
by

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DECLARATION

I declare that “A Comparative Study of How Banks Responded to a Turbulent and Chaotic Environment in Zimbabwe: 2000 – 2008” is my own work and that all sources that I have quoted have been indicated and acknowledged by means of complete references.

Signature

Date: 30 June, 2015
ABSTRACT

The concept of strategy has advanced significantly from when the emphasis fell on comprehensive, systematic and rational planning. However, many of the assumptions that were embedded in traditional strategy models were deemed to be inadequate and outdated as we approached a new competitive milieu (Maritz, 2010).

Strategic Management is still a comparatively young field and the existing toolbox of concepts and techniques remains woefully inadequate (Grant, 2010). This reality should force a re-examination of the traditional strategy paradigms (Maritz, 2010). The literature review has confirmed the observations by Maritz (2010) and Grant (2010) that indeed current strategic management paradigms or approaches were inadequate for unique business environments obtaining in a developing country in Africa, such as Zimbabwe.

The motivation for this research, therefore, was to identify and recommend strategic management approaches or paradigms applicable to banks operating in a turbulent and chaotic environment.

Based on an extensive literature review, in-depth interviews were conducted with six commercial banks (three that survived the turbulence and three that failed) during the period under review.

The study established that the banks that survived the turbulence had a different strategic management approach from the traditional designed ones. It was also noted in this study that in turbulent environments, strategy-making is birthed through an emergent process. When events are moving at an unprecedented speed, as was happening in Zimbabwe, the time intervals between obtaining information, analysing information, taking decisions and implementing those decisions need to be tightly compressed. The researcher coined this process Strategic Intensity (SI).

On the other hand, diversification as a strategy was found to be very risky for businesses that did not have a strong foundation and that were lacking in the appreciation of the risk complexion of the businesses into which they were diversifying.

This research makes a significant contribution by identifying and recommending Strategic Management approaches applicable to businesses operating in a turbulent and chaotic environment in developing markets such as Zimbabwe.
Furthermore, this research also contributes towards the current debate in academic literature amongst practitioners of strategy, about how strategy is really made in organisations (Maritz, 2010). The debate centres around two opposing views: one associated with strategy-making as a formal, deliberate plan, and the other associated with strategies as evolving, ever-changing sets of outcomes that are eventually realised.

Finally, the researcher proposes that further studies be conducted at the end of this study.

KEY TERMS

Banking; Turbulence, Chaotic; Environment; Strategy; Management; Developing world; Economic Climate; Crises; Firm and environment; Uncertainty; Volatility; Complexity; Dynamic Capabilities;
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CHAPTER 1:

INTRODUCTION, BACKGROUND TO THE STUDY AND THE ZIMBABWE ECONOMIC CLIMATE : 2000-2008
1.1 INTRODUCTION

This thesis is a comparative study of how banks responded to a turbulent and chaotic environment in Zimbabwe between 2000 and 2008.

The comparative research was intended to study the banks that survived and those that collapsed during the period under review, with the aim of finding the differences in their strategic management approaches. Often a variety of approaches to strategy-making are followed in organisations (Maritz, 2010). This study was carried out against a background of extreme volatility and economic turbulence normally associated with developing economies (Kofi, 2005).

Developing economies, particularly those in Africa with their post-colonial challenges and fragile new democracies, face a unique set of forces.

“Africa has been unfortunate to have been landed with exceptionally poor leaders. Too many among Africa’s leaders have been corrupt, predatory, venal, selfish, warmongering, clueless, ignorant, talentless, spent and tired” (Kofi, 2005:17).

Kofi (2005) argues that there have been too much politics and not enough economics in Africa, as evidenced by 186 coups on the continent in nearly 50 years.

The Literature Review highlighted in Chapter 3 confirms the general absence of strategic management models that could be used by organisations operating in a turbulent environment, particularly in developing economies. It was this absence of strategic management models in organisations operating in a turbulent and chaotic environment that generated the interest in the researcher to carry out this study.

The need for a strategic management “toolkit” for firms operating in a turbulent environment was further emphasised by Grant, 2010:26:

“Strategic Management is still a young field and the existing toolbox of concepts and techniques remains woefully inadequate. If existing techniques do not adequately address the problems of strategy-making and strategy implementation under conditions of uncertainty, technological change and complexity, we need to augment and extend our analytical toolkit.”

2
Africa in general is a unique continent with very difficult and complicated operating environments which make it very challenging to do business.

Figure 1.1 below shows how difficult it is to do business in Africa, compared to the rest of the world.

![Figure 1.1 Where economies stand in the global ranking on the ease of doing business](image)

Source: Doing Business database.

Source : Doing Business in Zimbabwe p. 6

From the chart above, it can be noted that Africa has the worst ranking on the easy-to-do business scale. This is mainly because of interference from politicians, red tape, bad governance, economic mismanagement and corruption (Doing Business, 2014).

This is what has also contributed to a unique business and economic climate in Africa. It is against this background that one could argue that contemporary strategic management prescriptions do not really match the situation encountered in some of the countries in Africa in general and Zimbabwe in particular. Maritz (2010:51) argues that “…many of the assumptions that were embedded in traditional strategy models may be incomplete and
outdated as we approach the new competitive milieu. This reality should force a re-
examination of the traditional strategy paradigms.”

1.2 BACKGROUND TO THE STUDY

The deregulation of the financial services sector in the late 1990s resulted in an explosion of
entrepreneurial activity leading to the formation of more banking institutions. This sector was
hailed as the beacon of Zimbabwean entrepreneurship and the glory of a nation in tough
times. It proved to be highly profitable, with exponential market growth.

However, after a new Governor of the Central Bank was appointed in December 2003, a
change in the monetary policy stance precipitated a banking crisis that resulted in bank
collapses and closures (Makoni, 2011:35).

As at 31 December 2003, there were forty financial institutions. However, a year later the
number had declined to twenty-nine, comprising eleven commercial banks, five
merchant banks, five discount houses, four finance houses and four building
societies. The collapsed banks included nine institutions placed under
curatorship and three that were placed under final liquidation. This has
resulted in blame-shifting between the affected bankers and the regulatory
authorities as to what triggered the crisis.

The Zimbabwean economy experienced severe environmental turbulence emanating from a
chaotic land reform, bad governance, economic mismanagement and the absence of the

The absence of the rule of law, the political turmoil, the economic meltdown and the
breakdown of societal structures created a highly turbulent economic environment which
made it difficult for businesses to operate in Zimbabwe. At 230 000 000 % (two hundred and
thirty million percent), in 2008 the Zimbabwean inflation was the highest in the world.
(Economic Intelligence Unit Country Report, 2009).

Zimbabwe is a typical example of an African country which faced a unique set of forces
resulting from a fragile democracy and a desire for the politicians to stay in power in
perpetuity. The other countries that have faced similar post-colonial challenges are Ivory
Coast, Kenya, Burundi and Uganda, amongst many other African nations (Kofi, 2005).
This turbulence resulted in the closure of at least eleven financial institutions, including five commercial banks, during the period under review. Incidentally, during the same period under review, some of the banks did very well and posted good profits.

This contrast in performance by different banks in the same environment is what necessitated this comparative study to ascertain strategic management tools or approaches that were used by these banks which yielded the different results.

1.3 THE ZIMBABWEAN ECONOMIC CLIMATE DURING 2000 to 2008

1.3.1 Introduction
The Zimbabwean economy was characterised by high turbulence and volatility during the period under review. Consequently, the country moved from a very stable and prosperous one to a highly unstable and impoverished state (Economic Intelligence Unit Country Report, 2007).

Prior to 2000, the political environment was stable, but turned volatile after 1999 mainly due to a number of factors such as:

(i) A poorly-planned Agrarian Land reform where white commercial farmers were ostensibly evicted and replaced by blacks without due regard to land rights or compensation systems. This resulted in a significant reduction in the productivity of the country, which is mostly dependent on agriculture (Makoni, 2011:22). The methodology of the land distribution process angered the international community who alleged that it was racially and politically motivated.

(ii) Elections which the international community alleged were rigged in both 2000 and 2003.

These factors led to the international isolation of Zimbabwe, withdrawal of donor support and reduction in foreign direct investment, while investor confidence was severely eroded.

In addition, there was a drought in the season which worsened the negative impact of farm invasions on crop production. The reduction in production affected the banks that had funded the farmers. Furthermore, the impact of the Agrarian Reform programme was that most of the deposed farmers who had borrowed money from banks could not service the loans because the government had refused to compensate them for the loss of their farms.

Banks were therefore exposed to these bad loans. The net result was spiralling inflation, and company closures resulting in high unemployment. The Gross Domestic Product continued
to decline during this period 2000 - 2008. This negative economic environment meant reduced banking activity, as industrial activity declined and banking services were driven onto the parallel rather than the formal market. The parallel market was characterised by high foreign currency exchange rates which were the real rates, as opposed to the artificial rates which the market rejected.

The hyperinflation caused interest rates to soar while the value of collateral fell, resulting in asset-liability mismatches during the period under review. The non-performing loan book grew substantially in most of the banks (Makoni, 2011) as a result of the tough economic climate.

The government reforms were fraught with controversies. Lacking democratic legitimacy and internationally isolated, the government clamped down on all forms of opposition. (Economic Intelligent Unit Country Report, 2007). The economic meltdown in Zimbabwe was thus caused by dismal economic policies. The symptoms of these poor economic policies were reflected through the rising inflation which, at the end of July 2008, was the highest in the world at over 230 000 000%. Driven by fiscal deficit, the falling parallel exchange rate and rising food crisis, inflation accelerated steadily from 1999 as shown in the table below.

Table 1.1: Zimbabwe Inflation Trend: 2000 to 2008

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>55.7%</td>
<td>74.5%</td>
<td>134%</td>
<td>384%</td>
<td>623%</td>
<td>1034%</td>
<td>1234%</td>
<td>3714%</td>
<td>230000000%</td>
</tr>
</tbody>
</table>


The economy remained in a highly precarious position. The local currency lost value and almost every Zimbabwean became a trillionaire. The highest denomination of the Zimbabwean dollar was one hundred trillion dollars, as shown in Figure 1.3 below.

1.3.2 Hyperinflation in Zimbabwe
One hundred trillion dollars is the largest denomination of currency ever issued. It should be noted that this one hundred trillion dollar monetary unit was issued after two currency reforms where a total of thirteen zeros had been slashed from the currency, making the 100 trillion dollar note technically equivalent to 10 to the power 27 pre-2006 Zimbabwean dollars.
The one hundred million Hungarian B-pengo put into circulation in 1946 is historically recognised as the world’s largest currency denomination, but comes second when Zimbabwean currency revaluations are considered (Globalisation and Monetary Policy Institute Annual Report, 2011).

When Zimbabwe attained independence in 1980, Z$2, Z$5, Z$10 and Z$20 denominations circulated, replaced three decades later by bills in millions and trillions as the government sought to prop up a weakening economy amid spiralling inflation.

Shortly after the Z$ 100 trillion note began circulating in 2008, the Zimbabwean dollar was officially abandoned in favour of foreign currencies. From 2004 to 2008, the local currency lost more than 99.9% of its value (Hanke, 2008). This marked a reversal of fortune from independence when the value of one Zimbabwean dollar equalled US$1.54. Table 1.2 shows the evolution of the Zimbabwean dollar from 1980 (at independence) to 2008.

Zimbabwe’s extreme and uncontrollable inflation made it the first and so far only country in the 21st century to experience a hyperinflationary episode (Globalisation and Monetary Policy Institute Annual Report, 2011). The Zimbabwean experience was that the rate was in millions per month. Zimbabwe entered the hyperinflation era in March 2007 and the period ended when the nation abandoned its currency in 2009, as shown in Figure 1.2 below:
Figure 1.2: Zimbabwe Consumer Price Inflation

Source: Globalisation and Monetary Policy Institute Annual Report, 2011

Below is the evolution of the Zimbabwean dollar in the post-independence period from 1980 to 2008.

Table 1.2: Timeline of Currency Denomination and Inflation in Zimbabwe

<table>
<thead>
<tr>
<th>April 1980</th>
<th>July 1, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>The (first) Zimbabwean dollar replaces the Rhodesian dollar at par which buys US$1.54. A series of bank notes is issued ranging from Z$2 to Z$20.</td>
<td>A Z$100 billion note is issued and this was an equivalent of the price of three eggs at that time.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>From 1994 to 2006</th>
<th>August 1, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Reserve Bank issues a new series of notes from Z$2 TO Z$100. As inflation rises and erodes the currency's purchasing power, Z$500 and Z$1000 bank notes are issued from 2001 to 2005. In the first half of 2006, new Z$50 000 and</td>
<td>Another round of currency reforms is implemented. The government slashes ten zeros from each second Zimbabwean dollar bill and the third Zimbabwean dollar is valued at 10 billion old dollars (second Zimbabwean dollars). Inflation continues to</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>August 1, 2006</td>
<td>The first currency reform is implemented in an effort to contain spiralling inflation. The Zimbabwean dollar is redenominated, lopping off three zeros from the old currency. The new (second) Zimbabwean dollar is re-valued at one new dollar = Z$100 old dollars.</td>
</tr>
<tr>
<td>September 29, 2008</td>
<td>New Z$10 000 and Z$20 000 notes are introduced.</td>
</tr>
<tr>
<td>July 1, 2007</td>
<td>The Z$500 000 note is introduced, valued at about US$16 at the official exchange rate.</td>
</tr>
<tr>
<td>October 13, 2008</td>
<td>The new Z$50 000 bill is printed.</td>
</tr>
<tr>
<td>December 31, 2007</td>
<td>The Z$750 000 (US$25) notes begin circulation.</td>
</tr>
<tr>
<td>November 5, 2008</td>
<td>Z$100 000 and Z$500 000 notes are issued.</td>
</tr>
<tr>
<td>Jan 1, 2008</td>
<td>The Z$1 million, Z$5 million and Z$10 million denominations debut.</td>
</tr>
<tr>
<td>December 4, 2008</td>
<td>The Z$1 million, Z$10 million, Z$50 million and Z$100 million bills appear. Ten days later, the Z$200 million, and Z$500 million bank notes debut, followed by the Z$1 billion, Z$5 billion, and Z$10 billion notes on December 19, 2008</td>
</tr>
<tr>
<td>April 2, 2008</td>
<td>The Z$25 million and Z$50 million bills are introduced. Prices of basic goods are in millions – a T-shirt costs Z$276.5 million, pants Z$2.75 billion. Tomatoes and other local produce are priced in millions. At a restaurant, two beers and water costs Z$1.24 billion.</td>
</tr>
<tr>
<td>January 12, 2009</td>
<td>Even higher denominations are issued: Z$10 trillion, Z$20 trillion, Z$50 trillion bills and the largest bank note ever - Z$100 trillion bill.</td>
</tr>
<tr>
<td>May 2, 2008</td>
<td>The Z$100 million, Z$250 million, and Z$500 million notes debut. Annual inflation reaches more than 100 000%</td>
</tr>
<tr>
<td>February 3, 2009</td>
<td>The Reserve Bank of Zimbabwe introduces the fourth Zimbabwean dollar with twelve zeros removed from old bills, making 1 trillion old dollars equal to one new dollar. Denominations of the new currency are the Z$1, Z$5, Z$10, Z$20, Z$50, $100 AND Z$500 notes. However, loss of confidence quickly leads to the abandonment of the Zimbabwean dollar in favour of foreign currencies, primarily the US$ and the South African Rand.</td>
</tr>
</tbody>
</table>
May 15, 2008
Z$ 5 billion, Z$25 billion and Z$50 billion notes are printed

Sources: Data on US$ equivalence are computed from International Monetary Fund exchange rate data. Dates of currency issuance are from Garry Craig, New Zealand (www.garrysue.net): (Globalisation and Monetary Policy Institute Annual Report, 2011).

Figure 1.3: Highest Single Zimbabwean Dollar Note

At one hundred trillion dollars, this was the highest single note in the world (Kekick, 2007).

Cash shortages and foreign exchange shortages were common features on a daily basis. Banks did not have enough cash to give to clients. Long queues could be seen at most of the banks where customers were trying to withdraw cash, as seen in Figures 1.4 and 1.5 below.

It is very evident from the information in Table 1.2 and Figures 1.4 and 1.5 below that the Zimbabwean economic environment had become extremely difficult to operate under. It therefore did not come as a surprise when eleven financial institutions collapsed. However, in spite of this difficult and unique environment, all the foreign owned banks survived. This is what has necessitated this research to find out what it is they did strategically that enabled them to survive such unique turbulence and chaos.
Queues like those shown above had become a common feature at most of the banks in Zimbabwe during the period under review.
1.3.3 Zimbabwe before and during inflation

To trace the economy’s deterioration and understand the causes of extreme price changes, it helps to compare 1980, when Zimbabwe gained its independence, with 2008 to 2009 at the height of hyperinflation.

At independence, inflation was 5.4% and month to month inflation averaged 0.5%. The largest currency denomination was Z$20 and the Zimbabwean dollar was the most widely used currency involved in more than 95% of the transactions (Globalisation and Monetary Policy Institute Annual Report, 2011).

Officially, one US$ bought Z$0.647 and real GDP in 1980 grew 14.6% over 1979 levels, as shown in Figure 1.6 below.

![Zimbabwe Real GDP Contracts During Most of the Past Decade](image)

**Figure 1.6: Zimbabwe Real GDP Contracts during the Last Decade**

*Source: Globalisation and Monetary Policy Institute Annual Report, 2011*
On a per capita basis, in 2005 the real GDP per capita equalled US$232, and the unemployment rate was 10.8% compared to 94% in 2008.

By July 2008, when the Zimbabwe Central Statistics Office released its last inflation figures for that year, the month-on-month (non-annualised) rate had reached 2 600.2% more than 231 000 000% on a year-on-year basis. The International Monetary Fund (IMF) put the annual inflation rate in September 2008 at 489 billion percent, with some independent analysts estimating it to be much higher.

At the official rate on 31 December 2008, US$1 traded for Z$ 4 000 000, although parallel black market rates were much higher.

Zimbabwe’s economic crisis and subsequent hyperinflation were preceded by several years of economic decline and mounting public debt. External debt as a share of GDP increased to 119% in 2008, from 11% in 1980. Land redistribution in 2000 and 2001 depressed commercial output. Output fell by 50% between 2000 and 2009, led by tobacco (the country’s major foreign exchange earner) which slid 64% in 2008 from 2000 (Globalisation and Monetary Policy Institute Annual Report, 2011). Commercial production of maize declined by 76% during the same time (FAOSTAT Database, 2011).

The dire economic conditions prompted a wave of emigration to neighbouring countries, contributing to a population and labour force decline beginning in 2003, as shown in Figure 1.7 below.
Figure 1.7: Weak Zimbabwean Economy Squeezes Population, Labour Force Growth

Source: Globalisation and Monetary Policy Institute Annual Report, 2011

Zimbabwe’s emigration totalled 761 226: about 6% of the population in 2005. This number increased to 1.25 million in 2008, representing 9.9% of the population (World Bank 2008 and 2011). With a shrinking tax base and revenue that could not support expenditures and obligations, the government printed more money. Currency lost value at an exponential rate amid an imbalance between economic output and the increasing money supply (Koech, 2011).

Hyperinflation and economic troubles were so profound that by 2008, they wiped out the wealth of the citizens and set the country back more than half a century (Globalisation and Monetary Policy Institute Annual Report, 2011). In 1954, the average GDP per capita for Southern Rhodesia was US$151 per year (based on constant 2005 US-dollar purchasing power-parity rates). In 2008, that average declined to US$136, eliminating gains over the preceding 53 years, as shown in Figure 1.8 below.
Figure 1.8: Economic Decline Wipes Out 53 Years of Income Growth in Zimbabwe

Source: Globalisation and Monetary Policy Institute Annual Report, 2011

1.3.4 Impact of inflation on the country’s population

Zimbabwe’s official annual rate, as has already been highlighted, exceeded 230 000 000% in 2008, quickly eroding its currency’s purchasing power.

At the height of hyperinflation, prices doubled every few days and Zimbabweans struggled to keep their cash resources from evaporating.

The government attempted to quell rampant inflation by controlling prices of basic commodities and services in 2007 and 2008. Merchants were forced to lower prices and this quickly resulted in food shortages.
1.3.5 Inflation is a Monetary Phenomenon

Hyperinflation which rapidly destroys a currency’s value is fundamentally a monetary phenomenon. Deprived of conventional means of raising revenue, such as taxation, governments borrow without limit from the central bank, as shown in Figure 1.9 below.

Figure 1.9: Zimbabwe Central Bank Government Debt Holdings Jump After 2003

Source: Globalisation and Monetary Policy Institute Annual Report, 2011

As inflation accelerates, fiscal policy-makers begin administering monetary control.

Besides Zimbabwe, there have been 29 other cases of hyperinflation, as shown in Table 3 below (Globalisation and Monetary Policy Institute Annual Report, 2011) Recent macroeconomic studies focusing on high and sustained levels of inflation offer evidence of a causal relationship between variations in money supply and variations in aggregate price levels (Koech, 2011).

In his study of hyperinflation, Cagan (1956) assessed the statistical relationship between money and price changes by looking at seven instances of hyperinflation from six European
countries from 1920 to 1946. Assuming that inflation expectations played an important role in the determination of hyperinflation, Cagan (1956) concluded that the demand for real money balances declined as inflation rates increased, contributing to the phenomenon.

