few causes of non-performance rather than many and if the crisis is mild rather than severe.

Cameron, Sutton,and Whetten (1988) described the decline problem as a two stage phenomenon. The first stage of decline occurs when an organization's adaptation to its domain or microniche1 deteriorates. The second stage occurs when the organization's financial and human resources begin to diminish. Both stages of decline indicate that the organization has become less adapted to its microniche and is less successful at exchanging its outputs for new inputs. Weitzel and Jonsson (1989) characterized decline as the opposite of successful adaptation to the environment. They suggested that organizations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten the organization's long-term survival. Additionally, Levy (1986) defined decline as the inability of the decision makers to heed the warning signals of the need for change. For the purpose of this paper, decline is defined as a trend of deteriorating financial performance.

According to population ecologists, strategic decisions differ as the company evolves through the stages of the organizational life cycle (Hanks, 1990). Entrepreneurs focus on survival during the start-up phase, and their strategy is limited to making their product or service innovation successful. During the growth phase entrepreneurs adopt competitive strategies that can require retrenchment. In the decline stage growth is negative, products are obsolete or have limited potential, and the organization is inefficient or bureaucratic. Decline is often preceeded by ineffective or short-lived attempts at revival where entrepreneurs focus on internal changes that can be made by reallocating limited resources (Holt, 1992).

The strategic response to decline is expected to differ for entrepreneurial firms for a number of reasons. Although there are no indisputable definitions of entrepreneurship, one 1 Microniche is defined by Cameron, Sutton, and Whetten (1988) is the product or market domain of the firm or common denominator is that entrepreneurs create incremental wealth and assume major risks interms of equity, time, and career commitment (Ronstadt, 1984). Because they have assumed a personal risk, they are likely to have a different strategic response than the manager of a multinational firm when faced with the loss of their life savings as well as their reputation. Also entrepreneurs tend to be leaders who are emotionally involved in a venture, think strategically to create opportunities, and provide the inspiration for sustained momentum (Holt, 1992).

According to the theory of disequilibrium and chaos, entrepreneurs periodically introduce innovation, thereby creating disequilibrium (Stevenson & Harmeling, 1990). In the decline stage, they often have difficulting transitioning from the visionary and aggressive competitor role of founder to the role of professional turnaround managers. When faced with the reality that the failure may be attributable to their poor management, they may resort to the more familiar aggressive role of innovator (Bruno & Leidecker, 1988). If they fail to make the transformation, either the venture suffocates or the entrepreneur does not survive the organizational evolution (Holt, 1992).

The other difference for entrepreneurial firms, when compared to large diversified corporations, is the lack of financial resources. Strategic alternatives available to small firms are limted to internal changes that are made through the reallocation of limited resources. Despite resource contraints, however, entrepreneurs still tend to focus on growth and diversification. Growth through diversification, tends to preoccupy entrepreneurs, despite lack of evidence to suggest it is a successful strategy in the decline stage. From their perspective, growth may be necessary to establish an image, increase the firm's asset base. meet competition, improve profits, satisfy the founder's need to head a large organization, or has become essential for survival (Holt, 1992).

Most prior research in the strategic management literature has focused on turnaround strategy when firms are in decline (Schendel, Patton, and Riggs, 1976; Hofer, 1980; Hambrick and Schecter. 1983; O'Neill, 1983; Pant, 1991; Pearce and Robinson, 1992). According to Wheelen and Hunger (2001) turnaround strategies are a form of retrenchment that emphasize the improvement of operational efficiency. The two principal types of turnaround strategies, contraction and consolidation, are used when a corporation's problems are not pervasive. However, researchers have largely ignored the possibility that firms may choose a growth strategy or stability strategy when experiencing declining performance.

The most common growth strategies are diversification at the corporate level and concentration at the business level (Wheelen & Hunger, 2001). Ramanujam and Varadarajan (1989) defined diversification as the entry of a firm into new lines of activity, through internal development or acquisition. Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion. Diversification can also be accomplished through external modes such as acquisitions and joint ventures. Concentration can be achieved through vertical or horizontal growth. Vertical growth occurs when a firm takes over a function previously provided by a supplier or a distributor.

Horizontal growth occurs when the firm expands products into new geographic areas or increases the range of products and services in current markets. Much of the empirical research for large firms has focused on diversification strategy, however.