Table 1.3: Hyperinflation in History

<table>
<thead>
<tr>
<th>Country</th>
<th>Year(s)</th>
<th>Highest Inflation per month (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>1789–96</td>
<td>143.28</td>
</tr>
<tr>
<td>Germany</td>
<td>1920–23</td>
<td>29.525.71</td>
</tr>
<tr>
<td>Austria</td>
<td>1921–22</td>
<td>124.27</td>
</tr>
<tr>
<td>Poland</td>
<td>1921–24</td>
<td>167.54</td>
</tr>
<tr>
<td>Soviet Union</td>
<td>1922–24</td>
<td>278.72</td>
</tr>
<tr>
<td>Hungary</td>
<td>1923–24</td>
<td>82.18</td>
</tr>
<tr>
<td>Greece</td>
<td>1942–45</td>
<td>11.288</td>
</tr>
<tr>
<td>Hungary</td>
<td>1945–49</td>
<td>1.295×10⁻⁴</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1945–49</td>
<td>396.73</td>
</tr>
<tr>
<td>China</td>
<td>1947–49</td>
<td>4,208.73</td>
</tr>
<tr>
<td>Bolivia</td>
<td>1984–85</td>
<td>120.39</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1986–89</td>
<td>126.62</td>
</tr>
<tr>
<td>Peru</td>
<td>1988–90</td>
<td>114.12</td>
</tr>
<tr>
<td>Argentina</td>
<td>1989–90</td>
<td>196.6</td>
</tr>
<tr>
<td>Poland</td>
<td>1989–90</td>
<td>77.33</td>
</tr>
<tr>
<td>Brazil</td>
<td>1989–93</td>
<td>69.32</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>1990</td>
<td>56.82</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>1991–94</td>
<td>118.09</td>
</tr>
<tr>
<td>Congo (Zaire)</td>
<td>1991–94</td>
<td>225</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>1992</td>
<td>157</td>
</tr>
<tr>
<td>Serbia</td>
<td>1992–94</td>
<td>309,000,000</td>
</tr>
<tr>
<td>Ukraine</td>
<td>1992–94</td>
<td>249</td>
</tr>
<tr>
<td>Georgia</td>
<td>1993–94</td>
<td>196.72</td>
</tr>
<tr>
<td>Armenia</td>
<td>1993–94</td>
<td>438.04</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>1993–96</td>
<td>62.5</td>
</tr>
<tr>
<td>Belarus</td>
<td>1994</td>
<td>53.4</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1994</td>
<td>57</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>1995</td>
<td>78.1</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1997</td>
<td>242.7</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2007–09</td>
<td>2,600.2</td>
</tr>
</tbody>
</table>

*Zimbabwe’s last official month-to-month recording of inflation by the country’s Central Statistics Office, July 2008, although estimates are much higher. The official annual rate.

Source: Globalisation and Monetary Policy Institute Annual Report, 2011
Past chronic inflation episodes have been stabilised through the adoption of an independent central bank, an alteration in the fiscal regime and by instituting a credible exchange rate mechanism. In most cases, price stability was achieved virtually overnight following exchange rate stabilisation (Koech, 2011). For example, Hungary and Germany experienced average monthly inflation rates in the 12 months prior to stabilisation of 19800% and 455.1% respectively. After stabilisation, the monthly rates over a year’s time dropped to 1.3% and 0.3% respectively (Vegh, 1991).

1.3.6 Hyperinflation Consequences
Zimbabwe is the first country to experience a hyperinflationary episode in the 21st century (Koech, 2011). Hyperinflation is rare and is often associated with wars, regime change and unstable political and economic environments where revenues are insufficient to cover government expenditures, so printing more currency becomes a solution. This is exactly what happened in Zimbabwe.

Excess money supply not backed by economic growth leads to a loss of confidence in the currency which ultimately can result in abandonment of the local currency in favour of foreign currency, as was seen in Zimbabwe during the period under review. Figure 1.10 illustrates this phenomenon.
Hyperinflation produces an adverse impact on wealth, savings are wiped out within months and prices of basic commodities become out of reach for many, especially those on fixed incomes. Governments often implement price controls in order to control inflation. This often lead to shortages, as producers opt for alternative markets to avoid the mandated price ceilings that do not cover production costs, as shown in Figure 1.11 below.
A thriving black market ensues, where basic goods and foreign currency are traded at premium prices.

In Zimbabwe, printing presses worked overtime delivering ever-increasing currency denominations that lost value faster than they could be printed, as previously stated. The Z$100 trillion bill issued by the Reserve Bank of Zimbabwe was the largest denomination in the history of money (Koech, 2011).

Koech (2011:10) states that this bill has become a “hot commodity among collectors and novelty buyers, selling for about US$5 on e-Bay”.

### 1.4 RESEARCH PROBLEM

The research problem emanating from the above-mentioned background to the study is:

**Current Strategic Management paradigms or approaches utilised by banks are inadequate to respond to a turbulent and chaotic financial services environment in Zimbabwe** (Charharbaghi and Willis, 2000)
The study focused on the strategic management approaches to business in the Zimbabwean financial services environment between 2000 and 2008 which managers adopted in the turbulent environment. The comparative research was intended to study survivor banks and the ones that collapsed, to try to tease out the differences in their approaches on the assumption that they all faced the same turbulent environment.

The research questions this study was intended to answer are as follows:

(i) What were the characteristics of strategic planning systems of banks operating in a turbulent and chaotic environment in Zimbabwe?
(ii) What were the key success factors of the banks that survived the turbulence?
(iii) What was the impact of increased environmental volatility and unpredictability on the Strategic Management process of the banks?

1.5 RESEARCH OBJECTIVES

The purpose of this study was achieved through the attainment of the following research objectives:

(i) To compare survivor banks and those that did not survive the turbulent economic environment, in order to identify and explain the differences in their approaches and strategies.
(ii) To identify key success factors for banks operating in a turbulent environment.
(iii) To recommend strategic management approaches applicable to banks operating in a turbulent environment.

1.6 DEMARCATION AND SCOPE OF THE STUDY

The literature review reveals the inadequacy of the traditional strategic management models during the period under investigation and this study commences with a review of the strategic management literature, especially empirical studies to identify the characteristics of turbulent business environments, the underlying theories and strategic frameworks that apply in turbulent environments in general and in the financial services sector in particular.
The study then progresses to a comparative analysis of survivor banks and those that collapsed, with the view to identifying strategic management paradigms or approaches applicable to a turbulent environment in a developing country such as Zimbabwe.

However, the following aspects should be noted:

(i) The study basically covers the theory on businesses-related, strategic management, planning processes, and dynamic capabilities of banks operating in turbulent environments, as revealed in the literature review.

(ii) The study uses the commercial bank sector as a model to describe the strategic processes of businesses operating in turbulent environments, as it is one of the key sectors that has and continues to experience environmental turbulence globally.

(iii) Since the financial services sector is a broad sector, this study has been limited to commercial or retail banks only.

(iv) The study includes selected banks that survived environmental turbulence and those that collapsed during the period under review.

1.7 THE RESEARCH DESIGN AND METHODOLOGY

This research is a qualitative investigation performed through the use of multiple sources of evidence which include the conducting of personal interviews with bank officials of both failed and successful banks, archival records, documentation and press articles.

Qualitative research methods allow researchers to explore complex questions, including value-laden inquiries and subjective information. The current research was carried out through case studies.

1.8 LIMITATIONS OF THE STUDY

One of the limitations of this qualitative study is memory lapse, given the amount of time that has elapsed since the events under review took place. Some of the interviewees are unlikely to remember in detail some of the incidents that took place during the period under review.

Furthermore, according to Leedy (2010), people are often likely to recall what might or should have happened, based on their attitudes or beliefs, rather than what actually did happen. This is another limitation of a qualitative study.
Although it could be perceived as a limitation, the relatively small samples included in this research represent the core of the banking sector during the period under review.

1.9 SIGNIFICANCE OF THE STUDY

This research makes a significant contribution to the body of knowledge by identifying and recommending Strategic Management approaches applicable to businesses operating in a turbulent and chaotic environment in developing markets such as Zimbabwe.

The literature review presented in Chapter 3 confirmed the fact that the current strategic management prescriptions for businesses operating in turbulent environments were inadequate (Grant, 2010). This research has been an attempt to contribute towards addressing the inadequacies of the current strategic management approaches for businesses operating in turbulent and chaotic environments.

Furthermore, this research also contributes towards the current debate in academic literature and amongst practitioners of strategy, about how strategy is really made in organisations (Maritz, 2010). The debate centres around two opposing views: one associated with strategy-making as a formal, deliberate plan, and the other associated with strategies as evolving, ever-changing sets of outcomes that are eventually realised. This research established that, in turbulent and chaotic environments, strategy-making is birthed through an emergent process. In other words, strategy may emerge through adaptation to changing or evolving circumstances. In Zimbabwe, the banking executives of survivor banks had to adapt to the unique and volatile business environment they found themselves in.

It was further established in this research that when events are moving at an unprecedented speed, as was happening in Zimbabwe, the time intervals between obtaining information, analysing information, taking decisions and implementing those decisions need to be tightly compressed. The researcher has coined the term Strategic Intensity (SI) for this principle, as is confirmed in later chapters of this study.

The findings from this study point to the fact that traditional permanent leadership or management structures where there is one all-powerful demigod who knows it all has to be bypassed when operating in a turbulent environment. There is a need to create an alternative top management structure dedicated to crisis management. It is also important for the businesses to have fluid structures that are constantly shifting as strategies change and have to be adapted in response to the changes in the environment.
Finally, the business environment in developing markets, particularly in Africa, is completely unique, owing to the type of governance used by most African leaders. This makes it very challenging for business executives operating in such highly unpredictable and unique environments. This study may be used as a reference point by anyone trying to do business in a highly turbulent and chaotic environment, especially in Africa where the operating environment is sometimes extremely unpredictable, as was established in this study.

1.10 OUTLINE OF THE THESIS

The chapters in this thesis are outlined as follows:

Chapter 1

This chapter introduces the study. It states the research problem, the research purpose and the objectives. This chapter further demarcates the study, outlines the scope of the study, indicates the significance of the research, defines the research limitations and explains the research design.

Chapter 2

This chapter covers a detailed overview of the financial services industry, both in Africa and Zimbabwe, its characteristics, dynamics and general causes of banking crises as they relate to Zimbabwe as well as in other markets, especially African countries.

Chapter 3

This chapter provides an overview of strategic management theories and practice. Each of the main theories is explored in detail. The aim is to provide a substantial foundation for strategic management development process as a basis for the current research. Some of the key issues to be covered are as follows:

(i) A brief outline of the historical context of strategic management.
(ii) The description and evaluation of prescriptive strategic practice.
(iii) The description and evaluation of emergent strategic practice.
(iv) Identification of the main theories associated with prescriptive strategic management.
(v) Identification of the main theories associated with emergent strategic management.

Chapter 4
The purpose of this chapter is to provide a clear research methodological approach that will guide the way to addressing the research problem which is:

**Current strategic management paradigms or approaches are inadequate for the unique business environments obtaining in a developing country such as Zimbabwe.** (Charharbaghi and Willis, 2000; Grant, 2010).

**Chapter 5**

This chapter presents the results that were obtained from both the multiple Case Studies and the desk research that were carried out to address the research problem.

**Chapter 6**

This chapter covers findings, conclusions, contributions to the body of knowledge, recommendations and areas for further studies.

**1.11 CONCLUDING REMARKS**

The period 2000 to 2008 went down as an historic one on the economic front, as Zimbabwe reached the peak of its economic meltdown. Rampant inflation and the collapse of the economy severely devalued the currency.

The Central Statistical Office Chief Statistician announced on 13 July 2007 that it would be impossible to calculate the inflation rate any further. This was because of a lack of basic goods on the shelves and subsequent lack of information from which to calculate these figures (Mufundza, Jengeta and Hove, 2013).

The turbulence in the Zimbabwean economy during the period under review made it very difficult for businesses to craft and execute strategies. The financial institutions in Zimbabwe underestimated the competitive forces that resulted from firstly the industry deregulation, and later economic decline coupled with political meltdown (Muranda, 2006).

The abnormal economic environment highlighted above forced some banks to shift away from their core business as a survival strategy, a strategy that resulted in the collapse of eleven out of the forty financial institutions in Zimbabwe.
On the other hand, all the foreign-owned banks survived this abnormal economic environment. This has necessitated this research to compare the banks that collapsed with those that survived, in order to ascertain the underlying strategies that were employed by the two different groups of banks.

The following chapter covers a detailed overview of the financial services sector focusing on the Africa in general and Zimbabwe in particular. In addition, causes of banking crises are also extensively covered.
CHAPTER 2:

INDUSTRY ANALYSIS AND CAUSES OF BANKING CRISES
2.1 DEFINITION, STRUCTURE AND SCOPE OF THE BANKING INDUSTRY

2.1.1 Introduction

This chapter covers a detailed overview of the financial services industry both in Africa and Zimbabwe, its characteristics, dynamics and general causes of banking crises as they relate to Zimbabwe, as well as to other markets, especially in African countries.

2.1.2 Definition of a bank

Specific legal definitions of what a bank is or what constitutes banking business vary from country to country. Many people might regard banks first and foremost as providers of credit, but that is not what makes banks unique, since credit is available from other sources, such as trade suppliers, retailers or - in securitised form - capital markets; nor would the granting of credit, on its own, necessarily make banks particular objects of attention from the regulatory authorities, since ill-judged decisions to grant credit might not be of concern unless the company granting the credit was itself also taking deposits (Holmstrom,1997).

It has become widely accepted that the activity which makes banks in some sense special is the taking of deposits, for the following reasons:

(a) a bank deposit is typically an unsecured, capital-certain claim;
(b) it therefore implies a strong element of trust;
(c) borrowers, on average, require funds for longer periods of time than that for which depositors, on average, are willing to forego their funds; even overdrafts, which may technically have to be repaid on demand, have to be regarded, in total, as a fairly illiquid claim; thus, maturity transformation is central to the economic function of a bank, and is at the same time a key source of risk;
(d) deposits constitute money, notably in the transactions sense: funds on current account or at call, or term deposits at maturity, can generally be used, and are accepted, as a means of executing payments and settling debts with third parties;
(e) consequently, banks find themselves at the centre of the payments system, the efficiency of which is vital to the broader economy (Holmstrom and Tirole 1997).

For the purposes of this research, therefore, and notwithstanding differences which may exist from one country to another in legal definitions, a bank is regarded as any institution which accepts deposits from the non-bank private sector (ie. from citizens, non-bank corporate entities etc.; acceptance of funds only from other banks may not necessarily qualify), within the relevant definition of a banking deposit - which excludes, for example, down-payments to secure the supply of goods (Holmstrom and Tirole 1997).
2.1.3 Role of the central bank and supervision of banks
Holmstrom and Tirole (1997) states that central banks may be interested in the structural development of the banking sector, under four headings:

- the central bank is concerned with the overall stability of the financial sector and will wish to supervise banks to that end, or to be assured that they are being adequately supervised by another body
- the central bank is usually concerned also for the efficiency of financial intermediation - of the banking sector in particular - and, although in a market economy it will not normally wish to intervene directly in the business of banks, it may nevertheless be involved in ensuring adequate infrastructure and competition and in nurturing collective initiatives for the common good; in emerging market economies, the banking sector usually plays an especially prominent role if other capital markets have not yet developed
- the ability of banks to create money and credit in the normal course of their business gives the central bank an interest in banking developments from the macro-economic monetary policy perspective.
- the regulatory authorities are normally concerned to protect individual depositors against loss and, in this regard, the power to prevent unauthorised deposit-taking is also important. Efforts to protect consumers are regarded as justified because of the relationship of trust between banker and depositor (money is deposited without any exchange of value or collateral and, because of asymmetries in information, the average depositor cannot hope to be able to make an accurate assessment of the creditworthiness of a bank).

Banking is regarded as being more prone to contagion than are other commercial activities. If a manufacturing business fails, it is generally expected that other manufacturers of similar products will benefit. In banking, however, the opposite may be true, in that problems in one bank may spread to another, either because of actual financial linkages - for instance, through the interbank market - or through confidence effects, whether rational or not. This is the justification for supervision of individual banks in the broader context of systemic stability.

2.1.4 Supervision of banks
In some countries banking supervision is the responsibility of the central bank; in others it is entrusted to one or more separate agencies. In Zimbabwe, banking supervision is the responsibility of the central bank.
Conflicts of interest may arise between the conduct of macro-monetary policy and supervision: the common example is of a situation where the fragility of banks delays necessary tightening or encourages undue relaxation of monetary policy (Holmstrom, and Tirole, 1997).

There is some record of such situations - in the United States and Japan, for example - as well as in a number of developing economies, but potential tensions cannot necessarily be avoided just by distinguishing institutionally the two responsibilities. Indeed, it is noteworthy that in neither the United States nor Japan are banks supervised solely by the central bank, unlike in Zimbabwe.

Holmstrom and Tirole (1997) argues that the close interaction between liquidity management of individual banks and the central bank's money-market operations, and particularly the fact that liquidity support for a troubled bank may have to come from the central bank, demands co-ordination and, optimally, co-location of the two responsibilities.

In support of this view, it is noted that in many countries where supervision is carried out by a separate agency, the central bank nevertheless retains some sort of supervision department to shadow the supervisory body and to take charge of problems involving liquidity support, if they arise. The central bank would in any case wish, as a minimum, to assess its own counterparties in the event of being called upon to provide liquidity. On the other hand, co-ordination ought to be achievable without the necessity of co-location.

### 2.1.5 The scope and structure of banking

It was noted above that deposit-taking is perhaps the point at which the definition of banking business begins; but where does it end?

In liquidity needs, the traditional activities of banks include services for payments and foreign exchange, the provision of credit for working capital and trade finance, personal loans and some longer-term investment finance - though this partly depends on the bank’s ability to secure longer-term funding for itself.

Banks may also undertake any of a wide range of other financial or related activities, such as securities trading, broking, underwriting and the associated functions of registration and
custody services; fund management; corporate finance; equity participations; financial advice; and insurance.

Moreover, some banks may even wish to diversify into activities well beyond the boundaries of finance. On the other hand, banks may, of their own choice or because of laws and regulations, specialise in particular activities or focus their business on particular sectors of the economy or in particular regions (Bank of England, Financial Stability Review, 1997).

There are a number of factors which the authorities may need to consider when deciding what range of activities to allow banks to undertake or what sort of structure towards which to steer the banking sector as a whole.

### 2.1.6 Management of financial risk

Diversification may help to spread risk, but it may also add to risk if the new areas of business are clearly more risky, on average, than existing ones.

It is for these opposing reasons that, for example, on the one hand, concerns have been expressed about the emergence of new, highly sector-specific or even firm-specific banks in Russia in recent years. On the other hand, laws were introduced in the United States in the 1930s, which are still formally in place today, despite some relaxations in interpretation and recurrent initiatives for more fundamental liberalisation, in order to prevent commercial banks from moving (or to limit the extent of their moves) into securities or so-called investment banking business (Holmstrom and Tirole, 1997).

In Zimbabwe, the bank executives of failed banks diversified into risky areas and this resulted in their financial institutions being highly exposed. The regulatory authorities in Zimbabwe are very strict about banks diversifying into areas outside their core business.

There is the general hesitancy of most supervisory authorities to permit banks to own companies outside the financial sector or to invest depositors’ funds in equity shares, despite the fact that the major German banks have held significant equity stakes in German industry for many years, without evident problems.

However, what in the past were firmly ingrained rules have now given way to more flexible approaches, based nevertheless on firm supervisory principles. The risks of any strategy have to be properly assessed and provided for.
A notable example of evolving attitudes is the securities business of banks, where there are now clear agreements among supervisors, enshrined in Directives so far as European Union countries are concerned, on the calculation of capital required to support securities trading activity, with an implied acknowledgement that a bank can be allowed to venture into securities business if it conforms to this regime (as well as to any other criteria laid down by its supervisory authority, such as regarding competence of staff or viability of business plan) (Financial Stability Review, 1997).

Another example is the not uncommon requirement that certain activities may be permitted only if conducted out of a separately capitalised subsidiary in a banking group, in order to limit the bank’s formal liability in respect of that activity (see below concerning contagion). This is the current practice in Zimbabwe. However, because of liquidity challenges, most banks failed to adequately capitalise their subsidiaries during the period under review.

Among financial activities, the writing of insurance may be taken as an example. Insurance involves the assumption of long-term liabilities, of uncertain scale, in contrast to the short-term fixed-capital liabilities that are typical of conventional banking. It may therefore be regarded as desirable to keep the activities separate.

If banks diversify into business beyond the financial sector (directly or via subsidiaries), or if non-banking groups are permitted to establish banks which would, in effect, be daughters or sisters of industrial or commercial companies, regulators may be concerned about possible contagion or reputational damage, as was experienced in Zimbabwe during the period under review.

However, in many transitional economies, banks have been founded which are closely tied into non-financial corporate groups, and historical separations of business are also being eroded in some other countries. Both the United Kingdom and Zimbabwe are examples of countries where major supermarket chains were allowed to establish a banking subsidiary. Key considerations for banks and supervisors in such cases are not only adherence to explicit supervisory rules concerning concentration of lending or credits to shareholders, but also insulation of the capital of the bank from any designs which other group companies may have on it, particularly in troubled times, absolute enforcement of that insulation and clear understanding of it by both the group companies and - just as importantly - by the bank’s customers, who might otherwise panic unnecessarily at the news of difficulties elsewhere in
In assessing a bank’s strategy, the supervisor will take account not only of the relevant legal structures and the arithmetic of the potential risk, but also of the ability of the bank to manage its risks. The competence of management, set against the challenges inherent in any strategy, especially one involving expansion, is a key ingredient in supervision. In a wider context, the authorities will also wish to ensure that an adequate degree of competition exists within the financial sector; this may be grounds for not allowing certain institutions to expand in particular directions (Holmstrom, 1997).

2.1.7 Reputational risk and contagion
As noted above, there is a risk of confidence in the banking sector as a whole being undermined. This puts depositors’ interests at risk, and may cause a run on the bank as a result of financial losses or damaged reputation in any part of a banking group, even if formally insulated from the deposit-taking entity.

Even if the problems arise in a separately capitalised subsidiary, the group may find itself obliged to commit additional funds in order to safeguard its reputation. Most of the failed banks in Zimbabwe had subsidiaries and they were all affected by the failure of the banking subsidiaries within the financial services group.

The likely extent of any reputational damage depends in part on whether the incident was, or is regarded by outsiders as having been, an isolated occurrence with readily identifiable causes which can be or have already been addressed, or was symptomatic of more deep-rooted weaknesses in the group.

However, there is also a risk simply from bad publicity, which may cause a loss of business, albeit irrationally.

2.1.8 Competition in banking
In some countries, the desire to foster and preserve competition has exerted a significant influence over the authorities’ strategy towards financial sector development. In other countries, efforts to limit competition have been more visible. History shows mixed results.
In Zimbabwe, much analysis has been focused during the past 30 years on the question of whether consumer interests are best served by the domination of retail banking by a small number of large “high street” banks. There has been debate as to whether the Zimbabwean economy is overbanked or not.

For a while, these worries were to some extent assuaged by the emergence of the building societies (best regarded, in the present context, as retail banks specialising in the provision of mortgage credit to house-buyers) as a strong competitive force.

Successive investigations concluded, broadly speaking, that there were gains in efficiency from economies of scale; and in practice, competition has been as intense as in other major countries.

In Zimbabwe, financial institutions, often owned or part-owned by the state or regional authorities, enjoy a significant market share of certain types of retail business. The revenue authority is directed to bank with state-owned banks. In addition, they enjoy implicit state guarantees and all government business is directed towards them.

In many developing economies, fear of too much competition (sometimes with vested interests pressing the infant-industry argument) has led to restrictions on the admission of foreign banks. Evidence suggests that banking is more efficient in countries which have been open to foreign participation, even though this may be at the expense of the development of a truly indigenous banking industry. Almost without exception, foreign competition and expertise bring benefits (Holmstrom and Tirole, 1997).

2.1.9 Social Policy

It is by no means uncommon for governments to participate or intervene in the banking sector in the context of social policy, particularly to ensure adequate provision of dependable retail services to the whole community.

Any such involvement should be transparent and constitutional, and unreasonable pressures should not be placed on banks to provide hidden subsidies to the budget or contort market forces at the behest of government.

In many instances, it may not be economical for a commercial bank to provide basic banking
services - deposit/saving and credit facilities and money transmission - to all citizens and all regions. If, as is normal, it is nevertheless regarded as desirable that these services be available, the government faces the option of providing them through public sector institutions, such as the postal system (if it is still in the state sector) or a government bank, such as, typically in most formerly-planned economies, the Savings Bank, or subsidising private sector banks to provide the service - or even coercing them to do so.

In some instances, the government may go further than merely filling the gap which commercial banks will not fill, by competing with the commercial banks over a wider range of services.

It may be hard to contest such a strategy if it is needed to fund the cross-subsidy to unprofitable activities, but any encroachment into services which the private sector can satisfactorily supply should be resisted as far as possible. These considerations are also relevant to the question of narrow banks.

Technological advances and the advent of cash-dispensers, telephone banking and even mobile banks, as witnessed in some countries, may render it progressively less expensive, rather than more so, to provide basic retail banking services, in which case many of the perceived problems of accessibility may in due course evaporate, although perhaps not for a considerable time in some places.

Meanwhile, as the banking habit spreads, those who cannot or choose not to have a bank account may find themselves at an increasing disadvantage.

2.1.10 Industrial Policy
In many countries, there is a perceived dearth of bank finance for the longer-term funding of particular sectors, in which case some official intervention may seem justified. The shortage of finance may in part reflect the general problems which banks may face in undertaking sufficient maturity transformation to extend such credits on a prudent basis. In those circumstances, the potential borrowers might seek funds through the capital markets or other channels.

The important question is whether the shortage of funds reflects merely market failure - in which case some official intervention may be justified and may be economically viable - or
genuinely poor credit risk, in which case no-one should lend for the project or it should be supported by explicit provisions from the government’s budget.

2.2 OVERVIEW OF BANKING IN AFRICA AND ON OTHER CONTINENTS

2.2.1 Introduction
Banking in Africa has undergone dramatic changes over the past 20 years. While dominated by government-owned banks in the 1980s and subject to restrictive regulation – including interest rate ceilings and credit quotas – financial liberalisation, institutional and regulatory upgrades and globalisation have changed the face of financial systems across the region (Cull, 2013).

When talking about financial systems in Africa, one has to take into account the enormous variation within the region. On the one hand, South Africa and Mauritius have fairly developed banking systems and capital markets. On the other hand, smaller and poorer countries, such as the Central African Republic or South Sudan, have shallow banking systems offering only the most rudimentary financial services with few, if any, non-bank financial institutions or capital markets. In spite of the variation within the region, however, there are four specific characteristics that make banking in Africa more difficult than in other regions of the developing world and most of those apply to many, if not all, African economies. In this section, banking in Africa as well as elsewhere is highlighted.

2.2.2 Banking in Africa
Firstly, the small size of many economies does not allow financial service providers to reap the benefits of large-scale economies. The limited demand for savings, insurance, credit or even simple payment transactions means that large parts of the population of African economies are not commercially-viable customers.

The dispersion of population in many African countries means that financial service provision outside urban centres is not cost-effective.

Secondly, large parts of the economy and a large share of all economic agents operate in the informal sector and do not have the necessary formal documentation that facilitates financial transactions, such as enterprise registration, land titles, or even formal addresses.
This increases the costs and risks for financial institutions and excludes large segments of the population from formal financial services.

Thirdly, volatility increases costs and undermines risk management. At the individual level, volatility is related to informality and the consequent fluctuations in the income streams of many micro-enterprises and households. This means that these agents are less attractive to financial institutions. At the aggregate level, volatility refers to the dependence of many African economies on commodity exports, which makes economies vulnerable to the large price swings characteristic of commodities, as well as to political and social unrest, from which Africa has suffered over the past 50 years of independence.

Finally, governance problems continue to plague many private and government institutions throughout the continent and undermine not only the market-based provision of financial services, but also reform attempts and government interventions aimed at fixing market failures (Cull and Beck, 2013).

As will be shown below, these characteristics make banking in Africa more challenging in developed economies and sophisticated financial markets and increase the need for innovative solutions. Technology can reduce transaction costs and risks, thus enabling the processing of smaller transactions, turning more households and enterprises into commercially viable clients. Innovative products and delivery channels can address the constraints discussed above. Critically, these interventions and policy reforms have to work both on the supply and demand side.

The recent crisis in the developed world has shed doubt on the positive impact that the development of the banking system can have on economic development, in contrast to an extensive literature illustrating a positive finance-growth relationship (Levine, 2005).

Consumer credit booms in the U.S. and several European countries, fuelled by a combination of the liquidity glut linked to the global macro-economic imbalances, regulatory neglect and the feeling that “this time is different” have ended in the global financial crisis. If there is a lesson to be learnt for Africa’s banking systems from the crisis, it seems that the growth benefits of financial deepening can only be reaped in a stable macro-economic environment and with the appropriate safeguards framework, both in terms of external regulation and supervision and internal bank governance. Notwithstanding the recent negative experience in countries with the deepest financial sectors, banking systems in
Africa can and must play a critical role in the economic development process of the region.

Cull and Beck (2013) argue that while Africa’s financial systems are shallow in international comparison, there have been marked improvements over the past decade, as documented in Figure 2.1. All three standard indicators of financial development have substantially improved over the period 2000 to 2011. The median value for Liquid Liabilities to GDP increased from 20 to 31 percent, while that for Deposits to GDP increased from 12 to 22 percent. Median Private Credit to GDP increased from 11 percent to 18 percent. And this improvement has been broad-based. If one considers the 25th, 50th and 75th percentiles of Private Credit to GDP over the same period, one can see that countries at different points of the distribution have all witnessed improvements.

![Figure 1: Financial Deepening in Africa over the Past Decade](image)

Source: Global Financial Development Indicators, World Bank

**Figure 1: Financial Deepening in Africa over the Past Decade**

Africa’s banking systems are not only shallower than banking systems in non-African developing countries, but they are also less inclusive (Figure 2.2). Here we present four indicators of access to and use of financial services. First, we present two aggregate indicators: bank accounts per 10,000 adults and bank branches per 100,000 adults. Both indicators are substantially lower in the median African country than in the median non-African developing country (Cull & Beck, 2013).
Cull (2013) states that there are only 15 bank accounts for every 100 adults in the median African country, while there are 42 outside Africa. There are 3.1 branches per 100,000 adults in Africa, while there are 9.6 outside Africa. Secondly, the more limited outreach of Africa’s banking systems is also reflected in indicators of use of formal finance by enterprises and households.

While in the median African country, only 21% of firms indicate that they have a line of credit or loan from a formal financial institution, whereas this share is 43% outside Africa. Similarly, 16.5% of adults in the median African country indicate that they have an account with a formal financial institution, while this share is 21% outside Africa.

The main allure of Africa’s banking market is that it is potentially vast and virtually untapped. Banking penetration among the continent’s one billion inhabitants varies significantly from country to country, but swathes of the population in Senegal and Tanzania, for instance, have virtually no access to banks, as shown in Figure 2.3 below (Economist, 2 March 2013).
Banking outside Africa

Banking has evolved in different ways in different countries, for a mixture of economic, political and other historical reasons. For example, the United States and Japan have possessed considerably fragmented banking systems, both geographically and functionally (Latter, 1997).

In many European countries, operations have tended to be more consolidated, in terms of either geography or function, or both. In many developing and a few developed countries, as well as in all the former communist economies, state-owned banks were until recently the norm. Now many of the transition economies are characterised by a polarisation between large banks focused on broad economic sectors, emanating from the initial break-up of the mono-banking system, and a plethora of small banks, opportunistically established on the tide of liberalisation, but in many cases having ownership structures or concentrations of business which would flout the prudential standards of developed countries, and which in a significant number of cases have indeed led to early failure or closure (Financial Stability Review, 1997).
This evolutionary process of banking is bound to continue. For example, although the vast majority of the countries of the world are now more or less committed to the concept of the market economy and to the desirability of the state disengaging from ownership of banks or interference in their business (other than as necessary for supervisory purposes), there is still a long way to go before these aims are fully achieved (Latter, 1997).

Meanwhile, rapidly-advancing technology will continue to transform or supplant some of the processes of banking in all countries. And banks as a group will probably continue to move into new areas of business. In some respects, African banks are gaining an advantage on international rivals as they install brand new computer systems from scratch, without having to patch together costly legacy systems that have been around since the 1960s (Economist, 2 March. 2013).

2.3 OVERVIEW OF THE ZIMBABWEAN FINANCIAL SERVICES SECTOR

2.3.1 Introduction
At independence (1980), Zimbabwe had a sophisticated banking and financial market, with commercial banks mostly foreign-owned. For the first few years, the government of Zimbabwe did not interfere with the banking industry. There was neither nationalisation of foreign banks, nor restrictive legislative interference on which sectors to fund or the interest rates to charge, despite the socialistic national ideology (Makoni, 2011).

However, after 1987 the government embarked on an Economic and Structural Adjustment Programme (ESAP). One of the fundamentals of this programme was the financial reforms through liberalisation and deregulation of the financial services sector.

New legislation was put in place which, among other issues, focused on the following:

- Allowing for the conduct of prudential supervision of banks along international best practice
- Enhancing competition, innovation and improving service to the public from banks
- Allowing for both off- and on-site bank inspections to increase the Reserve Bank of Zimbabwe’s banking supervision (Makoni, 2011)
Subsequently, the Registrar of Banks started issuing licences to new players as the financial services sector opened up. By 2003, there was a flurry of entrepreneurial activity in the financial services sector as indigenous-owned banks were set up.

The government wanted to promote black participation in the sector. These financial sector reforms led to the entry of several commercial banks, discount houses and later asset management companies. The entry was sudden and appeared to have resulted from the relaxed bank licence application processes and procedures. The liberalisation was designed to create a more efficient financial services sector and this also led to a review of strategy and operations in areas such as loan origination, administration, monitoring and review (Muranda, 2006).

The table below shows the growth of the financial services sector in Zimbabwe.

**Table 2.1: Financial Services Sector Growth Pattern in Zimbabwe: 1992-2004**

<table>
<thead>
<tr>
<th>Type of financial institution</th>
<th>1992</th>
<th>2002</th>
<th>Dec 2003</th>
<th>June 2004</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>5</td>
<td>15</td>
<td>17</td>
<td>16</td>
<td>220</td>
</tr>
<tr>
<td>Merchant banks</td>
<td>4</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>50</td>
</tr>
<tr>
<td>Finance houses</td>
<td>4</td>
<td>7</td>
<td>7</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Discount Houses</td>
<td>3</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>200</td>
</tr>
<tr>
<td>Building societies</td>
<td>3</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>67</td>
</tr>
<tr>
<td><strong>Total sector</strong></td>
<td>19</td>
<td>40</td>
<td>43</td>
<td>40</td>
<td><strong>116</strong></td>
</tr>
</tbody>
</table>


The highest growth was registered in the commercial banking sector between 1992 and 2004.
2.3.2 Deregulation of the Zimbabwean financial services sector

The deregulation of the financial services sector brought a dramatic increase of banks in the banking sector. The prevailing harsh macro-economic environment made survival strategies crucial for all banks. The difficult operating environment resulted in further consolidation of the banking sector, as banks strategically positioned themselves through restructurings, mergers and acquisitions.

Although the banking penetration was very high, with one branch per 31 000 people, the majority of the bank branches were concentrated in urban areas. As at 30 June 2000, 333 branches out of 377 were in urban centres where 34.8% of the population resides. (Muranda, 2006).

Banks were forced to review their business models due to the intensity of competition in the financial services sector. The local banks were very flexible in terms of provision of their products and services to the customer. On the other hand, foreign banks took a more cautious approach. As a result, the local banks’ market share grew so phenomenally that by 2001, the bank with the largest market share was a local bank.

On the other hand, the foreign banks stuck to their old and rigid banking models during the period under review. Some of the banks lost money due to the chaotic land grab by the government. Most of the displaced farmers failed to honour their loan obligations because they were not compensated by the government. This meant that most banks had to write off huge loans and this resulted in huge losses for these banks.

2.4 BANKING CRISSES

2.4.1 Definition of a banking crisis

Durmirgic-Kunt (2000) defines a banking crisis as a period in which significant segments of the banking system become illiquid and/or insolvent. This is normally characterised by bank failures, enactment of emergency measures by regulatory authorities, significant deposit flights to perceived safer banks, high levels of non-performing loans and huge bail-out costs.

After the December 2003 Monetary Policy Statement and for the greater part of 2004, these signs of a banking crisis were evident in Zimbabwe.
2.4.2 Causes of a banking crisis

The causes of banking crises can be categorised under several headings: macro-economic instability; deficient supervision; poor strategies; weak management; inadequate control systems; operational failures and fraud, amongst others (Latter, 1997). Whatever the causes, the executives need a coherent strategy for addressing such crises.

The world seems to be continually beset by banking crises of one sort or another. Indeed, the problems of the 1980s and 1990s have been described as more severe than at any other time before. In 1996, the International Monetary Fund estimated that about 130 countries had experienced banking crises since 1980.

The cost to government budgets of resolving these crises has been highly significant. Estimates vary, but examples from different sources - in particular, a survey by World Bank researchers, published in 1996 - put the cumulative costs, expressed as a percentage of one’s gross domestic product for the country in question at 2-3% in the case of the United States of America, affecting savings and loan institutions and small banks during the 1980s and into the 1990s between 2% and 8% for the Nordic countries; 17% for the Spanish crisis (1977 – 85); 10% in Hungary; 4% in Bulgaria; 12-15% in Mexico; 13-18% in Venezuela and well over 25% in several other cases, in Africa, Argentina and Chile (Latter, 19997).

A variety of reasons may explain the onset of banking crises. Several of these may be related to the way in which the structure of the banking sector has evolved or been guided, as was experienced in Zimbabwe.

Possible causes are classified according to whether they arise from macro-economic circumstances, from micro-economic or regulatory factors, from inappropriate strategies of individual banks, from operational failings in the banks or from fraud.

This thesis attempts to look at the strategies which were applied by banks during a banking crisis in Zimbabwe.

Below are some of the causes of bank crises, according to McConnachie (1997).

2.4.3 Macro-economic circumstances

McConnachie (1997) argues that it is not uncommon for banking crises to be blamed on adverse macro-economic developments. Indeed, macro-economic instability such as was
experienced in Zimbabwe and highlighted in Chapter 1, is sometimes cited as the principal source of banking instability.

The trigger may be some combination of a collapse of asset prices, especially in real estate (perhaps following an earlier unsustainable increase, which may in turn have been fuelled by inappropriate macro-policy or reckless banking decisions); a sharp increase in interest rates or fall in exchange rate (this was also experienced in Zimbabwe during the period under review); an abrupt slowdown in the pace of general inflation (banks having generally prospered during high inflation, or on the onset of recession).

All these factors are interrelated. Another source of difficulties, especially in transition economies, has been sharp shifts in relative prices or the removal of subsidies, creating pressure on particular businesses or sectors to which banks are exposed.

In principle, bank management and bank supervisors ought to ensure that banks are resilient to shocks such as these within reasonable bounds of probability, hence the objective of this research. Latter (1997) argues that, unless the shock is way out of the range of probabilities for which anyone could reasonably be expected to allow for, macro-economic conditions should not be too readily accepted as a scapegoat for banking failures.

Regrettably, however, shocks have sometimes been outside the range, as was experienced in Zimbabwe where inflation was the highest in the world during the period under review.

2.4.4 Micro-economic policies
This heading covers all those structural and supervisory parameters which are under the government’s (or central bank’s) direct control or influence, as shown below.

2.4.4.1 Supervision
(McConnachie, 1997) states that there is a common perception that every bank failure must represent a supervisory failure, but this is plainly misguided. Of course, in some cases a bank failure may fairly be ascribed to supervisory failure but, almost by definition, it can never be a sole cause because there must first be some shortcoming in the bank which escaped the proper supervisory attention.

Moreover, if supervision were so tight as to eliminate all chances of bank failure, banking would in all likelihood be an extremely repressed and uncompetitive business, and therefore fail in its ultimate function of providing efficient financial intermediation to the rest of the economy. The authorities therefore have an element of choice as to how tight and intensive
a system of supervision to operate, and it can readily be argued that the system should from time to time, for reasons of efficiency and in order to contain moral hazard, allow banks to fail.

2.4.4.2 Inadequate infrastructure in matters such as accounting and law

These may seldom be the immediate or sole cause of banking failure. However, shortcomings in accounting or auditing may disguise, or delay realisation of, problems of illiquidity or insolvency. And inadequacies in accounting by bank customers may be as critical as such inadequacies in the banks themselves. Shortcomings in the legal infrastructure may, for example, inhibit the exercise of property rights or the pledging and realisation of collateral in support of bank loans.

2.4.4.3 Liberalisation / deregulation

Deregulation in the financial sector has occasionally encouraged rash behaviour, leading to subsequent problems. This has also been highlighted in Chapter 1 above.

However, this is not an argument against deregulation, but rather a reason for ensuring that bank managements - and regulators - understand the potential consequences and are particularly alert to possible adverse ones.

Such considerations may be grounds for supporting a gradual rather than a big-bang approach to deregulation, although in cases such as the formerly centrally-planned economies, the fundamental and widespread nature of the required structural changes has been such that gradualism may have been impracticable or may itself have created new problems.

Deregulation of activities may require more attentive supervision in order to ensure that those activities are carried out and managed prudently. Some banking problems have arisen or been exacerbated because supervision has not kept pace.

2.4.4.4 Government interference

There have been instances where government interference in a bank's business - such as directives or pressure to lend to particular customers, possibly at preferential interest rates, or to maintain or extend uneconomic branch networks - has precipitated or hastened the
onset of a liquidity or solvency crisis, or has bequeathed an unhelpful legacy in terms of assets or culture. In Zimbabwe most of this pressure comes from politicians who take advantage of their position in society to borrow money, most of which is never paid back.

Other potentially damaging official acts, which are still occasionally in evidence, include the imposition of pernicious reserve requirements, either unremunerated or bearing a sub-market rate of interest, and some form of obligation to fund the government’s deficit, again on non-market terms.

2.4.4.5 Moral hazard

McConnachie (1997) argues that, if there is a general expectation that no bank will be allowed to fail, or if financial support in troubled times is too readily available to either banks or their depositors (the latter, perhaps, through too generous a formal system of deposit protection), moral hazard arises: banks may be tempted into behaviour which exacerbates rather than ameliorates their position; and depositors may not bother to discriminate between “good” and “bad” banks, thereby possibly prolonging survival but magnifying a crisis when it eventually breaks.

2.4.4.6 Lack of transparency

If, as a result of an inadequate legal or regulatory framework, or perhaps simply as a matter of culture, the circumstances of a bank lack transparency to depositors and other counterparties, or even to shareholders, the role of market forces in determining the bank’s fate will be impeded and problems may be allowed to develop and multiply to an extent which might not otherwise have been possible.

The issue of violation of corporate governance in the Zimbabwean financial services sector was highly evident in this research. Most bankers flouted corporate governance policies and were not transparent in their dealings, as will be shown later in this study.

2.4.4.7 Banking strategies and operations

In many instances, the problems of a bank have been brought about by the shortcomings of its own strategy or by operational failure, as was confirmed by this research. Some of the bank executives did not have strong risk management systems and procedures which
resulted in them failing to manage risk during the period under review.

It is debatable as to what degree supervisors should also be held responsible for having allowed poor strategies to be pursued; strategies are usually only known to be brilliant or disastrous after the event, and in a market economy it is questionable how far supervisors should interfere. Failures may arise on the output side, as a result, for example, of mistaken or too rapid excursions into new geographic or product areas; from the episodes surveyed in the Appendices to this study, the rush to expand has been perhaps one of the most common causes of failure. Failure may also arise on the input side, as a result of failure to rationalise staff, to inculcate new management culture, to utilise information technology effectively or otherwise to organise and to operate effectively.

Latter (1997) also highlights some of the common operational failures as follows:

(a) **Poor credit assessment**

Despite the many and varied factors identified in this paper as contributing to banking crises, failure to make an accurate assessment of credit risk and to price accordingly is perhaps still the single most common cause of problems in banks.

Often this factor is particularly linked to the macro-economic cycle. As recently noted by the Bank of England “… often … in periods of economic growth, banks have concentrated on expansion of the balance sheet. With a combination of optimism about the economic future and competitive pressure to maintain market share, rigorous credit assessment takes second place … so that subsequent problems are more severe than they need be… New business is worth booking only if it is good business” (Bank of England, Financial Stability Review, 1997).