Previous researchers have established a linkage between decline and diversification by suggesting that poor financial performance affects the choice of diversification strategy. Burgelman (1983) maintained that the creation of new ventures is often stimulated by deteriorating performance in existing businesses. Ramanujam and Varadarajan (1989) also suggested that a diversification strategy is a likely response to poor financial performance.

International geographical diversification has also been linked to strategic choice for small firms in difficulty. Specifically, firms that are already involved in foreign business will grow internationally in response to declining performance (Chen & Martin, 2001).

Prior studies have proposed that strategic choice for declining firms is contingent upon past financial performance trends. For example, firms substantially below financial break-even may initiate asset reduction strategies, while firms operating near break-even may implement revenue generation or cost reduction strategies (Hofer, 1980). Robbins and Pearce (1992) also linked strategic choice for declining firms to financial performance. They suggested that as severity of decline increased, retrenchment strategies should progress from cost reduction to asset reduction strategies. Consequently, this paper proposes the following:

H1: Perceptions of past financial performance influence small firms' choice between growth and retrenchment strategies. The resource-based view of strategic management has received a great deal of attention recently as a perspective for understanding firm growth. Penrose (1959) established the conceptual foundation of the resource-based theory of the firm, maintaining that resource constraints are a limitation to growth created by the need to balance goodwill, excess capacity and organizational slack. The growth of the firm is limited only in the long run by its internal management resources (Penrose, 1959).

Total managerial services that a firm requires at a point in time are partly constrained by the necessity to run the firm at its current size. Additionally, it is partly constrained by the requirements for expansionary ventures (Mahoney & Pandian, 1992). Although new managerial recruits increase the growth potential of a firm, training new managers and their integration into the work force occupies the time and effort of existing managers and thus temporarily reduces the managerial services available for expansion.

Resource availability has been suggested as a predictor of strategy choice, particularly in regards to diversification (Penrose, 1959; Ackoff, 1970; Hofer & Schendel, 1978; Hitt & Ireland, 1985; and Wernerfelt, 1984). The traditional concept of strategy suggests organizations establish competitive advantage by effectively evaluating their resources and focusing those resources on the generation of rent2 (Andrews, 1971 & Ansoff, 1965). 2 Rent is defined as return in excess of a resource owner's opportunity costs (Tollison, 1982). Therefore, it is the resources of the firm that limit market choice and profit expectations (Wernerfelt, 1989).

Penrose (1950) classified resources into the following: land and equipment; labor (including worker's capabilities and knowledge); and capital (organizational, tangible, and intangible). Subsequent research by Hofer and Schendel (1978) suggested that a firm's resource profile combines the following resources and capabilities: (1) financial resources (e.g., cash flow, debt capacity, new equity availability); (2) physical resources (e.g. plant and equipment, inventories); (3) human resources (e.g. scientists, production supervisors, sales personnel); (4) organizational resources (e.g. quality control systems, corporate culture, relationships); (5) technological capabilities (e.g. high quality production, low cost plants). Grant (1991) later added a sixth type of resource, intangible resources (e.g. reputation, brand recognition, goodwill). Since it is expected that growth strategies require resources for execution, the following hypothesis is offered:
H2: Perceptions of resource availability influence small firms' choice between growth and retrenchment strategies.

In addition to this link between resources and growth strategies, resource constraints have been associated with poor financial performance among publicly-traded firms. D'Aveni (1989) linked decline and resources by defining decline as a pattern of decrease over time in a firm's financial and managerial resources. He concluded that firms may delay or avoid bankruptcy by adopting a growth strategy to support a resource deficient firm. In other words, the strategy choice of a firm with poor financial performance is dependent upon the availability of resources. Chen & Martin (2001) found that the propensity to diversify internationally was contingent on managerial resources specific to foreign experience. As mentioned before, an entrepreneur's strategic alternatives are limited by the availability of resources, thereby precluding some complex strategic alliances or large acquisitions. It can also be concluded that the result of a trend in poor financial performance is resource constraints.

Therefore, this study proposes a joint effect of resource constraints and financial performance on strategic choice as follows:

H3: The perceptions of resource availability will moderate the effect of perceptions of past performance on small firms' choice between growth and retrenchment.

2.18 THE DEVELOPMENT OF A TURNAROUND STRATEGY

However, regardless of the nature of the crisis at hand, the following procedure is recommended to ensure that an effective turnaround strategy is crafted:

- Conduct an honest evaluation of the seriousness of the business. This involves a situation analysis of all facets of the organization's operations, management and capital structure to provide a preliminary viability assessment.

- Determine whether outside assistance is needed or whether a wholly homegrown business solution will be the appropriate.

- Establish a team of internal staff members, and if so decided, engage external professionals to guide the turnaround.

- Evaluate and analyze the critical business processes and adopt short term solutions which can arrest and reverse the deteriorating trend whilst at the same time ensure that the strategy will be sustainable.

- A determination of the company's liquidity position to develop short-term cash forecasts and financing requirements.

- Execute necessary communications with creditors and other relevant stakeholders.

- Develop turnaround initiatives required to maximize immediate profitability.

- Implement the optimum turnaround strategy

As the business goes through a turnaround process, it is necessary to liase with the stakeholders so that they will not lose confidence in the organization. Loss of confidence normally results in creditors calling up their loans, investors withdrawing their funds and suppliers cutting-off any credit lines.

This will precipitate the downfall of the organization and defeat all intentions and efforts to turnaround. Not all turnaround strategies are winning strategies as some poorly crafted and implemented ones can make a bad situation worse.

2.18.1 "Wishful Thinking" Turnaround Strategies

The primary "wishful thinking" turnaround strategy is the search for conventional financing. When a firm gets into financial trouble, it often seems just a little money will fix the problem. Usually the CEO (that is the chief executive officer) and CFO (that is the chief finance officer) starts calling bankers, VCs, (Venture Capital) bridge financiers and other capitalists trying to get extra financing at a "good price."

They spend months looking for the funds. When you speak to the CEO and CFO, they are always certain the last financier they met with will come through. But, funny thing … the money never arrives and the financiers never offer a term sheet.

The leadership gets into a trap of always believing the financing is just around the corner, and they stop focusing on their business problems. There are several cases in which CEOs thought that they were going to get their financing the day before they had to take bankruptcy! Clearly, they were living in a fantasy world.

Why does the funding never come through? This is because no financier in his or her right mind would invest in a troubled business with declining sales, profits and cash flow. The risk is too high.

But, financiers always like to negotiate and tell others that they have deals working, even if it is unlikely that they will ever fund the company. So, the management team thinks the funding is imminent, when in reality they do not have a chance.

Another source of "wishful thinking" is to believe that judicial management will turnaround the business and save it from bankruptcy . The Zimbabwean experience is that, most of the companies which went under judicial management were eventually liquidated.

However, despite this some lawyers keep advising their clients to resort to judicial management as a way of turning around the business. Therefore, this option has to be taken with care since it has high chances of turning out to be a procrastination of bankruptcy rather that a business solution.

2.18.2 Rebuild Around a Profitable Core Business

One of the sensible and practical approaches is to downsize your business and only keep the profitable parts. With this approach, you do not need more funding and one will not have to file for bankruptcy.

However, this approach does require that some unpleasant actions be made including lying off colleagues and shrinking the size of the firm. If one correctly takes these steps, profits, revenue growth and recognition will be the reward. The following are the change that normally characterize turnaround strategies:

1. Decide as to the kind of structure to adopt. Normally a flat organization structure is adopted due to its advantages in facilitating efficient communication and operational re-organization.

2. Eliminate all departments, divisions, plants and people that do not fit with the firm's new direction. All under-performers are identified and marked them for elimination. However, top-performers should be kept that are in the departments, divisions and plants you are eliminating. One will use these "saved" employees to replace under-performers in performing areas that will be retained.

3. Reorganize the work if necessary to meet the needs of the turnaround plan. Answer the typical redefinition questions regarding the organizational structure. For example, should one organize by function, region, and product line or customer industry?

4. Force fit the design to two or three layers of management for small to medium size businesses (four to five layers on large firms) with you as the business leader, taking somewhere between ten to 15 reports. The managers in layers two and three should have at least ten direct reports as well.

These changes come about as a result of a reappraisal of the whole organization. This diagnostic process can be carried out using the Porter's value chain process, the European Model of company appraisal, or The 7S Framework to identify the current status of business including sources of competitive advantage.