An associated problem is that of so-called adverse credit selection (McConnachie, 1997). If banks pay insufficient heed to the pricing of risk, they may be tempted to deny credit to the more cautious customers, who perhaps set prudent upper limits on the interest rate which they feel able to pay, while granting credit to more speculative ventures which declare a readiness to meet higher interest charges, but where the risk of default is disproportionately greater.

(b) **Interest rate or exchange rate exposures**
These exposures may result in losses, but ought to be limited by internal or supervisory controls - for example, risk reduction and hedging instruments in the case of foreign exchange exposure, depending on the prevailing circumstances. Sharp shifts in macro-economic policies or circumstances (as mentioned above) may, however, provoke losses on this account beyond the usual tolerance of regulatory limits.

(c) Concentration of lending, and connected lending

Again, as in (b), controls should be in place, but in some countries individual banks either have long-standing links to particular customers or economic sectors, or have been established in the more recent past specifically with such close links in mind (Latter, 1997). Such concentrations have been shown historically to be a source of problems, and steps should be taken, where possible, to reduce any such dependence. In the developed countries, ceilings on loan concentration are clearly specified and enforced.

(d) New areas of activity

New activities, such as the trading of derivatives, may be imperfectly understood by senior management (and often by supervisors too), especially in countries where expertise is thinly spread (McConnachie, 1997).

This indicates a need to proceed only step-by-step into new areas, but does not necessarily constitute a case for indefinite prohibitions.

In Zimbabwe, bank executives of failed banks were involved in unfamiliar territory such as cattle trading, and other non-core business which resulted in them being highly exposed.

(e) Unauthorised trading or position-taking, associated with a failure of internal controls

This appears to have become an increasingly worrying source of bank losses (either directly or in subsidiary companies) or ultimate failure. In each of the cases of Barings, Jardine Fleming, Morgan Grenfell and Daiwa, a single maverick individual seemed to be responsible for losses (McConnachie, 1997).

The losses in the region of $3 billion in the copper market, revealed in 1996 by the Sumitomo Corporation and apparently incurred by one trader, is another illustration of this danger; although Sumitomo Corporation is not a bank, there could have been knock-on
effects to financial institutions (Bank of England, Financial Stability Review, 1997)

(f) *Other operational failures*

Problems may arise from a variety of other sources. The following are examples:

- poor quality of staff, or low experience, as a result of high staff turnover or too rapid expansion of business
- deficient management structure with insufficiently clear lines of oversight and responsibility
- inability or reluctance to control costs
- reward structure for staff that encourages excessive risk-taking
- inadequate documentation, recording and audit trails
- over-reliance on IT systems, without adequate back-up, without sufficient trialling and verification, without proper audit arrangements, or without management understanding enough about the systems
- absence of contingency plans to deal with either external or internal emergencies


Although some of these may not be regarded as prime causes of crises, they may nevertheless exacerbate existing problems or serve as the "last straw" in precipitating a crisis.

(g) *Fraud and Corruption*

Some of the cases cited in (e) above may amount to fraud by particular dealers or traders - depending on how legalistic a definition one adopts. There have also been instances of major frauds (such as the Bank of Credit and Commerce) perpetrated by the management or pervading the whole structure, rather than being the work of just one or two errant employees.

Employees, management or outsiders may all be susceptible to corruption or capable of fraud in a bank; and there are many possible channels for fraud – an obvious one in the present day is computer systems.

(h) *Corporate Governance*
(Maritz 2010:33) quotes Sir Adrian Cadbury on the definition of corporate governance: “Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals… the aim is to align as nearly as possible the interests of individuals, corporations and society” (Sir Cadbury, World Bank Report, 1999).

The essence of corporate governance is controlling the point at which the separation of the principals’ (the owners/shareholders) and the agents’ (management) perspectives could create a conflict of interests. This is called the agency problem. The solution to the agency problem is to find ways to benefit shareholders and stakeholders where the shareholders get positive returns on their investment and managers protect the corporate resources and profits of the shareholders (Maritz, 2010).

Corporate governance sets down guidelines to discipline organisations and ensure that the goals of owners and managers are aligned, thereby setting the organisation on the road to sustainable success.

Maritz (2010) states that corporate governance is related to strategy in several ways:

- The organisational vision and mission should be reflected in its strategy; by doing so an organisation sets the scene for responsible business aims, practices and general conduct
- Economic, social and environmental objectives have to be formulated as part of organisational strategy – this ties in with a balanced view of profitability and performance
- The execution of strategy should be monitored and controlled by management and the board of directors
- The board should ensure that executives are appropriately penalised for failure or rewarded for success (Maritz, 2010:34)

One critical element of governance in organisations is that of ethics. Recent moral lapses in international businesses such as Enron led to a new wave of government legislation which is geared towards holding Chief Executive Officers and Chief Financial Officers accountable for the actions of their colleagues and guarding ethical business practices.

In Zimbabwe, there were also moral lapses when more than ten financial institutions collapsed and one of the main reasons was violation of corporate governance principles. Some of this violation included loans to insiders in excess of set prudential limits, some of
which were not adequately secured. In addition, some of the directors of these banks carried on the business of the bank recklessly, with gross negligence and intent to defraud the depositors, according to a Panel of Experts which had been set up by the central bank to investigate the causes for bank failures in Zimbabwe.

Business ethics should be considered within the governance of an organisation with specific focus on strategy. From a corporate governance perspective, one of the critical responsibilities of top management is to create and maintain a positive moral environment. Due to the collapse of some prominent European and American organisations, specific guidelines were needed to focus on governance issues. This resulted in the publication of the Cadbury Report. This report highlighted the desirability of corporate governance and argued for a clearly-accepted division of responsibilities at the head of a company. Good corporate governance should ensure that there is adequate control over strategy, direction and operations of an organisation for it to achieve its overall objectives.

Below are the characteristics of good corporate governance:

- **Discipline.** Corporate discipline is a commitment by a company’s senior management to adhere to behaviour that is universally recognised and accepted and proper. This was one area where bank executives of collapsed banks came short. Their behaviour, as confirmed by the results of the findings by the Panel of Experts and also through this study, was unethical.

- **Transparency.** Transparency is the ease with which an outsider is able to make meaningful analysis of a company’s actions, its economic fundamentals and the non-financial aspects pertinent to that business. The audit reports and also central bank reports about failed banks confirmed lack of transparency in the operations of these banks.

- **Independence.** Independence is the extent to which mechanisms have been put in place to minimise or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or a large shareholder. These mechanisms range from the composition of the board to appointments to committees of the board and external parties such as auditors. In most of the failed banks, most of the board appointees were close friends and relatives and hence there was no independence on the board.

- **Accountability.** Individuals or groups in a company who make decisions and take actions on specific issues need to be accountable for their decisions and actions. Mechanisms must exist and be effective to allow for accountability.
• **Responsibility.** With regard to management, responsibility pertains to behaviour that allows for corrective action and for penalising mismanagement. This was also lacking at most of the failed banks.

• **Fairness.** The systems that exist within the company must be balanced in taking into account all those that have an interest in the company and its future. The rights of various groups have to be acknowledged.

• **Social responsibility.** A well-managed company will be aware of and respond to social issues, placing a high priority on ethical standards.

Failure in corporate governance is a real threat to the future of every company (Maritz, 2010). Corporate governance is about strategic leadership, impelling management to lead responsibly with the view to a better future for all role players. This study established that one of the reasons for the failure of local banks was violation of the above-stated corporate governance principles.

### 2.5 OVERVIEW OF BANKING CRISES IN DIFFERENT COUNTRIES

#### 2.5.1 Introduction

The collapse of Lehman Brothers in September 2008 almost brought down the world’s financial system. It took huge taxpayer-financed bail-outs to shore up the industry (Economist, 2013).

The publication states that the crisis had multiple causes. The most obvious were the financiers themselves. In addition, Central bankers and other regulators also bear blame, for it was they who “tolerated this folly”. The macro-economic backdrop also played a part in causing the crisis.

The “Great Moderation” years of low inflation and stable growth fostered complacency and risk-taking. A savings glut in Asia pushed down global interest rates. Some research also implicates European banks, which borrowed greedily in American money markets before the crisis and used the funds to buy dodgy securities. All these factors came together to foster a surge of debt in what seemed to have become a less risky world.
2.5.2 Financiers as causers of the crisis

The years before the crisis saw a flood of irresponsible mortgage-lending in America. Loans were given out to “subprime” borrowers with poor credit histories who struggled to repay them. These risky mortgages were passed on to financial engineers at the big banks, who turned them into supposedly low-risk securities by putting large numbers of them together in pools.

Pooling works when the risks of individual loans are uncorrelated. The big banks argued that the property markets in different American cities would rise and fall independently of one another. But this proved wrong (Economist, 7 September, 2013). Starting from 2006, America suffered a nationwide house price slump.

The pooled mortgages were used to back securities known as collateralised debt obligations (CDOs), which were sliced into tranches by degree of exposure to default. Investors bought the safer tranches because they trusted the triple-A credit ratings assigned by agencies such as Moody’s and Standard & Poor’s. This was another mistake. The agencies were paid by, and so beholden to, the banks that created the CDOs. They were far too generous in their assessments of them.

Investors sought out these securitised products because they appeared to be relatively safe while providing higher returns in a world of low interest rates. Economists still disagree over whether these low rates were the result of central bankers’ mistakes or broader shifts in the world economy. Some accuse the United States Federal Reserve Bank of keeping short-term rates too low, pulling longer-term mortgage rates down with them. The Federal Reserve Bank’s defenders shifted the blame to the savings glut - the surfeit of saving over investment in emerging economies, especially China. That capital flooded into safe American-government bonds, driving down interest rates.

Low interest rates created an incentive for banks, hedge funds and other investors to hunt for riskier assets that offered higher returns. They also made it profitable for such outfits to borrow and use the extra cash to amplify their investments, on the assumption that the returns would exceed the cost of borrowing. The low volatility of the Great Moderation increased the temptation to “leverage” in this way. If short-term interest rates are low but unstable, investors will hesitate before leveraging their bets. But if rates appear stable, investors will take the risk of borrowing in the money markets to buy longer-dated, higher-yielding securities. That is indeed what happened (Economist, 7 September, 2013).
2.5.3 From houses to money markets

When America's housing market turned, a chain reaction exposed fragilities in the financial system. Pooling and other clever financial engineering did not provide investors with the promised protection. Mortgage-backed securities slumped in value, if they could be valued at all. Supposedly safe CDOs turned out to be worthless, despite the ratings agencies' seal of approval. It became difficult to sell suspect assets at almost any price, or to use them as collateral for the short-term funding that so many banks relied on. Fire-sale prices, in turn, instantly dented banks' capital, thanks to “mark-to-market” accounting rules, which required them to revalue their assets at current prices and thus acknowledge losses on paper that might never actually be incurred.

Trust, the ultimate glue of all financial systems, began to dissolve in 2007 - a year before Lehman's bankruptcy - as banks started questioning the viability of their counterparties. They and other sources of wholesale funding began to withhold short-term credit, causing those most reliant on it to founder. Northern Rock, a British mortgage lender, was an early casualty in the autumn of 2007.

Complex chains of debt between counterparties were vulnerable to just one link breaking. Financial instruments such as credit-default swaps (in which the seller agrees to compensate the buyer if a third party defaults on a loan) that were meant to spread risk
turned out to concentrate it. AIG, an American insurance giant, buckled within days of the Lehman bankruptcy under the weight of the expansive credit-risk protection it had sold. The whole system was revealed to have been built on flimsy foundations: banks had allowed their balance-sheets to bloat (see Figure 2.5), but set aside too little capital to absorb losses. In effect, they had bet on themselves with borrowed money, a gamble that had paid off in good times but proved catastrophic in bad.

2.5.4 Regulators as causers of the crisis

Failures in finance were at the heart of the crash. But bankers were not the only people to blame. Central bankers and other regulators bear responsibility, too, for mishandling the crisis, for failing to keep economic imbalances in check and for failing to exercise proper oversight of financial institutions.

The regulators’ most dramatic error was to let Lehman Brothers go bankrupt. This multiplied the panic in markets. Suddenly, nobody trusted anybody, so nobody would lend. Non-financial companies, unable to rely on being able to borrow to pay suppliers or workers, froze spending in order to hoard cash, causing a seizure in the real economy. Ironically, the decision to stand back and allow Lehman to go bankrupt resulted in more government intervention, not less. To stem the consequent panic, regulators had to rescue scores of other companies (Economist, 7 September 2013).

But the regulators made mistakes long before the Lehman bankruptcy, most notably by tolerating global current-account imbalances and the housing bubbles that they helped to inflate. Central bankers had long expressed concerns about America’s big deficit and the offsetting capital inflows from Asia’s excess savings. Ben Bernanke highlighted the savings glut in early 2005, a year before he took over as chairman of the Federal Reserve Bank from Alan Greenspan. But the focus on net capital flows from Asia left a blind spot for the much bigger gross capital flows from European banks. They bought lots of dodgy American securities, financing their purchases in large part by borrowing from American money-market funds.

In other words, although Europeans claimed to be innocent victims of Anglo-Saxon excess, their banks were actually in the thick of things. The creation of the euro prompted an extraordinary expansion of the financial sector, both within the euro area and in nearby banking hubs such as London and Switzerland.
Moreover, Europe had its own internal imbalances that proved just as significant as those between America and China. Southern European economies racked up huge current-account deficits in the first decade of the euro, while countries in northern Europe ran offsetting surpluses. The imbalances were financed by credit flows from the euro-zone core to the overheated housing markets of countries like Spain and Ireland. The euro crisis has in this respect been a continuation of the financial crisis by other means, as markets have agonised over the weaknesses of European banks loaded with bad debts following property busts (Bank of England, Financial Stability Review, 1997).

Central banks could have done more to address all this. The Federal Reserve Bank made no attempt to stem the housing bubble. The European Central Bank did nothing to restrain the credit surge on the periphery, believing (wrongly) that current-account imbalances did not matter in a monetary union. The Bank of England, having lost control over banking supervision when it was made independent in 1997, took a mistakenly narrow view of its responsibility to maintain financial stability (Bank of England, Financial Stability Review, 1997).

Central bankers insisted that it would have been difficult to temper the housing and credit boom through higher interest rates. Perhaps so, but they had other regulatory tools at their disposal, such as lowering maximum loan-to-value ratios for mortgages, or demanding that banks should set aside more capital.

Lax capital ratios proved the biggest shortcoming. Since 1988, a committee of central bankers and supervisors meeting in Basel has negotiated international rules for the minimum amount that capital banks must hold relative to their assets. But these rules did not define capital strictly enough, which let banks smuggle in forms of debt that did not have the same loss-absorbing capacity as equity (Bank of England, Financial Stability Review, 1997).
Under pressure from shareholders to increase returns, banks operated with minimal equity, leaving them vulnerable if things went wrong. From the mid-1990s they were allowed more and more to use their own internal models to assess risk - in effect, setting their own capital requirements. Predictably, they judged their assets to be ever safer, allowing balance sheets to balloon without a commensurate rise in capital (see Figure 2.5).

The Basel committee also did not make any rules regarding the share of a bank’s assets that should be liquid. And it failed to set up a mechanism to allow a big international bank to go bust without causing the rest of the system to seize up (Bank of England, Financial Stability Review, 1997).

The regulatory reforms that have since been pushed through at Basel read as an extended *mea culpa* by central bankers for getting things so grievously wrong before the financial crisis. But regulators and bankers were not alone in making poor judgments. When economies are doing well, there are powerful political pressures not to rock the boat. With inflation at bay, central bankers could not appeal to their usual rationale for spoiling the party. The long period of economic and price stability over which they presided encouraged risk-taking. And as so often in the history of financial crashes, humble consumers also joined in the collective delusion that lasting prosperity could be built on ever-bigger piles of debt (Economist, 7 September, 2011).
2.5.5 Sberbank study of banking crises

In their study, Sberbank 2009, (Economist, 7 September 2011) reviewed 11 banking crises of the past 30 years, both in well-developed and emerging markets. They looked at the causes of these crises, their development, the measures taken by the governments and their effectiveness in resolving the crises, measured in time and the cost for the government.


They found that the common strategy for resolving crises in all countries included nationalisation of major banks, which turned out to be extremely efficient from the point of view of resolution time and costs.

Apart from nationalisation, Sweden and Finland created companies to work with bad debt and introduced guarantees on bank liabilities. Chile managed to avoid nationalisation, keeping the banks solvent and creating incentives for recognising and working with bad debt via a debt purchase programme with temporary buyouts at par value.

Korea resolved the problem of toxic assets and only partially nationalised banks, thanks to a newly-formed Korean Asset Management Company that followed strictly-defined guidelines. Unlike Chile, Korea acquired bad debts at a significant discount to their book value, which contributed to the emergence of a private market for bad debt. The resulting undercapitalisation, caused by selling debt below book value, was compensated by recapitalisation using public funds.

In Mexico, Indonesia, Argentina and Japan, the crisis resolution policies mentioned above were not effective. They failed to find efficient instruments to eliminate bad debt or did it too late. The banking sector remained weak after the crisis and economic growth was renewed only after improvement in terms of trade.

2.6 BANKING CRISIS IN ZIMBABWE

2.6.1 Overview

Given the extensive, illuminating debate on the characteristics and probable causes of banking crises in various countries in recent decades, the focus now shifts to the banking
crisis in Zimbabwe. There have arguably been many theories about what caused the Zimbabwean bank crisis during the period under review.

The Reserve Bank of Zimbabwe (RBZ), blamed the entrepreneurial bankers whose behaviour was "untoward, and their failure to adhere to corporate governance principles in pursuit of personal gain, as well as lax supervision and surveillance regime."

On the other hand, from the discussions with the executives of failed banks, they blame the Reserve Bank, saying that some of the executives at the central bank had personal scores they wanted to settle with them because of jealousy. They also blame the macro-economic environment which had become extremely volatile and very difficult to operate under.

The other school of thought blames the political environment which they said had made Zimbabwe an unattractive investment destination.

However, Makoni (2011) argues that the real cause of the banking crisis in Zimbabwe was the regulator or the central bank. He supports his argument by his analysis of the new Monetary Policy Statement which was introduced by the new Governor in December 2003. He states that it was this Monetary Policy Statement which precipitated the bank crisis in Zimbabwe.

The debate on the causes of bank crises has resulted in blame shifting between the affected bankers and the regulatory authorities. Banking crises are not as infrequent as may first appear (Makoni, 2011). For example, Glick (1999) carried out a survey on ninety banking and currency crises in both developed and developing countries, from 1975 to 1997. In another paper (Beim, 2001), it is noted that researchers from the World Bank have reported 113 banking crises in 93 countries for the period 1975-1999. This implies an average of five banking crises per year over that time period 1975 to 1999.

The affected bankers and analysts have doubted this explanation as the main cause of the crisis. It should be noted that there is an asymmetry of information, as the central bank has access to all media platforms, while it has put a gag order on bankers speaking to the press. On the other hand, prudential regulations and bank supervision, as well as insufficient expertise in the regulatory institutions, increase the probability of banking crises (Makoni, 2011).
Zimbabwe did not have sufficient banking regulations and expertise at bank supervision (Monetary Policy Statement, 2003). The Banking Act was enacted in 1998 and has subsequently been reviewed about three times since then. Prior to this, a 1965 Banking Act governed the banking sector. (Makoni, 2011) argues that the central bank had “no teeth” and was learning the ropes along the way. Prior to the outbreak of the banking crisis in Zimbabwe, banking supervision and surveillance were lax. This was confirmed by the Governor of the Central Bank in his Monetary Policy Statement of December, 2003.

There was an excessive optimism about lending to rapidly-expanding indigenous companies and speculative property developers whose booming output and rapidly-rising collateral values gave banks a false sense of security. Firms became highly geared.

The boom in lending led to an increased demand for products, which resulted in an asset price bubble. This credit expansion was based on unrealistic prices and price trends of the assets, which could be reversed by any macro-economic downturn that would cause the asset bubble to burst. Retrospectively, it is evident that banks riding on the wave of optimism over-lend to projects with no long-term prospects, increasing their vulnerability.

In mid-2003 a number of conservative banks, which included mainly the foreign-owned banks, came under fire from shareholders and analysts for comparatively poor performance against the aggressive indigenous banks. These banks were very conservative in terms of their lending policy. However, on the other hand, the aggressive competition for market share also led to excessive lending. This competition reduced the stringent lending regulations, increasing incidences of non-performing loans.

In his maiden Monetary policy statement, The Reserve Bank Governor bemoaned the “…destructive effects of the widespread corporate incest, untoward behaviour and financial cannibalism that had entrenched itself in our midst, spurred by the gratuitous subordination of corporate governance norms in pursuit of personal gain as well as lax supervision and surveillance regime” (Monetary Policy Statement, 2004:10).

The Governor highlighted some of the key challenges in the financial services sector as follows:

Major handicaps that have resulted in protracted liquidity and solvency challenges at some financial institutions have largely encompassed a combination of the following factors:
(a) Extensive diversion of management’s attention from the day-to-day running of the financial institutions, with more focus placed on running of commercial enterprises outside the task of running their banking-related jobs.

(b) High prevalence of insider loans typified by generous advances to bank’s directors, management or associated corporate.

(c) Failure by some banks to widely diversify the shareholding structures of their banks, leading to undue influence on the day-to-day operations by owner managers.

(d) Imprudent credit risk management frameworks marked by over-concentration of lending to a few associated groups of companies, effectively increasing default risk, as well as hampering a wider positive credit impact on other economic activities for achievement of a broad-based supply response.

(e) Evasion from core banking business and tying disproportionately large sums of depositor’s funds in speculative activities, thereby exposing their businesses to high risk of asset price bubbles.

(f) Deliberate utilisation of local currency liquidity in purchases of foreign currency from the illegal parallel and underground foreign exchange markets for funding of offshore activities and accounts.

(g) Inadequate Board oversight, aggravated by cross-sitting of the same directors on more than one board of several financial institutions, which increased room for conflict of interest.