It is also necessary to identify the environmental factors that have an effect on the organization by applying the PEST and SWOT analysis. Whatever turnaround strategy the organization will come up with, it should be aligned with the external environment and fully utilizes the strength and opportunities and avoid the weaknesses and threats of the business.

After having an appreciation of the current status of the business, its resources and capabilities should be used to implement the survival plan.

2.18.3 Strategic Options

Under a turnaround arrangement, there are a number of strategic options that are at the disposal of a strategist. These strategies are, in some cases, part and parcel of retrenchment strategies and usually involve changes in the overall marketing effort, the re-positioning or refocusing of existing products/services, together with the development of new ones.

The following are some of the popular turnaround strategies that are generally pursued:

2.18.4 Business Turnaround Strategy #1 - Cash Control Strategy – Short-Term

The key to this strategy is never to pay out more than the company has. What you must do is immediately take control of the cash. This means that payments would have to be prioritized and ensure that no one issues out a cheque without prior approval.

Negotiations with the company' s creditors will have to be made to ensure that repayment arrangement is stretched. This would enable the company to utilize the cash in boosting its operational capacity. This strategy also helps a company, which is overtrading. Normally such a company will have expanded its operations in pursuance of a growth strategy but will eventually find itself in a position where it has insufficient working capital to operate.

Whilst such a company would be enjoying high sales figure and declaring profits, it will be suffering from a cash crisis. If the problem is left unattended it can lead to insolvency.

2.18.5 Business Turnaround Strategy #2 - Immediate Downsizing – Short-Term

Within a few weeks, immediate measures can be taken to cut-down some operations within are creating loss of cash and without making a meaningful contribution to the financial health of the company.

Additional efforts can be made to dispose of those redundant asserts to improve the cash position of the business. This is especially true if the business is running out of cash.

A turnaround strategy normally calls for quick and calculated actions; one cannot spend too much time analyzing. The available cash can them be used to boost the operations in the performing areas.

2.18.6 Business Turnaround Strategy #3 - Business Model Change – Long-Term

In a situation where management is reasonably certain that it can make payroll over the next few months, then there is a need to take a strategic view of the firm. There is a need to discover the profitable areas of the company which areas would then form the foundation of your strategy. To restructure effectively and create sustainability one has to rebuild around profitable business units, products, performing employees customers do away with everything else that does not perform.

i) The strategist might find it necessary to refocus the basic idea being to concentrate effort on specific customers and products. In doing so, the following issues will have to be considered:

- Why do people buy the products/service?

- Are there opportunities for differentiation, segmentation and competitive advantage?

- What are the possible revenue and growth potential and gross margins?

- What is the e extent and type of competition for the segment or niche and the potential to create a response to marketing?

ii) New product development may be necessary in some cases to effect a turnaround if the company has been losing competitiveness terms of innovation or product improvements.

iii) Rationalizing the product line can be adopted as a strategy. A reduction in product lines can be useful in helping the company focus its efforts on stronger market segments.

In pursuance of this strategy, the company has to ensure that there is a good understanding of the costs, which individual products/services are the least/most profitable and there particular independencies as well as how transfer costs distort profitability.

2.18.7 Business Turnaround Strategy #4 - Sell the Business – Long-Term

This can be regarded as more of an exit strategy than a turnaround. In this case shareowners might, soon after a successful turnaround, and if they know that they have six quarters of profits and cash flow, may decide to dispose of the business.

The logic behind this move is to sell the business whilst it looks attractive and can fetch a reasonable premium price.

SUMMARY

In the final analysis, when a company is in trouble, it is almost a certainty that the resources, strategy, structure and culture of the business are vastly out of sync. From this perspective, the tasks of turnaround management are to put things back into "new sync" patterns that preserve or recapture economic value for the stakeholders.

It is in pursuance of that, when diagnostic and remedial measures are taken, a critical view of the following issues is taken:

1. Take Measure of Resources and Realities

   From the balance sheet to business capacity, and from customers to suppliers, what is in place, and what has some level of recovery value potential?

2. Take Measure of People and Their Resolve

   From the basic issues of organizational structure to the matters of talent on board and company culture, who are the people who can make things happen?

3. Take Measure of a Management Agenda...

   From the "big idea" to the actions necessary to get the company back in sync, what are the principles and the details for focusing on business results?

   The issue of measurability is critical since ''you cannot manage what you cannot measure.''

   The relevance of turnaround strategies is ever increasing, especially in Zimbabwe. This is so due to the economic hardships which organizations find themselves in.

   The rate at which companies (including financial institutions) have been closing or underperforming confirms the relevance of turnaround strategies. As the environmental conditions become more hostile, the problems which Zimbabwean companies are experiencing have compounded, and therefore, turnaround strategist have to be more creative and imaginative.

CHAPTER 3

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section looks at the procedures and techniques adopted for the field research. The main areas of focus are the target population, the sampling procedure and the survey instrument used. A detailed discussion is made regarding the data collection methods adopted and reasons for rejecting other alternatives. The chapter concludes by describing the data analysis procedure, the software used, its strengths and weaknesses.

3.2 Objectives of the study

This study examines Zimbabwe Banking Corporation and seeks to establish:

a) how the liberalization policy affected it
b) the turnaround strategy developed and adopted
c) the effects of the strategy on the institution and its stakeholders

3.3 Target Population

A two pronged approach was be adopted for the research (desk and field research). The desk research component entailed the collection of secondary data regarding details of the turnaround strategy. This allowed viewing of the program from an internal perspective. The field research was quantitative and targeted 40 current customers of ZIMBANK. Data collection procedure involved face-to-face interviews with each qualifying respondent. The sample comprised both corporate and individual account holders.

3.4 Sampling

Stratified and simple random sampling methods were used .The parent population was composed of layers (strata) of discretely different types of individuals and within the strata a sample was derived by means of a simple randomization process.

3.5 Advantages Of Stratified And Random Sampling

- Stratified sampling produces samples that have smaller margins of error and allows the investigation of characteristics of interest per particular strata (Churchill 1998: 223). In the equalization process, sub-populations are taken to separate the several discrete elements in the total population.
- Random sampling is achieved by means of a simple randomization process that ensures that each population element has an equal chance of being picked. In all cases. strata was first determined and random picking was then performed in each strata.

3.6 Research Instruments Used

Interviewing entailed the distribution of self-completion questionnaires to the randomly selected respondents. To ensure that the sample was representative, stratified sampling was employed in the 'selection' of respondents to be included in the study.

3.6.1 The Self Administered Questionnaire

Interviews were conducted with senior managers using the one on one face-to-face format in order to get an in-depth appreciation of their understanding of the issues. The self-completion questionnaire approach was then adopted for all the other groups of respondents because of their large numbers and relative ease of administration. The self-administered questionnaire also allowed the respondent to answer the questions in their spare time, even after working hours. The approach is also cost and time efficient. Other methods of data collection could have been employed but their disadvantages made them less attractive in comparison to the self-completion approach. These alternative approaches considered are discussed briefly below.

3.6.2 Face-to-face interviews

Interviewer visits respondent's office or home, asks the relevant questions and records respondent's answers on a structured questionnaire. This approach enables the interviewer to verify facts, including body language on the spot and it is easier for respondent to clarify unclear issues. The cost of this approach is however very prohibitive. It was therefore limited to senior managers on the basis of cost.

3.6.3 Telephone

Interviews over the telephone are cheaper but in Zimbabwe there is a low incidence of telephones and as such only few people can be reached. Although in the case of this study the target respondents were people with access to phones, the cost of conducting a 35-minute questionnaire would have been prohibitive. Besides, the respondents would not have that much time to speak on the phone, and then each question needed at least a minute of thought before answering. Shortening the questionnaire to suit telephone interviews would have led to loss of vital information. The method was therefore set aside on the basis of the preferred length of the questionnaire.

3.6.4 Mail (including e-mail)

This is a cheap method but experience has shown that few people care to fill in questionnaires and to post/send them back, even when return envelop and postage stamp are supplied. The achieved sample, though smaller than the originally intended sample size of 60 is considered statistically adequate. This is because it still allows a robust base from which to draw conclusions, and even when cross analyzing by respondent type. one would still have a reasonably large number of respondents from which to draw conclusions.

3.6.5 The Questionnaire

One questionnaire was used and this is included under Appendix I. Semi-structured, structured and open-ended questions were used in the questionnaire to ensure that individual responses were acquired in an easily interpretable manner in support or at variance with the stated research questions.

Open-ended Questions

The questionnaire had a significant number of open-ended questions to enable respondents to reply freely in their own words. This is the major advantage of this kind of questioning.