(h) Weak controls, guidelines, procedures and bank-wide risk management frameworks.

The Central Bank Governor argued that it was the central bank’s mandate to ensure that these limitations were cleared, so as to build market confidence in the financial services sector.

To this end, the central bank took the following corrective measures:

- Placement of some financial institutions under curatorship management
- Enforcement of board and management changes
- Establishment of the Troubled Bank Fund under which support to distressed banks was given to enable them to reposition their balance sheets
- Closure of some institutions where the degree of insolvency was beyond reach of any salvage measures

Furthermore, the Central Bank Governor responded to critics who felt that his policies were anti-indigenisation drives that the government had introduced, since they mainly affected local banks.
He clearly stated that the central bank support for indigenisation would not imply that “… we cast a blind eye at indiscipline or create a separate or softer banking code for one class of banks while insisting on international best practice on others. We thus strongly reject the notion that tries to equate indigenisation with unsound corporate culture, cosmetic management, technical mismanagement and fraud.” (Monetary Policy Statement, 2004: 22).

The Governor clearly stated that some banks would fail and this led to panic in the market. As a result, there was a massive bank run on indigenous banks because the market interpreted the Governor’s statement to mean that indigenous banks were not safe (Makoni, 2011).

The central bank is the banker of last resort. However, the Governor withdrew the overnight accommodation window and failed to assure the nation as a guarantor. As a result, banks were exposed. The Governor directed banks to unwind their positions overnight, lest they found themselves in a liquidity crisis with high punitive accommodation rates offered by the Reserve Bank backed by tough conditions.

Access to the interbank market for the affected banks was closed, as other banks feared a contagion effect and the central bank threatened to ring-fence the affected banks.

International financial institutions such as the International Monetary Fund (IMF), the World Bank and other external lenders or financiers were not able to assist Zimbabwe because they were not happy with the economic policies that prevailed during the period under review.

Most of the top corporate accounts moved from indigenous to foreign-owned banks. This resulted in a massive depositor flight, thereby creating a banking crisis.

Beim (2001) argues that a change in leadership is one of the major triggers of banking crises. In most cases, this normally refers to change in political leadership. However, in the Zimbabwean situation, (Makoni, 2011) argues that the change of leadership at the central bank triggered the banking crisis.

The central bank accused bankers of speculative activities and unethical behaviour and directed them, as stated above, to unwind their positions overnight. A punitive overnight central bank accommodation at 400% per annum was introduced.

However, when the market players had been forced to unwind their positions overnight, the offloading of their investments such as properties, land, vehicles and stock exchange
holdings flooded the market, leading to a crash of the stock exchange and property markets. Economists call this an asset price burst.

The credit squeeze imposed by the Governor led to a credit crunch, further reducing the banks’ earning capacity. The resultant massive depositor flight further worsened the banks’ liquidity position. Most of the banks, particularly local banks, had to resort to exorbitant central bank accommodation in order to survive the liquidity crisis.

It can be argued that the central bank worsened the situation by charging highly prohibitive interest rates. How, then, could the lender of last resort claim to be trying to save a bank which has a liquidity crisis by imposing harsher repayment terms than the market? The high interest rates charged by the central bank made it very difficult for the banks to charge competitive rates to the customers.

On the other hand, the central bank offered Productive Sector Financing which was mainly aimed at the agriculture and mining-related activities at concessionary rates to industry at 30% per annum compared to 400% per annum from commercial banks. Consequently, the central bank became a competitor to the banks. The banks lost their best customers, the corporate customers, to the central bank.

The central bank citing international best practice, issued stringent corporate governance directives that forced owner-managers out of their businesses, despite the controversies, contradictions and lack of consensus that fill the literature on corporate governance.

Barth (2001:3), after empirical research on bank regulation and supervision, categorically states, “There is no evidence that the best practice currently being advocated by international agencies are best, or even better than alternative standards, in every country”.

(Makoni, 2011) argues that best practice cannot be generalised. There are examples of banks with owner-managers such as Sandy Weil who was the major shareholder and Chief Executive Officer of Citicorp, with strong managerial control.

The central bank has the Governor as both Chief Executive Officer and Board Chairman. The central bank had four executive directors (the Governor and his three deputies) and four independent directors during the period under review.

It is interesting to note that the central bank required all banks to have more independent directors and a non-executive chairman of the board and yet, as the regulator, the bank did not follow the same corporate governance principle.
The central bank was also involved in the violation of corporate governance through the “heavy involvement” of the Governor in the affairs of one of the banks which was an amalgamation of failed banks called Zimbabwe Allied Banking Group. The central bank was the main shareholder in this institution and this was no different from the way the owners of the failed banks had behaved.

The Governor insisted on banks focusing on core business and issued stringent guidelines. In this regard, Makoni (2011) argues that there are no beneficial effects observed from restricting the mixing of banking and commerce. He further states that forbidding this is associated with a greater financial fragility and bank instability.

He concludes by stating that the real trigger for the banking crisis in Zimbabwe was the overzealous actions of the newly-installed Central Bank Governor. There have been allegations of personal agendas underlying his motives. It is not easy to discount this when one considers the issues of unfair treatment of banks in similar situations, such as Metropolitan Bank which had been implicated in corporate governance failure and fraudulent activities through Grain Marketing Board bills, but there was no action taken by the central bank. CFX Bank was allowed to continue trading, even though the bank was under curatorship (Makoni, 2011).

It can be argued that, though the financial services sector was fragile due to the economic climate that prevailed in the country at that point in time, the situation might not have taken the crisis route, had the new Governor used a different approach. A case in point is Malaysia and Norway where the bad debts were ring-fenced and acquired by a state agency which enabled the banks to survive and be recapitalised.

The regulatory authorities in Zimbabwe caused a depositor flight, refused to accommodate banks, issued stringent regulations and directives, which weakened the bank’s profit margins, as well as restricting their ability to mobilise resources. They further plunged the financial services sector into chaos by withdrawing huge amounts of funds from the financial market during a tight liquidity crisis, further worsening the situation (Makoni, 2011).

2.6.2 Monetary Policy Statement: 2006
The country was faced with high inflation, limited foreign exchange availability, rising unemployment, company closures, declining productivity, very low industrial capacity utilisation, diminishing economic patriotism and growing selfishness among Zimbabweans.
There was certainly war between business and politics, as evidenced by the Governor of the Reserve Bank in his Monetary policy statement when he stated that “…Unless politics appreciates business and business appreciates the politics of the day, we will be on this arduous journey for a very long while…” (Monetary Policy Statement 2006: 4)

The Governor in his Monetary statement admitted that “the central bank should not micro-manage or compete with market institutions in the allocation of resources”. However, he argued that “we continue to call all Zimbabweans to realise that these are not ordinary times for Zimbabwe to entwine itself with orthodox solutions. We are coming out of a serious dislocative land revolution whose consequences we shall endure for a while before we are totally forgiven by the dispossessed of yesterday and normalcy returns…” (Monetary Policy Statement, 2006: 6).

The Governor highlighted numerous challenges that the country was facing, which included sanctions, lack of foreign exchange availability, lack of international financial support, and justified that the quasi-fiscal intervention was the only survival kit against total economic collapse.

He argued that “…faced with these challenges we could not ….we cannot and we will not stand by as your Central Bank and let this economy crumble, simply because our interventionist policies will go against the grain of certain established norms” (Monetary Policy Statement 2006:6).

The Governor argued that Zimbabweans should be authors of a new economic development model. It was also clear that the central bank admitted that the role they were playing was also better played by institutions such as the Infrastructure Development Bank of Zimbabwe when it came to the building of dams and other infrastructure projects.

The Reserve Bank Governor identified three vices that he said weighed down the economy and these were indiscipline, corruption and speculation. He also added the fourth one which was bureaucratic inertia, which involved inefficiencies from various government departments in implementing programmes. Indiscipline had to do with the externalisation of foreign currency, under-declaration of exports, overstatement of imports, looting and destruction of farm equipment.

On the other hand, the central bank came under immense criticism from the other sectors of society which resulted in the Governor responding “…that it is clear to me that the venomous attacks by some of our armchair critics and boardroom analysts seeking to convince the most gullible among us in their eloquent technical jargon, and retrogressive never-see-good
forecasts which seek to lay blame for all our evils on one institution are nothing more than …pseudo-economic intellectualism feeding from reckless dishonesty..” (Monetary Policy Statement, 2006:17).

However, the Central Bank Governor admitted that as monetary authorities they were also not without blame. “We may have underperformed in our policy formulation and advice to Government, but are ready to make good our shortcomings…” (Monetary Policy Statement, 2006:18).

2.6.3 Appointment of a panel to investigate the causes of the bank crisis

Following the disruptive liquidity crisis, insolvency and other forms of acute corporate governance deficiencies which befell a number of banking institutions in 2004, the Reserve Bank of Zimbabwe decisively and swiftly moved in with corrective measures which sought to achieve the following main objectives:

- To protect the economic interests of depositors
- To protect the economic interests of creditors
- To avert a fully-fledged systemic financial crisis which, had it been allowed to unfold without control, would have dealt a devastating blow to the Zimbabwean economy and society specifically and to the Southern African region and greater world in general
- To comply with increasing and generally-accepted regional and international conventions on good corporate governance, accountability, anti-money laundering laws and the fight against global terrorism. (Reserve Bank Supplement 5 May: 2004:1)

The central bank constituted a panel of experts to make an in-depth enquiry and assessment into the entirety of what had transpired in the failed banks.

The panel comprised the following people:

- Retired Zimbabwean High Court Judge George Smith (Chairman)
- Retired Judge of the Supreme Court of South Africa, Mervyn King S.C.
- Mr David Phiri, former Governor of the Bank of Zambia
- Mr David Mutambara, Executive Director of the Zimbabwe Institute of Directors
- Mr Patison Sithole, President of the Confederation of Zimbabwe Industries
- Mr Luxon Zembe, President of the Zimbabwe National Chamber of Commerce.
The findings of this panel were as follows:

- Failure to adhere to set or prescribed regulatory procedures
- Rapid expansion of the bank with no proper internal controls and early warning systems
- Poor management information systems which compromised the integrity of the bank's financial records
- Poor asset and liability management manifested through the investment of short-term funds in illiquid assets which included furniture, real estate property, bricks and fridges, as well as shares on the Stock Exchange. These transactions were being conducted via the holding company at a time when the bank was already experiencing serious liquidity constraints
- The bank was, thus, operating outside the confines of the Banking Act and Regulations through engaging in non-banking activities via a wholly-owned special purpose vehicle
- Exposures on loans and advances substantially in excess of agreed facility limits
- Failure to take adequate security on loans to debtors
- Loans to insiders in excess of set prudential limits, some of which were not adequately secured
- Some of the directors of these banks carried on the business of the bank recklessly, with gross negligence and intent to defraud the depositors
- Some of the directors did not adhere to sound corporate governance principles
- The structures at the bank fell far short of the targets
- Some of the directors did not adhere to proper risk management principles
- Some of the directors sought to advance their personal interests ahead of those of the bank

The Central Bank Governor during the era under review identified what he described as four types of mismanagement, from research done by Aristobulo de Juan, which took place at the failed banks. These were technical mismanagement, cosmetic mismanagement, desperate mismanagement and fraud. (Reserve Bank of Zimbabwe Publication, 2005 : 7)

He argued that these types of mismanagement do not have to occur in a sequential manner, but when technical mismanagement leads to losses or to the need for dividend reduction, it frequently unleashes cosmetic and desperate forms of management.
Fraud may be part of the dynamics that make good managers become bad managers. Illiquidity comes at the end of the process. In the meantime, the bank in question may have lost its capital several times.

Technical mismanagement may involve a whole variety of inadequate policies and practices. The most relevant ones are over-extension, poor lending practices, lack of internal controls and poor planning in the areas of business and management.

Cosmetic mismanagement consists of hiding past and current losses to buy time and remain in control while looking and waiting for solutions. Typical procedures include systemic rollovers, capitalisation of interest and fictitious or unrealistic collateralisation.

Desperate management refers to a situation where bankers see themselves in danger of having to declare a capital loss or having to pay no dividends. At this stage the banker, besides indulging in cosmetics, will look for business that may permit him to buy time and make up for the previous deterioration.

The main practices followed under these attitudes are speculation, paying above market rates for deposits and charging high interest rates to borrowers.

Fraud may have been one of the causes of losses for a bank at that stage. When illiquidity approaches and a banker feels that the end may be near, the banker may be tempted to divert money out of the bank. Typical channels for diverting or siphoning money out of the bank when the banker realises the writing is on the wall are lending to companies and buying or selling companies that are owned by or connected with the bank officials, shareholders and related parties.

However, the Central Bank Governor admits that there were other aspects of shortcomings to do with the Central Bank itself and the Ministry of Finance, as was then set up. Inadequate Supervision or Supervision without full Authority to institute immediate remedial measures against culprits, political or Ministerial interference against instant remedial measures and a lack of a strong prudential regulatory and legal framework, coupled with inadequate understanding of issues by those who are expected to stand for or instil sound financial systems in their environments, are other causes that promote the decay of uprightness and good corporate governance in financial systems of countries (Reserve Bank of Zimbabwe Publication, 2005:7).

Nevertheless, it can be argued that these factors do create vulnerabilities in the sector, as was experienced in Zimbabwe during the period under review. Market-oriented economic
reforms, accompanied by financial liberalisation, have been positively correlated to banking crises, as they tend to result in an excessive build-up of bank credit and a lending boom leading to asset bubbles, as was also experienced in Zimbabwe (Burdisso, 2002).

Zimbabwe has been through a structural economic reform programme since the early 1990s, at the insistence of the international financial community such as the International Monetary Fund (IMF).

It has been reported that financial liberalisation and deregulation resulted in financial fragility, owing to inadequate bank regulation and supervision in the Asian Crisis (1997) and Mexican Crisis (1994). This was further compounded by the massive brain drain, as professionals emigrated to countries where salaries were more competitive and the economic climate habitable. The brain drain during the period under review was estimated at 20.2% (Journal of Sustainable Development in Africa, 2012). This meant that the risk assessment capabilities, as well as the managerial competencies of some of the banks, were heavily compromised.

Hyperinflationary environments tend to increase bank vulnerabilities to crises (Makoni, 2011). (Boyd, 2000:12) argues that inflation lowers the real rates of return, resulting in a smaller pool of savings while increasing the power of borrowers. This happens because lower real rates of return reduce the attractiveness of savings while increasing the attractiveness of borrowing.

Most of the local banks aggressively promoted borrowing and this increased the exposure of banks. Unfortunately, savings declined during the same period because of negative interest rates caused by the hyperinflationary environment. The inflation rate was now in excess of hundreds of millions, as highlighted in Chapter 1 above. Lower savings resulted in the dissipation of cheap sources of funds and banks were forced to source expensive money, since depositors were asking for high interest rates which could match the inflation rate.

Consequently, banks had to invest in high return investments to meet the high interest rates which were being demanded by the customers, so they could mobilise resources for lending to the customers.

Therefore, one can argue that the speculative investments that were made by these bankers were a reflection of market realities and necessary for bank survival (Makoni, 2011). These
market realities were not caused by bankers but by policy-makers, as highlighted in Chapter 1. The hyperinflationary environment thus eroded the banks’ capital.

The central bank then decided to increase the statutory reserves in response to the hyperinflationary environment. This increased the cost of funds to the banks which was then passed on to the customers. The central bank responded by directing banks to reduce their bank charges, and also increase interest rates on deposits. Consequently, this exacerbated the vulnerability of banks by reducing their profit margins.

(Burdisso, 2002:18) contends that high inflation signals poor macro-economic and large fiscal imbalances. However, the central bank blamed banks for fuelling inflation through speculative activities (Monetary Policy Statement, 2006).

(Corsetti,1999:8) found that countries with huge current account deficits or imbalances based on balance of payments develop an external competitiveness problem leading to a currency crisis. He further argued that currency depreciation and external imbalances imply a causative role of current account problems in the banking crises. Zimbabwe was in a Currency, Growth Debt, trap where currency was overvalued, growth faltering and debt servicing a challenge (Makoni, 2011).

2.6.4 Fixed Exchange rate and the creation of a parallel market
For six years prior to December 2003, the central bank had maintained a fixed rate of exchange and yet there was an acute shortage of foreign currency. This resulted in increased parallel market trading by banks, with the complicity of the central bank.

Most of the country’s economic activities, including fuel and energy procurement, other government departments operations and the 2000 Election, were funded through parallel market funding in which the central bank played an active part as well (Makoni, 2011).

The central bank used market players, mainly merchant and commercial banks, as agents in sourcing the foreign currency for them. (Makoni, 2011) argues that, given the role of the central bank in the parallel market, it can be argued that there was tacit approval of this activity and hence entrepreneurial bankers exploited this and maintained large open foreign currency positions. He further states that it is hypocritical to accuse bankers of trading on the “illegal” parallel market when it was the only market available then. The economic climate
prevailing during the time under review had virtually driven many aspects of the economy to the parallel market.

Some bankers hedged against inflation through speculative foreign currency trading. The fixing of the exchange rate in a hyperinflationary environment created huge vulnerabilities for the banking sector. However, the major adverse impact of both inflation and poor exchange rate management systems by the central bank was the immediate erosion of the capital value of the banks, which led to undercapitalisation of the banks.

2.6.5 Depositor flight
Beim (2001) argues that a banking crisis is triggered by an event that can result in depositor flight. In December 2003, the incoming Central Bank Governor introduced a stringent monetary policy statement and intimated that the banking sector was in trouble (Makoni, 2011).

It also spelt out that some banks would fail and this led to panic in the market. As a result, there was a massive run on indigenous banks. Furthermore, a huge unregulated asset management industry to which some entrepreneurial banks were exposed was suddenly put under pressure for immediate registration with stringent regulations. This again destroyed the confidence in the indigenous financial institutions.

(Makoni, 2011) argues that the change of leadership at the central bank was the trigger of the banking crisis. He states that the new leadership observed the fragility of the industry and publicly acknowledged and aimed to clean up the pre-existing problem. In this way, the central bank leadership sought public approval for solving the problem without giving regard to other fundamentals.

2.6.6 Asset price burst
The Central Bank in December 2003 accused bankers of speculative activities and unethical behaviour and directed them to unwind their positions overnight. As previously stated, a punitive overnight central bank accommodation rate of 400% per annum was introduced.

Once the market players had been forced to unwind their positions overnight, the offloading of their investments such as properties, land and vehicles, amongst others, flooded the
market, leading to a crash of the stock exchange and the property market. This is what is termed an "asset price burst".

This action had the following consequences which were detrimental to the banks’ health:

- bankers sought to withdraw their investments with asset managers, leading to the collapse of most of the asset management companies. The ensuing market panic further increased the exposure of the banks.
- the value of collateral that bankers held collapsed while the inflationary push and interest rate hike increased their indebtedness. An asset-liability mismatch resulted.
- the bankers had to withdraw credit or call in loans. However, borrowers were subject to the vagaries of a runaway economy and most had no means of either immediately repaying the loans or increasing the collateral. This automatically increased the non-performing loan book.
- the credit squeeze imposed by the Reserve Bank led to a credit crunch, further reducing the banks’ earning capacity.
- The resultant massive deposit flight further worsened the banks' liquidity position, as no bank would have a near 100% liquidity cover (Makoni, 2011:47).

From the above analysis, it can be argued that the real trigger for the banking crisis in Zimbabwe was the overzealous actions of the central bank.

2.6.7 Industry Rivalry and Strategy in the banking sector
The banking industry became intensely competitive after deregulation, with concomitant increases in innovative products and service quality.

The increase in the participants in the banking industry resulted in most of the players pursuing differentiation strategies, while a few banks focused on niche marketing (Makoni, 2011). The intense competition also meant that banks were scrounging for top quality bank personnel and this meant that they had to offer highly attractive packages because the demand for top executives and bank managers was very high and yet the supply was very low.

The growth of financial institutions was not matched by a growth in skills and some of the banks ended up with executives who lacked both the skills and experience to drive the
business. In addition, the economic climate that prevailed in mid-2000 made the situation even more challenging for the inexperienced bankers.

Inflation soared to unimaginable levels, rising to levels as high as 230 000 000% in 2008. Demand for traditional banking services declined as inflation and unemployment soared. The unemployment rate in 2008 was 80%. In response to this market trend, some of the banks started to engage in speculative high-return, high-risk investments to compensate for the reduced interest income as a result of the hyperinflation environment.

2.6.8 Cash Shortage crisis
There was a major liquidity crisis in 2004 after nominal interest rates were raised sharply. Since 2001, economic policy had resulted in highly negative real interest rates, leading many banks to become involved in speculative investments, most notably in property and the stock market and also on the foreign exchange market.

The cash shortage crisis, in which bank clients failed to access their money from banks, resulted in loss of confidence in the banking industry. Consequently, some of the companies and individuals started selling cash outside the banking industry. Banks lost much business to these illegal structures that mushroomed outside the banking sector.

There was an explosive growth of non-banking institutions which included micro-financiers who started offering very lucrative returns to “investors” in their industry. These structures illegally converted into deposit-taking institutions. Makoni (2011) argues that this demand from clients for higher returns enticed banks into speculative activities, as they had to satisfy customer demand. On the other hand, some of the large corporations took advantage of the shortage of cash on the market and started lending to each other, circumventing the intermediary role of banks. As a result, banks lost much profit to these large companies, as most customers opted out of the banking system and accessed funds from the structures that had been set up by the different speculators in the industry.

During 2008, the big three foreign banks such as Standard Chartered, Barclays and Stanbic lost customers to the indigenous banks who were now offering high returns on investments from their speculative products. However, later, these indigenous banks lost customers to the unregistered asset managers and micro-finance institutions who offered even better rates and did not apply the ‘know your customer’ (kyc) principle. Some of the banks decided
to compete with these asset management firms head-on and started engaging in similar speculative strategies in order to retain clients.

With weak monitoring powers and the political influence of many of these local banks, the central bank struggled to enforce standards and many of the new banks proved to be financially unsound (Muranda, 2006).