Multi-choice questions

The bulk of the questionnaire was multiple choice and the respondents were being limited to choosing from a set of alternatives. These are simple to administer and analyze although they may limit the respondent's choices.

Pre-testing of Questionnaires

The questionnaire was pre-tested before the actual survey and a few corrections/additions were made to improve the comprehension and terminology consensus. The pre-testing observations were

* Respondents were not willing to identify themselves by name on the questionnaires.
*Employees were not free to answer questions they felt controversial as they thought questionnaire was ploy from management to sound them out.

Response Rates

These are given in the questionnaire analysis section.

3.7 Data Gathering

The questionnaires were distributed as indicated in section 3.2. The researcher had influence on the response rate for the employees and it was easy to distribute and follow-up questionnaires from this group. It was however more difficult obtaining responses from the managers as these were always busy.

Quality of data is key in any research exercise. As such quality was ensured at all stages of the research process by putting in place, up-front, several quality control measures. Besides 100 percent post check of completed questionnaires, the following further mechanisms were effected

- piloting of the questionnaire
- emphasizing confidentiality and anonymity to target respondents
- double punching of data at data processing stage to ensure accuracy

3.8 Data Analysis

Data analysis is an integral part of any research process, such that without an appropriate analytical procedure it is impossible to come up with meaningful findings. The data analysis was performed with the Statistical Package for Social Sciences (SPSS), a leading desktop statistical package. The procedure involved the following

- coding (grouping together of similar responses and assigning of codes) of open ended or unstructured questions
- data capturing
- program development
- program running to produce statistical tables

This statistical package used has a comprehensive range of data manipulation tools. The complexity and specialization of quantitative data analysis resulted in the seeking of help from statistical specialists on the use of the programme. SPSS has the added advantage of allowing one to score and analyze quantitative data in various ways with the greatest amount of speed. This is a package that is strong on its statistical capabilities and offers one of the best environments in which to do detailed statistical analysis on quality related problems. SPSS eliminates most of the data limitations found within some of its competitors, such as SAS, Minitab. etc.

3.8.1 Sampling Error

Use of stratified sampling meant that results were more precise with smaller error (Churchill, 1998, page 428-30).

3.8.2 Non response errors

No follow-up was done to determine reasons for non-response mainly because of time constraints and the fact that the response rate was high enough to allow for reasonable deductions.

3.8.3 Limitations

The major limiting factor in this research was time, which had an impact on sample size. response rate and follow-ups.

3.9 Conclusion

From the above. it can be concluded that there was a very small error percentage because the response rate was high. The sample chosen was also representative as each population element was considered.

CHAPTER 4

RESULTS AND DISCUSSION

4.0 Introduction

This section looks at the key results from the survey. While the section provides as much detail as possible, more data is in the detailed statistical Tables in Appendix II. These will provide additional information from a variety of perspectives, such as by respondent category. The chapter summarizes the findings from the research and provides details pertaining to the implications of the findings. Each question in the survey instrument was processed separately. It is from the results of each question that reporting has been made.

4.2 Evaluation of ZIMBANK current service delivery

Respondents were asked to state whether or not their dealing with ZIMBANK had increased, decreased or remained constant following the adoption of the bank's turnaround strategy. A total of 56.7% of the respondents had maintained constant business with 21.7% having increased. Another 21.7% had decreased their business. See Figure 4.1.

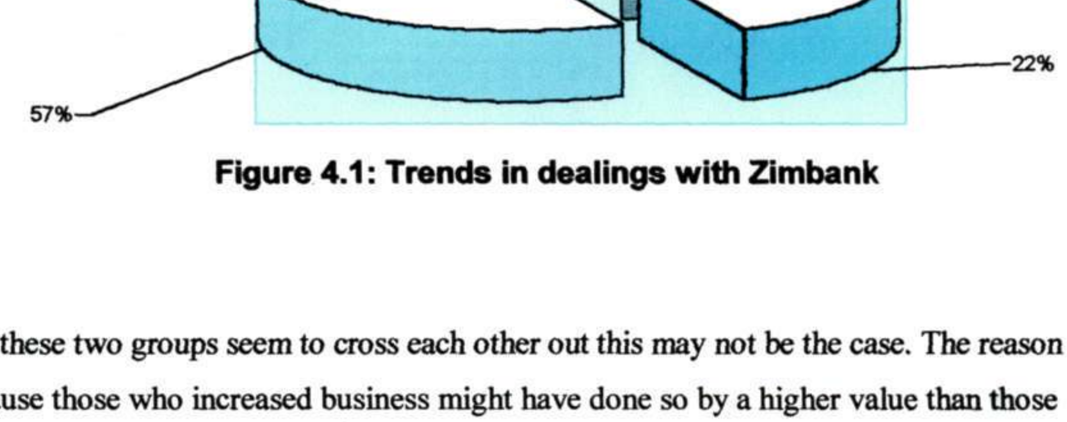


Figure 4.1: Trends in dealings with Zimbank

While these two groups seem to cross each other out this may not be the case. The reason is because those who increased business might have done so by a higher value than those who decreased or vice versa. Various reasons for increasing business with ZIMBANK were mentioned and these are illustrated in Table 4.1 below

Table 4.1: Reasons why business with ZIMBANK has increased

Service charges are low	23%
Quick service	15%
Closed all other accounts elsewhere	15%
Improvement in the bank's outlook	15%
Assistance of customers on how to use their funds	8%
Accounts for children	8%
No congestion	8%

Among other reasons given the main one was the low charges at ZIMBANK (23%) as well as their quick service (15%). Some had closed their accounts at other banks in order to do all their business with ZIMBANK. Of interest is the aspect of the Kiddy Bank Accounts which seems to have been well received by the parents.

4.3 Customer orientation

Respondents were asked to evaluate ZIMBANK's current customer service as compared to the period prior to adoption of the turnaround strategy. Over half of the respondents (58.3%) felt that ZIMBANK service had remained constant. On the other hand some 23% felt that the bank's service had improved tremendously and they were satisfied. A total of 18% of the respondents were of the opinion that standards at ZIMBANK had gone down and that service had declined drastically. Table 4.2 shows the reasons why customer service at ZIMBANK is said to be better now than prior to the turnaround strategy.

Table 4.2: Reasons why service at ZIMBANK has improved

Faster when dealing with complains	29%
Good treatment	29%
Follow up in a quick manner	14%
Provide assistance on how to use money in a better way	7%
Offer huge amounts	7%
Other reasons	14%

Table 4.3 above shows that fast dealing with complaints and good treatment of customers are the main reasons why ZIMBANK customer service is perceived as having improved. Those who felt that service at ZIMBANK had actually gone down cited a number of reasons including the following

- Long queues/queues long (36%)
- Do not provide information on how to access the funds (9%)
- Small customers no longer recognized (9%)
- Service delivery no longer satisfactory (9%)

The general description of service offered by ZIMBANK was said to be mainly satisfactory (52%) although a significant proportion of the respondents (43%) considered the service to be efficient. Only 5% of the sample felt that the service was inefficient. See Figure 4.3.

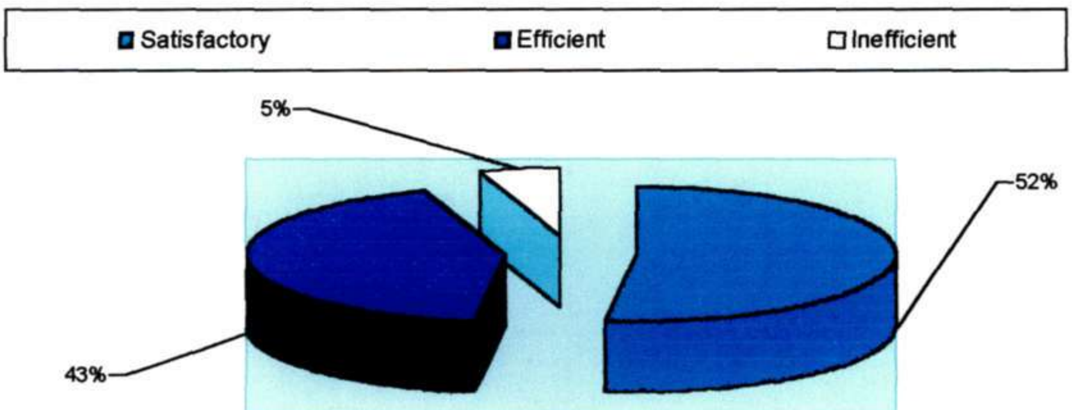


Figure 4.3: General Description of Service Offered by ZIMBANK

Overall therefore the quality of service at ZIMBANK is positive. To confirm the high regard that customers have for ZIMBANK service over 95% of the respondents stated that ZIMBANK is a customer oriented company (Appendix II Table 10).