2.7 THE OPERATING ZIMBABWEAN BANKING ENVIRONMENT

The Zimbabwean government embarked on an Economic and Structural Adjustment Programme (ESAP) after 1987. One of the fundamentals of this programme was the financial reforms through liberalisation and deregulation of the financial services sector. The deregulation of the financial services sector brought a dramatic increase of banks in the banking sector. The government wanted to promote black participation in the sector.

The difficult operating environment resulted in further consolidation of the banking sector as banks strategically positioned themselves through restructurings, mergers and acquisitions. The economic environment had become increasingly tough. Banks were forced to review their business models due to the intensity of competition in the financial services sector. The local banks were very flexible in terms of provision of their products and services to the customer. However, it was this flexibility that led to the collapse of most of these local banks.

Some of the banks decided to diversify as a way of hedging themselves against economic challenges and the competition they were facing. This chapter highlighted the fact that diversification might help to spread risk, but it might also add to risk if the new areas of business are clearly more risky, on average, than existing ones. If banks diversify into business beyond the financial sector (directly or via subsidiaries), or if non-banking groups are permitted to establish banks which would, in effect, be daughters or sisters of industrial or commercial companies, regulators may be concerned about possible contagion or reputational damage, as was experienced in Zimbabwe during the period under review, after some of the banks had decided to embark on a diversification strategy.

Banking is regarded as more prone to contagion than are other commercial activities. If a manufacturing business fails, it is generally expected that other manufacturers of similar products will benefit. In banking, however, the opposite may be true, in that problems in one
bank may spread to another, either because of actual financial linkages, for instance through the interbank market, or through confidence effects, whether rational or not. This is the justification for supervision of individual banks in the broader context of systemic stability.

However, as has already been highlighted in this chapter, the central bank failed to play an effective supervisory role in Zimbabwe and reacted too late after the damage had already been done.

This chapter has also attempted to show that the world seems to be continually beset by banking crises of one sort or another and Zimbabwe was not an isolated incident. There have been many theories about what caused the Zimbabwean bank crisis during the period under review.

The Reserve Bank of Zimbabwe (RBZ), blamed the entrepreneurial bankers whose behaviour was “untoward, and their failure to adhere to corporate governance principles in pursuit of personal gain, as well as lax supervision and surveillance regime.”

On the other hand, from the discussions with the executives of failed banks, they blame the Reserve Bank, saying that some of the executives at the central bank had personal scores they wanted to settle with them because of jealousy. They also blame the macro-economic environment which had become extremely volatile and very difficult to operate under.

However, the causes of banking crises can be categorised under several headings: macro-economic instability; deficient supervision; poor strategies; weak management; inadequate control systems; operational failures and fraud, amongst others (Latter, 1997). Whatever the causes, the executives need a coherent strategy for addressing such crises.

In many instances, the problems of a bank have been brought about by the shortcomings of its own strategy or by operational failure, as was confirmed by this research. Some of the bank executives did not have strong risk management systems and procedures, which resulted in them failing to manage risk during the period under review.

The lesson to be learnt for Africa’s banking systems from the crisis is that the growth benefits of financial deepening can only be reaped in a stable macro-economic environment and with the appropriate safeguards framework, both in terms of external regulation and supervision and internal bank governance.
The chapter also identified causes of banking crises and categorised them under the following headings: macro-economic instability; deficient supervision; poor strategies; weak management; inadequate control systems; operational failures and fraud, amongst others. Whatever the causes, the executives need a coherent strategy for addressing such crises.

In many instances, the problems of a bank have been brought about by the shortcomings of its own strategy or by operational failure, according to the Central Bank Governor of the Reserve Bank of Zimbabwe.

It has also been emphasised in this chapter that in principle, bank management and bank supervisors ought to ensure that banks are resilient to shocks such as these within reasonable bounds of probability, hence the objective of this research.

It is hard to draw any solely specific conclusions as to the causes of banking crises. Episodes vary, and often there is more than one factor at work. Macro-economic factors are perhaps too frequently assigned the blame when the real fault lies with banks’ own strategies or operations. However, with reference to the Zimbabwean situation, the debate on the causes of its bank crisis has resulted in blame shifting between the affected bankers and the regulatory authorities.

According to the Reserve Bank of Zimbabwe Governor during the period under review, the following were identified as key causes for the banking crisis in Zimbabwe:

(a) Extensive diversion of management’s attention from day to day running of the financial institutions, with a more focus placed on running of commercial enterprises outside the job of running their jobs.

(b) High prevalence of insider loans typified by generous advances to bank’s directors, management or associated corporate.

(c) Failure by some banks to widely diversify the shareholding structures of their banks, leading to undue influence on the day-to-day operations by owner managers.

(d) Imprudent credit risk management frameworks marked by an over-concentration of lending to a few associated groups of companies, effectively increasing default risk, as well as hampering a wider positive credit impact on other economic activities for achievement of a broad-based supply response.
(e) Evasion from core banking business and tying disproportionately large sums of depositor's funds in speculative activities, thereby exposing their businesses to high risk of asset price bubbles.

(f) Deliberate utilisation of local currency liquidity in purchases of foreign currency from the illegal parallel and underground foreign exchange markets for funding of offshore activities and accounts.

(g) Inadequate Board oversight, aggravated by cross-sitting by the same directors on more than one board of financial institutions, which increased room for conflict of interest.

(h) Weak controls, guidelines, procedures and bank wide risk management frameworks.

There may sometimes be lapses in supervision, but it is not the purpose of supervision to ensure that banks never fail. Unhelpful or ambiguous involvement of government in the banking sector may precipitate or prolong a bank's difficulties. Risk assessment may still be the Achilles heel of many banks. And the growing incidence of maverick, unauthorised or fraudulent trading and the associated failures of internal control systems have perhaps been the distinctive factors to emerge in the current decade (Bank of England, Financial Stability Review, 1997).

2.8 CONCLUSION

Banking in Africa has undergone dramatic changes over the past 20 years. While dominated by government-owned banks in the 1980s and subject to restrictive regulation – including interest rate ceilings and credit quotas – financial liberalisation, institutional and regulatory upgrades and globalisation have changed the face of financial systems across the region.

In spite of the variation within the region, however, there are four specific characteristics that make banking in Africa more difficult than in other regions of the developing world and most of those apply to many, if not all, African economies.

Firstly, the small size of many economies does not allow financial service providers to reap the benefits of scale economies.

Secondly, large parts of the economy and a large share of all economic agents operate in the informal sector and do not have the necessary formal documentation that facilitates financial transactions, such as enterprise registration, land titles, or even formal addresses.
Thirdly, volatility increases costs and undermines risk management. At the individual organisational level, volatility is related to informality and the consequent fluctuations in the income streams of many micro-enterprises and households.

Fourthly, governance problems continue to plague many private and government institutions throughout the continent and undermine not only the market-based provision of financial services, but also reform attempts and government interventions aimed at fixing market failures.

The issues highlighted in Chapter 1 make banking in Africa more challenging than in other parts of the world and increase the need for innovative strategies (Cull and Beck 2013). The prevailing harsh macro-economic and relatively uncertain regulatory environment made survival strategies crucial for all banks over and above the glaring organisational and managerial inefficiencies in a number of banks. This study aims to ascertain how banks survive in turbulent and chaotic environments in emerging markets, with specific reference to Zimbabwe.

Having highlighted the overview of financial crisis in the banking sector in Zimbabwe and Africa in general, the following Chapter is on Literature Review covering the following critical areas on strategy and turbulence:

- Turbulent environment and Chaos theory.
- Managing strategy in a turbulent environment.
- Measuring turbulence.
- Relationship model of the environment, turbulence and strategic planning.
- Strategy under chaotic conditions
- Approaches to strategy and strategic management covering both traditional and modern methods.
CHAPTER 3:

THEORETICAL FRAMEWORK AND LITERATURE REVIEW
3.1 INTRODUCTION

This chapter provides an overview of strategic management under turbulent and chaotic conditions. Each of the main theories is explored in detail. The aim is to provide a substantial foundation for the strategic management development process as a basis for the current research.

Some of the key issues to be covered are as follows:

(i) Turbulent environment and Chaos theory.

(ii) Managing strategy in turbulent environments.

(iii) The Relationship Model of the Environment, Turbulence and Strategic Planning (E-T-S)

(iv) Strategy under chaotic conditions.

(v) Different approaches to strategy incorporating both the traditional and modern approaches to strategic management.

(vi) The description and evaluation of emergent strategic practice.

(vii) Identification of the main theories associated with prescriptive strategic management.

(viii) Identification of the main theories associated with emergent strategic management.

This section of the literature review will trace the development of the various strategic theories, the different approaches to, and applicability of, these theories in a business environment, which should provide a full appreciation of the work that has been covered to date in the domain of strategic management as a basis for the current study.

The main objectives of this section on the literature review is summarised as follows:

(i) To give a critical review of the various strategy theories that have a bearing on the proposed research problem.

(ii) To demonstrate that the proposed research emanates from and is related to the work that has already been done in the field of strategy.

(iii) To systematically identify what is known about the field of strategy, the current state of empirical knowledge about the subject under discussion, and the main assumptions about its nature and the best ways to approach it.

(iv) To draw broad guidelines from this chapter, which will culminate in the research problem and research questions.
This study will attempt to synthesise work already done under the traditional model, identifying gaps, if any, and also work done related to the modern or emergent strategy model, again identifying possible gaps, if any. Accordingly, the focus will be on the theoretical foundation of the field of strategy. This study will therefore start by looking at turbulent and chaotic environments and how strategy is managed under such conditions. The next step will be on the different approaches to strategy, starting with the traditional approach to strategy, moving towards the more recent approaches and their applicability.

In this section, turbulent environment is discussed in more detail.

3.2 TURBULENT ENVIRONMENT

Andrews (1992:47) defines the environment of an organisation as “the pattern of all the external conditions and influences that affect its life and development”.

Turbulent environments have been described as having high levels of inter-period change that creates uncertainty and unpredictability, dynamic and volatile conditions with sharp discontinuities in demand and growth rates, temporary competitive advantages that continually are created or eroded and low barriers to entry or exit that continuously change the competitive structures of the industry (Calantone, Garcia and Droge, 2003).

In defining turbulence, some researchers (Cronje et al.2004) concentrate only on the dynamism in the environment. This involves rapid and unexpected changes in the organisation’s environmental sub-dimensions such as technology, customers, competitors, government regulations and new product launches. Dynamism also implies that an organisation cannot plan and rely on historical data only. Instead, it has to have the ability to foresee future trends (Naidoo, 2006). This definition of turbulence does not take into account economic meltdown, breakdown of societal structures and absence of the rule of law, all of which are prevalent in a developing economy in Africa such as Zimbabwe. Brooks and Weatherston (1997) also found that dynamism is an inherent condition of an environment in that it is continually changing, but the extent of this change varies for different organisations or environments.

Strategy has been defined as the match an organisation makes between its internal resources and skills and the opportunities and risks created by its external environment (Grant, 2001). The environment of an organisation in its most traditional sense is made up of competitors and technological innovations. However, in some of the developing countries in Africa, the environment is more than just technology and competitors. Instead, there are
factors such as economic mismanagement, corruption and the absence of the rule of law and deficient infrastructure.

In a more traditional (from the economist’s) approach of Ansoff (1988), the competitors and technological innovations meant a “knowable environment” that was stable and predictable, with considerably less emphasis placed on innovation (Montuori, 2003).

The relationship between the organisation and the environment also requires further rethinking in the light of recent research (Montuori, 2003). Morin (1994), drawing on systems, cybernetics and complexity theories, discusses the notion of “recursive causality” whereby the environment is acting on the organisation that in turn is acting on the environment.

The organisation is embedded in an environment that affects it, and in turn, the environment is affected by that very organisation, creating an ongoing series of interactive relations. An organisational action alters the environment, even as changes in the environment act on the organisation.

Montuori (2003) argues that to separate the two would, therefore, be a fundamentally reductive and mutilating move. The environment changes so fast that unforeseen events make the plan obsolete or impractical immediately and there is no way of absorbing, incorporating and responding appropriately to change within a planning mindset. This means that the rate of adaptability to the changes in the environment becomes very important if the business is to survive.

Porter’s (1980) highly influential notion of generic strategies provides two ways of developing “competitive advantage” in a changing environment, either through value added to customers, who may pay a premium to cover high costs, or cost-based leadership, offering products and services at the lowest cost relative to rivals. Strategy is defined by the way an organisation is placed in the environment, which in turn is defined in economic terms as being confined to competition within the marketplace. The focus here is on how to place an organisation’s product in the context of the existing environment.

During the 1980s, the main focus was on the link between strategy and the external environment. Prominent examples of this focus are Michael Porter’s analysis of industry structure and competitive positioning (as has already been highlighted above) and the empirical studies undertaken by the PIMS project.

On a more concrete level there are several different concepts used to describe specific sectors of organisational environments - for example, the task environment (Dill, 1958),
domain (Levine and White 1961), territory (Child, 1972), sub-environment (Lawrence and Lorsch 1967) or industry (Porter, 1980). The adaptive perspective about the environment is the most widespread, popular and frequently utilised perspective (Connor, 2006). A quotation representative of this perspective was provided by Miles and Snow (1984: 10): “Successful organizations achieve strategic fit with their environment and support their strategies with appropriately-designed structures and management processes”.

Environments are important to organisations, and in order to be successful, organisations can and must adapt to the demands of the environment (Connor, 2006). An emphasis on adaptation means viewing organisations changing in response to changes in the environment (Carroll and Hannan, 1995). The adaptive perspective suggest that organisations are affected by their environments, according to the ways in which managers or leaders formulate strategies, make decisions and implement them. However, this adaptation does not address the turbulence that is caused by political turmoil, bad governance and absence of the rule of law, as was the case in Zimbabwe. The management of a business environment characterised by political turmoil, economic meltdown and bad governance is a very challenging assignment for business leaders.

Underlying the adaptive perspective, the assumption about the environment is that it is analysable. Organisations do not invent or create their environments because the environment represents an underlying order other than a superimposed one (Connor, 2006). It should be noted from what has already been discussed, however, that the environment is not predictable nor is it easily analysable (Ghemawat, 2002). Therefore, if managers assume the environment to be predictable, it can be very costly for the business because they may use the wrong tools to build a strategic management framework based on an inappropriate type of environment.

For Porter (1980), the key aspect for the firm’s environment is the industry or industries in which it competes, which is decomposed into buyers, suppliers, substitutes, potential entrants and competitors. The industry environment comprises a firm or a business unit and its competitors, operating in the same industry. It consists of a particular set of competitive forces that generate both opportunities and threats and that may change due to the actions of competitors. Porter’s Five Forces model does not contain a focal firm, however, even if the analysis is typically carried out from a strategic business unit’s point of view.

This definition of environment from Porter (1980) is inadequate for a business operating in a turbulent environment in Africa, such as in Zimbabwe, because it does not accommodate
some of the unique forces (which have already been highlighted above) obtaining in
developing economies in Africa.

On the other hand, the other school of thought uses the strategy-structure relationship in
order to analyse the firm’s adaptation to the environment. To be successful, managers cope
with their changes in the environment through the choice of an appropriate strategy and the
design of a suitable organisational structure to implement strategy (Gibbons, Kennealy and
Lavin 2003).

Miles and Snow (1978) proposed a relatively complex typology interrelating organisational
strategy, structure and process variables within a theoretical framework of “fit” or co-
alignment. They proposed that the level of “fit” should contribute to enhanced organisational
performance. This notion of “fit” has been further refined by Miller (1992), who differentiates
between internal and external fit. Internal fit refers to the complementarity that exists
between a firm’s structure and processes. External fit refers to adequacy of the firm’s
strategy to its environment. In an African context, how does the firm’s strategy
accommodate, for example, bad governance, economic or political turmoil? This research
will attempt to prescribe how businesses operating in such unique environments can
strategise.

3.2.1 Managing Strategy in turbulent environments.

Organisational strategy is a summary account of the principal characteristics and
relationships of the organisation and its environment – an account developed for the purpose
of informing decisions affecting the organisation’s success and survival (Winter, 1987:160).
This definition captures the two central elements of strategy research: a focus on the relation
of a firm to its environment, and a normative concern with creating and sustaining
competitive advantage (Subba Narasimha, 2001).

The turbulent environments that firms face because of various environmental factors, pose
thorny problems for firms seeking to achieve sustained competitive advantage (D’Aveni,
1994). Many of the existing strategy models are ill equipped to provide solutions (Subba
Narasimha, 2001). Their insufficiency, can be traced to the assumptions underlying the
industrial organisation economics paradigm that served as the intellectual foundation for
much strategy research (Rumelt et al., 1991; Jacobson, 1992). This paradigm’s assumption
of homogeneity and markets in equilibrium are too grossly unrepresentative of the
organisation and its environment) to be of use in the strategic analysis of firms in turbulent environments (Teece, 1984; Jacobson, 1992).

Conceptualising environments as dynamically heterogeneous suggests a need for corresponding conceptualizations of strategy that can help a firm sustain its competitive advantage. As has already been highlighted above, existing frameworks fall short in this respect (Subba Narasimha, 2001).

The increasingly turbulent environments faced by firms have resulted in efforts to appropriately reformulate existing theories of the firm and in efforts to develop new ones which will enable firms to survive in turbulent and chaotic environments.

### 3.2.2 Environmental Turbulence, Strategic Planning Processes and Effectiveness

McLarney (2003), examined the linkage between the external environment, strategic planning process, and effectiveness of the process. According to the study, which is shown diagrammatically in Figure 3.1 below, the level of environmental turbulence played a role in the configuration of the components and contextual elements of the strategic planning process that in turn played a role in influencing the effectiveness of the strategic planning process.

According to McLarney (2003), there has been no previous research on this particular linkage to show exactly how these three elements related to one another. The model in Figure 3.1 demonstrates that in different levels of environmental turbulence, the components and contextual elements of the strategic planning process will be stressed differently.
Mclarney (2003) argues that in more turbulent environments, the organisation’s strategic planning process would devote more resources to the planning function, be less resistant to
planning, pay more attention to external and internal facets, employ more planning techniques and encourage greater functional coverage and integration. All these were relative to another organisation in a less turbulent environment.

This research model, posited that in relatively turbulent environments, organisations attempt to formulate strategies to deal with the volatility. The strategic planning process becomes relatively more important as organisations rely on the process to assist it with attempts to achieve co-alignment with the environment. Therefore as the process is given more importance, a greater number of resources are provided for the planning activities. The author argued that organisational members become less resistant to the process as it is seen as achieving order from chaos.

All functional areas are included in the process and their resources and requirements are integrated into the plan. Planning techniques are added or augmented to boost the analytical allure of the process. The process pays special attention to both the internal facets of the organisation as well as the external facets of the environment in an attempt to gather more information to achieve better co-alignment.

The model in Figure 3.1 also suggests that these different components and contextual elements will also influence the effectiveness of the planning process. Therefore in various turbulent environments, it is expected that strategic planning process will exhibit different characteristics and these processes will be effective (McLarney, 2003).

3.2.3 Measuring Environmental turbulence
Levels of turbulence will determine the type of response an organisation will need to make in order to survive and be successful. Figure 3.2 shows that changes in turbulence levels will signal the need for a change in the type and level of response if strategic gaps are to be avoided. For example at a relatively low level of turbulence, a periodic or annual business and marketing strategy planning approach may be adequate (Perrott, 2008). In this situation, opportunities and threats can be anticipated. When the planning cycle begins, the organisation’s response can be built into business and marketing plans.

However when the turbulence levels increase, strategic issues that may affect the organisation’s ability to achieve its business or marketing objectives may emerge at more frequent intervals, and between planning cycles. This calls for the need for management to discuss perceptions of environmental turbulence from time to time. During the process of turbulence assessment, particular issues and trends would be tabled and come to the notice
of board and management. Gaps in knowledge would trigger action for further research and investigation. A rise in perceived turbulence levels could also trigger a review to existing practices of board-management communication and liaison. The end result should be a more informed and responsive management and board (Perrott, 2008).

There have been previous attempts to measure perceptions of environmental turbulence (Perrott, 1993). Based on individual perceptions, estimates can be made of the level of various factors in the operating environment.

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<thead>
<tr>
<th>Environmental Turbulence Level</th>
<th>Appropriate Response</th>
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<tr>
<td>Slow –incremental</td>
<td>Regular periodic Planning</td>
</tr>
<tr>
<td>Turbulent</td>
<td>Periodic planning with Strategic issues management</td>
</tr>
<tr>
<td>Discontinuous-Predictable or unpredictable</td>
<td>Strategic planning framework base combined with dynamic strategic issue management</td>
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Figure 3.2 Response modes to environmental change
Source Perrott (2008:24)

3.2.4 The use of scale in measuring turbulence
A scale that has been prepared by other academics (Ansoff and McDonnell, 1990) is used to estimate the level of turbulence for each of the environmental variables. The variables used would be selected to suit the type of business and industry under review, and may include the following:

- Customers
- Competition
The level of turbulence for each environmental variable is assessed according to a five point scale made up of the following increments:

- Level 1: Repetitive
- Level 2: Slow incremental
- Level 3: Fast incremental
- Level 4: Discontinuous predictable
- Level 5: Discontinuous unpredictable

Level 1, environments are seen to be repetitive. There is little change over time with events tending to move in cycles rather than changing (Perrott, 2008). Level 2 indicates change that is incremental but slow and is generally easy to predict in nature and rate of change. Level 3 is also incremental but change occurs in the various environmental factors at a faster rate. According to Perrott, (2008), level 4 describes an environment that introduces new dimensions of change and turbulence which are not extensions of the past. A change in legislation that affects the terms of product marketing may be an example. Level 5 is the level where the change occur which have no ties in the past. They are discontinuous and unpredictable. Perceptions of environmental turbulence could greatly assist senior decision makers to gain insights to conditions of the operating environment (Perrott, 2008).

### 3.2.5 Balancing environment, strategy and capability.

It is important for the business to manage a balance between conditions of the environment, its strategy to develop opportunities and threats and its capability to implement such strategies. If business or marketing strategies are not in line with conditions of the environment, strategic gaps impede the ability to achieve growth and profit objectives (Perrott, 2008).
A business must also have sufficient resources and capabilities to implement strategies so as to avoid the emergence of capability gaps. Figure 3.3 demonstrates the concept of environment, strategy and capability (ES-C) and shows where gaps may occur if there is a disturbance to the alignment of these critical elements. If one accepts that any organisation’s primary concern will be focused on matching its range of products and services with customers and markets, then marketing is shown as the core strand within the business strategy and capability.

Figure 3.3 Essential strategic dimensions

Source: Perrott (2008:26)

3.2.6 Strategic issue management as process.
Wartick and Rude, (1986) argue that in times of environmental turbulence and uncertainty it is important to objectively understand the current position of a business before setting future
directions and strategies. Strategic issues are “events or forces, either inside or outside an organisation, which are likely to have an impact on its ability to achieve its objectives” (Perrott, 1996). External issues come in terms of opportunities and threats, internal issues can be classified into strengths and weaknesses. Issues can be seen in terms of Environment, Strategy and Capability (E-S-C) as shown in Figure 3.4 below.

![Figure 3.4 Environment- Strategy- Capability](image)

**Figure 3.4 Environment- Strategy- Capability**

*Source (Perrott 2008:28)*

The tracking, monitoring and management of priority and management of priority issues become an imperative for effective survival. Strategic issue processing techniques present the opportunity for managers to identify issues and plan appropriate actions which address high priorities (Palese and Yancey Crane, 2002).

During times of relatively high turbulence an organisation may relegate formal business and marketing plans to the background. Decision makers will focus on strategic issue management by scanning the relevant sections of the environment, sorting and prioritising
issues as they emerge and concentrating resources and projects that address critical issues (Ansoff, 1980). Issue scanning and processing capability in a business unit needs to be upgraded as environmental disturbance increases.

Using the above approach, may be possible to eliminate or minimise strategic or capability gaps which could do serious damage to the standing and value of a business unit or organisation. During times of relatively high turbulence, it is likely that both board and senior management would be involved in the strategic issue management process (Perrott, 2008). Frameworks, workshops and processes which facilitate communication, and awareness on critical issues and their potential impact on the business will help prevent conflict and dissonance occurring at a time when the board and management feel the pressure of threat to the well being of the organization. This change in emphasis does not suggest that strategic planning is not important (Grant, 2003). It merely suggest that in times of uncertainty and unpredictable change, board and management need to concentrate on priority issues that threaten the viability of the business or offer opportunities. It also means that highly detailed strategic plans may be subject to such frequent change that they become irrelevant and useless in a practical sense as a tool directing business and marketing strategies (Perrott, 2008:29).

3.2.7 General requirements of management in turbulent environments.
The first requirement imposed by the turbulent environments is the flexibility, which is totally an environment dependent variable. Adapting the organization to the environment by management, is the essential action that ensures the viability of any social creation (Rosca et al., 2008). They argue that the alignment to organizational environment implies the permanent control of costs, in terms of variable tasks and relative maintaining of organisational structures.

The second requirement follows from the fact that as the turbulence increases, management should become more sensitive to the environment by maximizing the opportunities and minimizing the threats. The third requirement is that as the predictability is reduced, a strategic system should be developed in real time. However turbulence through its surprises that cannot be controlled may generate crises, which requires the thinking and development of a crisis management system (Rosca et al., 2008).

The chaos theory supports this concept and brings elements that are very important in strategic management processes.
3.2.8 Chaos theory

Levy (1994) states that one of the enduring problems facing the field of strategic management is the lack of theoretical tools available to describe and predict the behaviour of firms and industries. Existing theoretical models however tend to assume relatively simple linear relationships without feedback.

Chaos theory is the study of nonlinear dynamic systems. Radzicki, (1990) and Butler (1990) among other scholars have noted that social, ecological and economic systems also tend to be characterised by non-linear relationships and complex interactions that evolve dynamically over time. To understand the relevance of chaos theory to strategy, there is need to conceptualise industries as complex, dynamic nonlinear systems. Firms interact with each other and with other actors in their environment such as consumers, labour, the government and financial institutions. These interactions are strategic in the sense that decisions by one actor take into account anticipated reactions by others and thus reflect recognition of interdependence (Levy, 1994). Although inter-firm behaviour has been modelled formally in economics and business strategy using game theory (Camerer, 1991), the models tend to presume the emergency of equilibrium and do not adequately reflect industry dynamic (Levy, 1994). If industries do behave as chaotic systems a number of implications for strategy can be drawn.

These implications include the fact that long term planning is very difficult. In chaotic systems, small disturbances multiply over time because of non linear relationships and the dynamic, repetitive nature of chaotic systems. Consequently, such systems are extremely sensitive to initial conditions, which make forecasting difficult (Levy, 1994). Formulating a long term plan is clearly a key strategic task facing any organisation.

Furthermore, dramatic change can occur unexpectedly because of the chaotic nature of the environments. Traditional paradigms of economics and strategy which are generally based upon assumptions of linear relationships and the use of comparative static analysis, lead to the conclusion that small changes in parameters should lead to correspondingly small changes in the equilibrium outcome. Chaos theory forces one to reconsider this conclusion (Levy, 1994).

The other implication is that short term forecasts and predictions of patterns can be made. Although one cannot forecast the precise state of a chaotic system in the longer term,
chaotic systems trace repetitive patterns which often provide useful information. According to Radzicki (1990), deterministic chaos is characterised by a system devoid of randomness.

Finally, guidelines are needed to cope with complexity and uncertainty. Levy (1994:172), argues that strategy can refer to a set of guidelines that influence decisions and behaviour. He argues that it is the complexity of strategic interactions, whether in chess, soccer or in business, that makes it essential to adopt simplifying strategies to guide decisions even the most powerful computers are unable to track all possible moves and countermoves in a chase game. While the complexity of industry systems dictates the need for broad strategies, the dynamic nature of chaotic systems mandates that strategies adapt.

3.2.9 Strategy under chaotic conditions

According to Heimar and Nilsson (2002), when the business is paradoxical and of fast changing and chaotic nature, successful corporate strategies are shaped by strategic flexibility founded in high innovation rates, networks and alliances, and organisational elasticity and adaptiveness. They argue that forming multidimensional networks and alliances coloured by voluntary initiatives and full attention seem to be an extremely important contribution to survival in turbulent contexts.

In The Rise and Fall of Strategic Planning (Mintzberg, 1994), Mintzberg claims that the very nature of strategic making – dynamic, irregular, discontinuous, calling for groping, interactive processes with an emphasis on learning and synthesis, compels managers to favour intuition. “This may be why the analytical techniques of planning have felt so wrong to practising managers. There are aspects of business planning that persistently resist formalisation and mathematization “ (Phillips, 2013:5).

First, formal systems operate most effectively after strategy has been developed; to monitor its achievement, assess its continued fit with reality and signal major new intentions. The systems are not expected to substitute for creativity or management attention. (Phillips, 2013) argues that the systems offer no improved means to deal with information overload on human brains and they often make matters worse.

Second, the formal systems can certainly process more information, consolidate it, aggregate it, and move it about. However they cannot internalise it, comprehend it and synthesize it. Finally, the analyst tends to want to get on with more structured step of evaluating alternatives and so tends to give scant attention to the less structured, more
difficult, but generally more important step of diagnosing the issue and generating possible alternatives in the first place. Misleading strategies result (Phillips, 2013).

3.2.10 Chaos management cycle.
In chaos management cycle, due to the urgency and pace of change of events, there is no time for formal evaluation, or for planning. Figure 3.3 below, portrays a thick wall between planning and evaluation on the one side (to emphasize that these are not part of the chaos management cycle) and action on the other. All action springs forth from experience and learning, and feedback (evaluation) is done only tacitly (Nonaka, 1998).

There is no line pointing back to strategy because there is no time for formal reference to strategy. For a manager to succeed in a chaotic environment, the organisation’s strategy must already have thoroughly permeated his or her learning.

Strategic Direction Magazine (2007) states that most managers in the 1980s still believed that chaos was something to be avoided at all costs. However, Phillips (2013), argue that if chaos can be avoided at all, it is due to luck not to cost.

![Chaos management cycle diagram](Figure 3.5)

**Figure 3.5 Chaos management cycle**

**Source:** Phillips (2013:6)

Chaos theory confirms that small perturbations have large consequences (Phillips, 2013).
3.3 DIFFERENT APPROACHES, THEORIES AND APPLICATIONS

3.3.1 Approaches to Strategy and Strategic Management

Approaches to strategic management vary from being formal (through planned events or activities that occur regularly, using prescribed tools and models) to being informal (done as and when deemed necessary) and from being deliberate (intentional and planned) to being emergent (seizing opportunities or avoiding threats as they emerge). These approaches can therefore be broadly divided into two main opposing views: one associated with strategy-making as a formal, deliberate plan and the other associated with strategies as evolving, ever-changing sets of outcomes that are eventually realised (Maritz, 2010). These two main approaches are at times referred to as the traditional and the modern or emergent approach to strategy. The traditional approach finds its origin from the positioning school which gave rise to strategic terms such as:

(i) “The Five Forces” Porter model.
(ii) Generic strategies.
(iii) Competitive advantage.
(iv) Value chain.

3.3.2 Foundation of prescriptive strategy

In studies of prescriptive strategy, close parallels have been drawn with what happens in military strategy - works of military strategists such as Sun Tzu are often quoted in this context. Prescriptive business strategy has also borrowed from economic theory. Adam Smith, writing in the 18th century, took the view that human beings were basically capable of rational decisions that would be motivated most strongly by maximising their profits in any situation.

Subsequently, modern strategy theorists such as Porter have translated profit maximisation and competitive warfare concepts into strategy techniques and structures that have contributed to prescriptive strategic practice (Lynch 2010).

Porter (1985) suggested that what really matters is sustainable competitive advantage vis-à-vis competitors in the market place. Only by this means can a company have a successful competitive business strategy.

However, in the case of diversified organisations, managerial portfolios of businesses have taken the concept of strategy further - for example, the Boston Consulting Group who used
market data to develop a simplified, strategic matrix that presented strategic options for analysis and strategic decision-making.

In the section that follows, theoretical foundations of strategic-making and related strategic issues are discussed in more detail.

3.3.3 Theoretical Foundation and Strategy-Making Debate

3.3.3.1 Introduction

Generic strategies, as described by Porter, are the standard from which competitive strategies developed. Many authors have tried to improve on Porter’s concepts but have not added significantly to the body of knowledge. However, it is evident that generic strategies do not work in dynamic situations because of the changed situations and that firms need to adapt to such changes (Pretorius, 2010).

However, the concept of strategy has advanced significantly from the time when the emphasis fell on comprehensive, systematic rational planning. Nevertheless, in past decades, strategy appeared in many guises and displayed a seemingly disparate and ambiguous nature (Maritz, 2010).

Maritz (2010), citing McGee, Thomas and Wilson (2005), argues that many contemporary authors in strategy have developed rather a dismissive approach to the work that preceded their own perspectives. In their opinion, the field of strategy has been strongly characterised by the almost total substitution of one frame of reference for another as time has progressed. The author argues that strategic management is a prime example of an academic field where consensual meaning might be expected to be fragile, even lacking, and where asking strategic management scholars to define the field might elicit an array of responses.

3.3.3.2 Contribution of traditional school (prescriptive) to the understanding of the concept of positioning

Traditional academic research has made several contributions to the understanding of positioning within industries. With the rise of the experience curve in the 1960s, most strategists turned to some type of cost analysis as the basis for assessing competitive positions.
Increased attention to customer analysis involved reconsideration of the idea that attaining low costs and offering customers low prices was always the best way to compete. More attention came to be paid to differentiated ways of competing that might let a business command a price premium by improving the customers’ performance or reducing their costs. While product differentiation had always occupied centre-stage in marketing, the idea of looking at it in a cross-functional competitive context also accounted for the notion of relative costs apparently starting to emerge in business strategy in the 1970s (Ghemawat, 2002).

Porter (1985) suggested analysing cost and differentiation via the value chain. His discussion emphasised the importance of regrouping functions into the activities actually performed to produce, market, deliver and support products, thinking about links between activities and connecting the value chain to the determinants of competitive position in a specific way.

Porter (1985) argued that competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its products. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation. The value chain disaggregates a firm into its strategically-relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation.

3.3.3 Limitations of traditional strategic processes

Conventional and traditional approaches to strategy focus on the question: where do you want to go first, and then, how do you want to get there? These approaches to strategy entail the selection of attractive markets and choosing defensible strategic positions, as well as building core competencies (Naidoo, 2006).

Most of the ideas from the traditional school (positioning school) are echoes of former works into micro and industrial economics that best suit a more deterministic world. This is a world where the gaining and maintaining of competitive position can be easily analysed and, with appropriately-managed resources and managerial flair, won and maintained.

However, in turbulent environments, specific strategic positions are quickly eroded and past success is no guarantee for future success because the environment is very dynamic. Under these conditions it is very difficult to rely on past core competencies and one cannot predict which strategies would be more effective. Thus, traditional models of strategy fail to
accommodate the turbulence and dynamism of the environment, especially the turbulence usually associated with African countries.

These environmental changes erode historical core competencies and the value of a business. The accelerating rate of change is producing “a business world in which customary managerial habits and organization are increasingly inadequate” (Ghemawat, 2002: 40). This explains why the traditional concept of strategic processes has largely become inadequate.

In a paper by Coyne and Subramanian (1996: 10) from Mckinsey, the authors argue about the need to develop theory and practice that takes account of the chaotic and turbulent conditions:

“The traditional models assume that uncertainty is sufficiently low in an industry, that you can make reasonably accurate predictions on which to base your strategy. In reality, however, the future is usually much harder to foretell. When faced with uncertainty, executives tend to leap to extremes. Some simply pretend the uncertainty does not exist, others see it but it paralyses them. The secret of devising successful strategies under high uncertainty lies in ascertaining just how uncertain the environment really is and tailoring strategy to that degree of uncertainty.”

On the other hand, Prahalad and Hamel (1994) argue that managers concerned with restoring competitiveness of their firms are abandoning traditional approaches to strategy and they are searching for new approaches that give guidance in a turbulent environment.

“We believe that the need for strategic management during this turbulent decade is greater than ever. Thoughtful members of the academic community are increasingly recognizing that the concepts and tools of analysis that formed the backbone of the strategy literature, during its period of major growth (1965-85), may need a basic re-evaluation in order to pave way for new ideas. Many academics, confronted with the same reality, are re-examining the relevance of the concepts and tools of the strategy field.” (Prahalad and Hamel, 1994: 42).

The above quote confirms the inadequacy of the traditional strategic processes.

3.3.3.4 Strategic planning: centralised versus decentralised structures.
Strategic planning is based on a realistic assessment of what the organization can do on a planning in detail in which the strategy must be applied. In this sense, the strategy contains
many details, with a guarantee of achieving it (Rosca et al., 2008). In addition, the final outcome of the strategy is least known by the largest part of employees.

Hierarchical strategy emphasizes the competitiveness, designing an elitist vision of management leading to the demobilisation of a large part of employees, who no longer recognise themselves in the organization’s purposes and they are not any more actively and constantly in their achievement. Instead, the strategic vision requires management to set a series of aims for the organization and at the same time to create networks and skills necessary to be achieved, but sets the task of the various organizational levels to identify specific method to achieve these objectives.

It follows that strategic vision transfers the management goals to the operational levels by using the most appropriate procedures to specific circumstances and not by successive derivations, specific only for stable environments and not for the turbulent ones (Rosca et al., 2008). Rosca et al, (2008) argue that the focus to define strategy (what should the organization become) is going towards the skills development, that enables effective exploitation of the organization resources.

3.3.3.5 Traditional versus Modern strategic approach

Table 3.1 below shows the different strategic approaches – traditional versus modern strategic management approach.

Table 3.1 Traditional versus modern strategic management approach

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<th>Traditional Method</th>
<th>Modern method</th>
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</thead>
<tbody>
<tr>
<td>Follow competition, reduce costs by imitations, improving quality and developing advertisement.</td>
<td>Identify the means to fight against competition- new alliances, new processing systems.</td>
</tr>
<tr>
<td>Determine any detail, foresee all situations</td>
<td>Clear guidelines but operational levels, employees decide the details.</td>
</tr>
<tr>
<td>The management group is the only one able to have a global vision of the activities.</td>
<td>The organisation continuously learns and progresses.</td>
</tr>
<tr>
<td>The organisation does what the destructive competence allows to or what it is ordered to do.</td>
<td>Understanding the difficulties of changing of organizational behaviour.</td>
</tr>
</tbody>
</table>
The organization is a set of operational sub-units.

Organization is a whole in which one part helps the other one and the system progresses.

Source: Rosca et al., (2008: 5)

3.3.3.6 SWOT Analysis as a strategic planning method.

Andrews (1987) first identified the importance of connecting the organisation’s purpose – its mission and objectives - with its strategic options and subsequent activities. The interdependence of purposes, policies and organised action is crucial to the particularity of an individual strategy and its opportunity to identify competitive advantage (Lynch, 2010).

Andrews (1987) argued that the rational analysis of the possibilities open to organisations was an essential part of strategy development. As a starting point in developing options, it is useful to summarise the current position, using a SWOT analysis of the organisation.

A SWOT analysis is an analysis of the Strengths and Weaknesses present internally in the organisation, coupled with the Opportunities and Threats that the organisation faces externally. This approach follows from the distinction drawn by Andrews (1987) between two aspects of the organisation:

(a) Strengths and weaknesses – explored the resource–based analysis.

(b) Opportunities and threats – explored the environment-based analysis.

Each analysis will be unique to the organisation for which it is being devised, but some general pointers and issues can be drawn up, as indicated in Table 3.2 below.

Table 3.2: Some possible factors in a SWOT analysis

<table>
<thead>
<tr>
<th>INTERNAL</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Weaknesses</strong></td>
</tr>
<tr>
<td>Market dominance</td>
<td>Share weaknesses</td>
</tr>
<tr>
<td>Core strengths</td>
<td>Few core strengths and low on key skills</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>Old plant with higher costs than competition</td>
</tr>
<tr>
<td>Low-cost position</td>
<td>Weak finances and poor cash-flow</td>
</tr>
<tr>
<td>Leadership and management skills</td>
<td>Management skills and leadership lacking.</td>
</tr>
<tr>
<td>Financial and cash resource</td>
<td>Poor record on innovation and new</td>
</tr>
<tr>
<td>Differentiated products</td>
<td></td>
</tr>
<tr>
<td>Opportunities</td>
<td>Threats</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>-----------------------------------------------------------</td>
</tr>
<tr>
<td>- New markets and segments</td>
<td>- New market entrants</td>
</tr>
<tr>
<td>- New products</td>
<td>- Increased competition</td>
</tr>
<tr>
<td>- Diversification opportunities</td>
<td>- Increased pressure from customers and suppliers</td>
</tr>
<tr>
<td>- Market growth</td>
<td>- Substitutes</td>
</tr>
<tr>
<td>- Competitor weaknesses</td>
<td>- Low market growth</td>
</tr>
<tr>
<td>- Strategic space</td>
<td>- Economic cycle downturn</td>
</tr>
<tr>
<td>- Demographic and social change</td>
<td>- Technological threat</td>
</tr>
<tr>
<td>- Change in political or economic environment</td>
<td>- Change in political or economic environment</td>
</tr>
<tr>
<td>- New takeover or partnership opportunities</td>
<td>- Demographic change</td>
</tr>
</tbody>
</table>

**Source: Lynch (2010) page 302**

(Lynch, 2010) argues that the biggest mistake that is commonly made in a SWOT analysis is to assume that it is certain to be “correct” because it contains every conceivable issue and is truly comprehensive. Nothing could be further from the truth. This merely demonstrates a paucity of real thought and lack of strategic judgment about what is really important for that organisation.

Another common error is to provide a long list of points but little logic, argument and evidence. A short list with each point well-argued is more likely to be convincing. Arguably, Table 3.1 with its bullet points and lack of any explanation is thoroughly misleading on this point (Lynch, 2010).
3.3.3.7  *Porter's Five Forces model.*

Porter introduced the Five Forces Model of competition in the field of strategy. These forces are as follows (Porter, 1996):

(i) Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
(ii) Competitive pressures associated with the threats of new entrants.
(iii) Competitive pressures stemming from supplier bargaining power and seller / buyer collaboration.
(iv) Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
(v) Competitive pressure stemming from buyer bargaining power and seller buyer collaboration.

The degree to which an industry is attractive or unattractive is not the same for all industry participants and all potential entrants. The attractiveness of the opportunities an industry presents depends on whether a company has the resource strengths and competitive capabilities (Thompson, Strickland and Gamble, 2010).

In strategic management, it is not enough just to produce an analysis; it is important to consider the implications for the organisation’s future strategy (Lynch, 2010).

Porter’s framework is useful only if the competitive forces represented by competitors, suppliers, buyers and substitutes are relatively stable and independent. Only then can a company find an appropriate strategy for each industry configuration and erect the necessary barriers for protecting its strategy. The reality of business in this century is that industry structures are far from stable and are undergoing major transitions (Chaharbaghi and Willis, 2000).

Below are some of the critical comments that Porter’s model has attracted:

(i) The analytical framework is essentially static, whereas the competitive environment in practice is constantly changing. Forces may move from high to low or vice versa, rather than more rapidly than the model can show.
(ii) It assumes that the organisation’s interests come first, but for some charitable institutions and government bodies, this assumption may be incorrect.
(iii) Porter’s strategic analysis largely ignores the human resource aspects of strategy: it makes little attempt to recognise, let alone resolve aspects of the micro-environment that might connect people to their own and other organisations. For example, it considers neither the country’s cultures, nor the management skills aspects of strategic management.

The traditional sources of competitive advantage - economies of scale, product differentiation, capital investments, switching costs, access to distribution channels - have all lost their importance as barriers to competition (Herberger, 2001).

*Frameworks for competitive strategy based on input-output economics, exemplified by Porter’s model, emphasise the important role of industry structure in determining a firm’s strategy. Other competing frameworks, such as the resource-based view of strategy, question the determinism implicit in this approach and focus instead on the firm - its competencies, organisational capabilities and, above all, its managerial ingenuity as key drivers of strategy.