4.4 Ratings of ZIMBANK service

Respondents were asked to express their opinions about ZIMBANK on a number of service issues. A 5- point scale was used where:

1=Disagree strongly

2=Disagree

3=Not sure

4=Agree

5=Agree strongly

For this question a mean score system was used to determine findings. A mean score above 3.00 means that the respondent is agreeable with the statement while the lower the mean score below 3.00 the more the respondent is in disagreement with the statement. Table 4.3 provides an illustration of the mean scores achieved by each statement.

Table 4.5: ZIMBANK Attribute Ratings

	Mean Score
ZIMBANK customer service has made me loyal to the bank	**4.40**
Through ZIMBANK customers service I recommended somebody to open an account with them	**4.38**
Through ZIMBANK customer service I will recommend somebody to open an account with them	**4.12**
ZIMBANK customer service has made me increase the frequency of my transactions with the bank	**4.08**
ZIMBANK customer service has made me increase the monetary value of transactions with the bank	**3.97**
ZIMBANK customer service has made me close/reduce the volume of business I do with other banks	**3.98**
Through ZIMBANK customer service I have bought more products from the bank	**4.00**
Through ZIMBANK customer service I now find it easy to manage my financial affairs	**4.12**
ZIMBANK customer service has made the bank easier to do business with than before	**4.15**
Through ZIMBANK customer service the bank now gets things right first time	**4.17**
Through ZIMBANK customer service the bank now effectively meets my credit needs	**4.08**
Due to ZIMBANK customer service the bank will stand by me when times get tough	**4.12**

ZIMBANK was highly rated on most service aspects especially nurturing loyalty (4.40) and creating an environment where current customers recommend new ones to open accounts with ZIMBANK (4.38). The bank was also highly rated on getting things right first time (4.17) and being easy to do business with (5.15). While no negative rating was noted on all the aspects under review, ZIMBANK did not score so highly on a number of areas as follows

- ZIMBANK customer service has made me increase the monetary value of transactions with
  the bank (3.97)
- ZIMBANK customer service has made me close/reduce the volume of business I do with

other banks (3.98)

- Through ZIMBANK customer service I have bought more products from the bank (4.00)
- Through ZIMBANK customer service the bank now effectively meets my credit needs (4.08)

Thus ZIMBANK overall is performing well in the area of service delivery as shown by the high mean scores achieved on all attributes. As all scores are above 3.00 this denotes a positive result for the bank.

CHAPTER 5

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study has revealed that the main benefit to customers following the adoption of a turnaround strategy is enhanced customer service, greater accessibility due to wider branch network and increased convenience as a result of innovative new products.

5.2 Conclusion

Based on the findings and discussions the following conclusion is made.

- The critical factors that customers expect from banks are speedy service, wide branch network, and innovative products that add convenience to customers. The study established that ZIMBANK's turnaround strategy brought these benefits to its customers

- The study has established a link between restructuring and customer retention. The aspect of growth has however not been established as over half of the respondents who have accounts with ZIMBANK have maintained constant business. Only a quarter have increased the business they do with ZIMBANK while another quarter has decreased business with ZIMBANK.

- The general description of products and services currently offered by ZIMBANK was said to be mainly satisfactory by over half of the respondents while almost one third considered them to be efficient. Overall therefore the bank is positively regarded.

- ZIMBANK was highly rated on most aspects especially nurturing loyalty and creating an environment where current customers recommend new ones to open accounts with ZIMBANK. The bank was also highly rated on getting things right first time and being easy to do business with.

5.3 Recommendations

Taking all the above into consideration the researcher recommends

- That the bank work on correcting the negatives highlighted despite the high ratings awarded to ZIMBANK on quality of products and excellent service delivery .

- In view of the current crisis in the Zimbabwean banking sector which includes cash shortages and the brain drain, it is suggested that the bank consider fortifying their strong points so as to prevent possible market share losses

- When introducing future programs it is recommended that the bank should communicate their objectives and aspirations to all stakeholders so as to win the necessary support. From the research it was noted that customers only got to be aware of the turnaround strategy late.

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