Prahalad and Hamel (1980) argue that the role of strategy should not be to accommodate an existing industry structure, but rather to change it. They see the role of competitive innovation as identifying the orthodoxy in an incumbent’s strategy and redefining the terms of engagement to exploit this orthodoxy. The appeal of Prahalad and Hamel’s (1980) concepts of competitive innovation and competence leverage is, in part, their promise for overcoming difficult industry environments and tight resource conditions. However, even these brilliant strategic victories can be short-lived in a hyper-competitive environment (Herberger, 2001).

In spite of these critical comments, Porter’s model provides a very useful starting-point in the analysis of the environment. It really has merits because of the issues it raises in a logical and structured framework (Lynch, 2010).

3.3.3.8 Industry and environment-based theories of strategy
Industry and environment-based theories of strategy argue that profits are delivered by selecting the most attractive industry and then competing better than other companies in that industry.
The word “environment” refers to the external factors acting on the organisation, such as markets, competitors and governments. The proponents of this school assert that organisations are rational, logical and driven by need for profitability. They can be related back to three areas:

(i) The eighteenth-century Scottish economist Adam Smith and his view that man was rational, logical and motivated by profit.

(ii) The concepts of military warfare quoted earlier in this chapter that show how the competitive war can be won.

(iii) The industrial organisation (IO) model of above-average returns to a company deriving from the concept that the most important determinant of company profits is the external environment.

In terms of development of strategy theory, much of this material only came together in the 1960s. H. Igor Ansoff, and Alfred Chandler had an early influence in this area. More recently, writers such as Wheelen and Hunger have laid out the model for rational analytical and structured development of strategy. During the 1980s, the work of Professor Michael Porter added significantly to this material.

For all these writers, strategy involves formal, analytical processes. It will result in a specific set of documents that are discussed and agreed by the board of directors (Lynch, 2010). Typically, the plan will include sections predicting the general economic and political situation, exploring industry characteristics including economies of scale and degree of concentration, analysing competitors, their strengths and weaknesses, identifying customer demand, considering resources available to the organisation and recommending a set of strategies to meet the requirements. The strategy will be primarily driven by the objective of maximising the organisation’s profitability in the long term.

(Lynch, 2010), citing Wilks (1990), argues that these views remain largely Western and Anglo-American in their orientation. These are primarily concerned with profit and leave only limited room for social, cultural, governmental and other organisations.

A more fundamental criticism of profit maximisation theories has been made by Prahalad and Hamel (1990) and Kay (1993). They argue that, although competitors are important, the emphasis on competitive industry comparisons essential to such theories is misleading; it simply shows where organisations are weak. Such theories do not indicate how the company should develop its own resources and skills - the key strategic task in their view (Lynch 2010).
Hannan and Freeman (1988) took a different view, by arguing that markets are so powerful that seeking sustainable competitive advantage for the majority of companies is not realistic. Only the largest companies with significant market share can achieve and sustain such advantage.

From a different perspective, Mintzberg (1987) and others have criticised the industry-based approach by arguing that this is simply not the way that strategy is, or should be developed in practice. In contrast, human resource-based theories of strategy suggest that seeking to maximise performance through a single, static strategic plan is a fallacy.

3.3.3.9 Cooperation and network theories of strategy

In cooperative strategy theory, at least two independent companies work together to achieve an agreed objective. In network theory, the focus rests on sharing networks of personal contacts, knowledge and influence both inside and outside the organisation (Lynch, 2010). These theories stress the importance of the formal and informal relationship opportunities that are also available to organisations.

Such theories have arisen in recent times as a result of the realisation that organisations can deliver better value to customers and create competitive advantage over rivals by cooperating with other companies. The external strategies may include joint ventures, strategic alliances and other forms of cooperation. This is very common in airline industries where different airlines work together as an alliance. Child and Faulkner (1998), and Eisenhardt (2002) all provide background on this increasingly important area of strategy development. They argue that such strategies are valuable for at least three reasons:

(i) Because they may allow companies to move into restricted markets more quickly.
(ii) Because they may allow companies to adopt new technologies earlier than their rivals by gaining the technology from an outside company,
(iii) They may allow the alliance to gain and increase its market power.

However, the main problems with cooperative and network strategies are that they are fragile and risk collapse if the contractual terms have not been carefully developed or one of the partners misrepresents the benefits that it brings to the agreement (Dyer, Kale and Singh, 2001). It should also be noted that some forms of cooperation are illegal in most countries around the world. Such illegal collusion involves collusion to reduce competition in
the market place, thus increasing the price of goods on sale and thereby increasing profits (Lynch, 2010).

### 3.3.4 Conclusion
This section has traced the development of the various strategic theories, the approaches to and applicability of these theories in a business environment. These approaches vary from being formal (through planned events) to being informal (done as and when deemed necessary) and from being deliberate (intentional and planned) to being emergent (seizing opportunities as they emerge).

Given the need for an organisation to have a strategic management, much of this section has really been about the process of achieving this strategy. As has been demonstrated, there is no common agreement on the way this can be done.

On the one hand, there is the formal approach which involves a structured strategic planning system. It is necessary to identify, analyse the environment and the process of the organisation, develop strategy options and select among them. The selected process is then implemented. However, as has been shown in this section, there is another school of thought which cautions against having a system that is too rigid and incapable of taking into account the people element of strategy.

On the other hand, there is the informal or emergent process, which does not identify a final objective with specific strategies to achieve this. It relies on developing strategies whose final outcome may not be known. Managers will rely more on trial and error and experimentation to achieve the optimal process. This study is aimed at finding which of these two schools of strategic management processes or approaches would be applicable to a business operating in a highly volatile and turbulent environment.

### 3.4 NEW STRATEGIC PROCESSES

#### 3.4.1 Introduction
The debate surrounding the process of strategy-making unfolds in opposing and often extreme views. The literature does not always make a clear distinction between the views at either end of the continuum (of prescriptive and emergent strategies), and rather describes approaches associated with each view (Maritz, 2010). This section of the literature review
will now cover strategies (emergent or new strategies) that are applied in the modern era and characterised by dynamism, change and at times turbulence.

An emergent strategy is a strategy whose final objective is unclear, and whose elements are developed during the course of its life as the strategy proceeds (Lynch, 2010). In the light of the observation that human beings are not always the rational and logical creatures assumed by prescriptive strategy, various commentators have rejected the dispassionate, long-term prescriptive approach. They argue that strategy emerges, adapting to human needs, benefiting from new and unknown innovations and continuing to develop over time. This section will cover the following key topics under the main subject of emergent (or new strategic management theories) theories:

(i) Strategic processes in a dynamic environment.
(ii) Dynamic capabilities.
(iii) Survival-based theories of strategy.
(iv) Uncertainty-based theories of strategy.
(v) Human resource-based theories of strategy.
(vi) Innovation and knowledge-based theories of strategy.

Emergent strategies and the strategy-as–practice approach is discussed in more detail in the section below.

3.4.2 Strategic processes in a dynamic environment

The business environment in the twenty-first century is probably the most dynamic that any business has faced (Naidoo, 2006). Eisenhardt and Brown (1999) have pointed out that in volatile markets, corporate strategy should focus on strategic processes more than on strategic positioning. It is very difficult to predict which competencies or strategies will be successful and for how long. The implication is that it is more important to build corporate level strategic processes that enable dynamic strategic repositioning than it is to build any particular defensible position. These new strategic processes turn on change and add economic value by enabling managers to mobilise and re-configure corporate success to capture market opportunities faster than competition (Naidoo, 2006).

In turbulent markets, competitive advantage may be gained by creating a series of temporary advantages. The strategic logic is that of opportunity-sensing. (Lengnick-Hall and Wolff, 1999; Naidoo, 2006; Savy and Pavlou, 2008). Sexton and Smilor (1997) describe this process as the creation and recognition of opportunities, as well as the pursuit of those
opportunities by turning them into wealth-creating businesses during a limited window of time.

The foregoing discussion testifies to the fact that there is a need for the changing of the traditional models and also the way of thinking. This reinvention of industries and business models is about the creation of new bundles of products and services and the restructuring of value chains. According to Linda, Javernpaa and Davenport (2003), innovation is the implementation of new ideas that create value and, according to Hamel (1997), strategic innovation is the ability to reinvent the basis of competition within existing industries and to reinvent entirely new industries. Thus, strategic innovativeness is a major success factor for businesses operating in a turbulent environment (Recklies, 2001). However, this strategic innovation also fails to embrace the unique business environment in Africa that has already been highlighted.

Van den Bosch and Volberda (2005) have also confirmed the importance of innovativeness and adaptability through their concept of organisational ambidexterity which describes the ability of the firm to pursue exploratory and exploitative innovations simultaneously. They argue that this is important for the firm's survival (Naidoo, 2006: 66). Successful innovations are thus the results of a deliberate search for and high alertness to new opportunities (Wiklund and Shepherd, 2005; Hausman, 2005). The values created by innovations are often manifested in new ways of doing things and processes that contribute to wealth. This implies that failure to innovate will certainly reduce competitiveness (O'Regan and Ghobadian, 2005).

Since innovation enhances the competitiveness of firms, (Naidoo, 2006) in dynamic environments, firms should have the capabilities to innovate (Nelson and Winter, 1982; Zollo and Winter, 2001; Teece et al., 1997:509). Therefore, the strategic processes used by businesses operating in turbulent environments must enable the organisation to continuously adapt, innovate and even change itself in order to survive and thrive in evolving market conditions (Eisenhardt and Tabrizi, 1995; Galunic and Eisenhardt, 2001), as well as to be able to re-allocate available resources as priorities and demand change (Fowler et al., 2000). This is what is termed dynamic capabilities. According to Branzei and Vertinsky (2006), sustained innovativeness depends on each firm's set of dynamic capabilities. The turbulent environment mainly focuses on the markets, technology and competition and does not consider the one that comes from different forces obtaining in a developing country in Africa, as already explained.
3.4.3 Dynamic Capabilities

Dynamic capabilities refer to the firm’s ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments (Teece et al., 1997). They are rooted in the resource based view of the firm (Penrose, 1959; Barney, 1991). Following this theory, a firm builds a competitive advantage by applying creatively its valuable resources environments (Castiaux, 2012).

Dynamic capabilities are recognised as key factors for the adaptation of the firm to its changing environment. Firms have to integrate sustainable development considerations in their strategy. When looking at highly volatile environments, researchers identified specific capabilities allowing firms to create new products and processes and to face changing environments (Helfat, 1997; Teece et al., 1997). Dynamic capabilities are necessary in turbulent contexts, where the usual competencies and routines are no more adapted or could be challenged environments (Castiaux, 2012). New competences have to be built.

Dynamic capabilities according to a summarised version from Castiaux, (2012) which was “borrowed” from Noori et al.,(2012) is the ability of the organisation to continuously recognise, integrate, and leverage resources and connect them to the changing environment in order to create value”.

The literature concerning dynamic capabilities is young and growing. Researchers try to understand the adaptation of firms to continuously more dynamic.

While the exact nature of dynamic capabilities is still not yet well understood, their visible outcome is the transformation of existing resources into new functional competencies that better match the environment (Arthus and Busenitz, 2006; Naidoo, 2006). This view of dynamic capabilities originates from Schumpeterian competition (Schumpeter, 1934) where competitive advantage is based on the creative destruction of existing resources and the novel reconfiguration of new and potentially rent-generating functional competencies.

The emerging literature on dynamic capabilities draws on the resource-based view of the firm (Lopez, 2005; Woo, 2005). According to Eisenhardt and Martin (2000), some dynamic capabilities integrate resources, some are related to the gain and release of resources, while some focus on the reconfiguration of resources. Zollo and Winter (1999:10) defined dynamic capabilities as “a learned pattern of collective activity through which the organisation systematically generates and modifies its operational routines,” while Galunic and
Eisenhardt (2001:1229) have argued that the existence of dynamic capabilities is assumed without specifying the particular processes that form these capabilities (Naidoo, 2006).

Dynamic capabilities have also been defined as the drivers behind the creation, evolution and reconfiguration of other resources into new sources of competitive advantage (Henderson and Cockburn, 1994), while Eisenhardt and Martin (2001:1107) have defined dynamic capabilities as “the firm’s processes that use resources to match and even create market change”. Thus, dynamic capabilities are the organisational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die (Naidoo, 2006).

However, while these descriptions stress the importance of reconfiguring existing resources into new configurations of functional competencies and view reconfiguration as the ultimate outcome of dynamic capabilities, the conceptual ambiguity surrounding the area of dynamic capabilities leads to a blurring between the reconfiguration-enabling process and the actual reconfiguration processes that lead to innovative resource reconfigurations and value-added strategies (Naidoo, 2006:68). There is lack of clarity about the nature of dynamic capabilities and even disagreement about whether such capabilities even exist (Winter, 2003). This makes it imperative to introduce greater clarity about their content, domain, conceptualisation and operationalisation (Naidoo, 2006).

### 3.4.4 Survival-based theories of strategy
Survival-based strategies regard the survival of the fittest company in the market place as being the prime determinant of strategic management (Lynch 2010). The theory begins by exploring how to survive in an environment which is highly competitive, shifting and changing.

The competitive jungle of the marketplace will weed out the least efficient companies, and survival-based strategies are needed in order to prosper in such circumstances. Essentially, according to the strategy-based theorists, it is the market-place that matters more than a specific strategy, hence the optimal strategy for survival is to be really efficient.

Lynch (2010), citing Henderson (1989), suggested that what most companies needed in order to survive in these highly competitive markets was differentiation. However, other strategists doubt that true differentiation is possible because it takes too long to achieve and the environment changes too quickly. If the environment matters more than a specific
strategy, then survival-based strategists argue that the optimal strategy will be to pursue a number of strategic initiatives at any one time and let the market place select the best (Hannan and Freeman 1988). Selection of strategy is therefore incorrect according to this theory.

However, other theorists believe survival-based theories are too pessimistic. There are practical problems in a strategy that only takes small cautious steps and keeps all options open (Pascale, 1990).

3.4.5 Uncertainty-based theories of strategy
Uncertainty-based theories use mathematical probability concepts to show that management development is complex, unstable and subject to major fluctuations, thus making it impossible to undertake any useful prediction in advance (Lynch, 2010). If prediction is impossible, then setting clear objectives for strategic management is a useless exercise. The difficulties in predicting the future environment resulted in some scholars regarding long-term strategic planning to be of little value.

This approach to strategy led not only to survival based-strategies that seek to keep all options open to the last possible opportunity, but also to uncertainty-based strategies. Since the 1960s, chaos theory and mathematical modelling of changing states have been used to map out the consequences of scientific experiments. Such procedures were not developed for the business community, but for other scientifically-oriented topics, as in the mathematical modelling of weather forecasting.

Such techniques were able to demonstrate that in particular types of uncertain environment, small perturbations in the early stages of a process can lead to major variances in the later stages. A major implication of such environments – often called chaotic systems - is that it is simply not possible to predict with sufficient accuracy many years ahead (Glick, 1988).

3.4.6 Complexity and chaos theories of strategy
Business as such has been identified as a chaotic system. Stacey (1993) has suggested that the environment of many businesses, particularly those in rapidly-growing industries, is inherently unstable.
A collection of theories makes up the body of knowledge known as the complexity and chaos theory (Burnes, 2005:74). The underlying idea is that all things tend to self-organise into systems (Kelly and Allison, 1999:5). These systems develop patterns that are created when a number of simple rules are applied over many iterations. Small differences at the start of the process can eventually result in large differences in the system’s performance. Many interactions in a system can produce unexpected patterns or behaviours (Goldberg and Markoczy 1998:1), because stimulating one part of the system can have unexpected effects on other, unanticipated, parts of the system. Such unexpectedness is because of the nature of complex systems and the fact that the system’s parts interact and adapt to each other (Meade and Rabelo, 2004:669) Complex behaviour is orderly, yet full of surprises (Mason, 2007: 239). The rules that generate the complex behaviour are part of the system, are not enforced by a “single manager” and cannot be predicted from examining any single part of a system.

Complexity indicates that the environment is difficult to comprehend for an organisation and that it consists of sophisticated technology and a high rate of diversity (Naidoo, 2006). Complexity has also been defined as a measure of heterogeneity or diversity in the environment - that is, the degree to which environmental factors are many and different.

Complexity theorists see organisations as complex adaptive systems. They argue that one of the major insights the theory brings to strategy theory is that an organisation can be viewed as a non-equilibrium system (Parker and Stacey, 1994). According to complexity theorists such as Stacey (1996), the concept of the organisation moving from one stable state to another as a result of change is flawed.

Complexity theory is a departure from the more traditional approaches to strategy, which down-play the unpredictability of the long-term evolution of organisations. Unplanned action is inevitable and not necessarily a result of ignorance or incompetence. This is a more realistic way of looking at the strategic management framework. Although this theory partially describes the situation that prevailed in Zimbabwe, it does not cover how one manages political or economic turmoil.

Applying complexity theory to strategy and organisational development is not without its problems. The variety of definitions, the doubts expressed as to whether it is a theory, theories or a framework and the different meanings given to the terminology associated with complexity are all problematic (Morel and Ramanujam, 1999).
A synthesis of the foregoing elements leads to a definition of turbulence as “a dynamic, complex and unpredictable condition that is subject to both rapid and multi-dimensional change” (Naidoo, 2006:63)

In such environments, businesses must rapidly innovate, adapt and reconfigure themselves to match the changing environments (Naidoo, 2006). To reconfigure their operational capabilities to better match the changing environment, firms need two other sets of business capabilities. These are dynamic capabilities and improvisational capabilities. Together with operational capabilities, dynamic and improvisational capabilities form a collaborative trio of business capabilities needed to compete successfully in turbulent environments (MIS Quarterly, 2008).

Several chaos and complexity theories have relevance to business. The central concept is self-organisation, the process of a pattern of order emerging from a set of simple rules in an interconnected network. The process is not controlled through conscious awareness by an outside “manager”, but spontaneously self-organises from the bottom up through the inter-relationships of a system’s parts. Consequently, individual managers cannot predict and plan longer-term outcomes (Wilkinson and Young, 1998:16; Kelly and Allison, 1998:94; Mason, 2007:239), but by fine-tuning the simple rules that determine the system, it can be moved between stability and chaos. This continuous self-organisation allows and encourages a variety of creative and innovative responses to emerge from changing environments (Mason, 2007). When the system’s parameters change, this leads to a movement towards disorder, and the implication is that to cope with change the system should be kept at the edge of chaos, where innovation happens (Burnes, 2004:315) and which enables the system to reorganise itself into new patterns of relationships. From these patterns new actions emerge, resulting in new order “for free” (Burnes, 2004). Examples of these include new strategies, self-directed teams (Gault and Jaccaci, 1996:35) and strategic alliances (Wilkinson and Young, 1998:7).

The chaos theory suggests a need for continuous strategy development that involves all organisational members in the creation of a flexible, fluid plan (Bechtold, 1997). Formal strategic planning needs to be a continuous process because of rapid changes, uncertainties and shifts in the environment. Such an approach would increase an organisation’s knowledge, environmental fit and flexibility as it evolved a sound business strategy. This real-time approach to strategising acknowledges the dynamic environment and the need to move quickly in today’s business environment.
It also acknowledges that the organisation is operating in an unstable combination of randomness and plan. It is designed on the premise that even the best projections and plans for the future have a degree of uncertainty. Scenario planning (Van der Heijedan, 1996) is one approach that assumes that successful strategy can only be developed in full view of the uncertainty that exists in any situation. The thought process that occurs in scenario planning is to consider a business idea against various scenarios that act as test conditions of possible futures, in order to determine the viability of a business idea (Bechtold, 1997).

As the chaos theory suggests, small changes in the industry can amplify exponentially and greatly impact the industry’s future growth or permanently redefine the entire industry. An environmental change can necessitate a strategic redirection. A continuous strategy development process provides a means for handling such eventualities.

A formal strategic management process that is continuous, combines plan and randomness and involves all organisational members will help prepare a business to deal with turbulence (Bechtold, 1997). When firms make changes in a market, they create ripples that affect the whole market, forcing other firms to try to improve their strategic fit to the shifting market (Black and Farias, 2005). This means that the marketplace is in a continuous state of disequilibrium and the more participants there are in a marketplace, the more ripples there will be, leading to more disequilibrium and complexity (Mason, 2007).

In these turbulent environments, traditionally in organisational literature, it has been argued that an organisation’s survival depends increasingly on devising new competitive strategic responses (Hambrick and D’Aveni, 1988; Meyer et al., 1990; Porter, 1991), although at the moment there is no agreement amongst researchers on the regular effect of strategic change on organisational survival and extinction (Zuniga-Vicente and Vicente-Lorente, 2006). At one extreme, those who support the predominance of strategic adaption emphasise the role that managers play in monitoring environmental changes and modifying organisational strategy to better match the new environmental contingencies (Boeker, 1997:153; Child 1972). The most important finding from the adaptive perspective is that strategic change generally benefits survival chances if it occurs in response to a profound shift of environmental conditions (Miles and Snow, 1994; Zajac et al., 2000; Zuniga-Vicente and Vicente-Lorente, 2006).
3.4.7 Human resource-based theories of strategy
Human resource-based theories of strategy emphasise the people element in strategy development and highlight the motivation, the politics, the culture of organisations and the desires of individuals (Lynch 2010).

They have particularly focused on the difficulties that can arise as new strategies are introduced and confront people with the need for change and uncertainty. Strategic management needs to have a human resource-based dimension. Organisations consist of individuals and groups of people, all of whom may influence or be influenced by strategy. They may make a contribution, acquiesce or even resist the strategic management process, but they are certainly affected by it.

Strategic logic is restricted by the process and people already existing in the organisation. More recently, there has been considerable emphasis on the learning aspect of strategy development. Mintzberg (1994) emphasised the importance of learning. After him, Senge (1990) and others have developed the learning concept.

3.4.8 Innovation and knowledge-based theories of strategy
Innovation and knowledge-based theories of strategy privilege the generation of new ideas and sharing of these ideas through knowledge as being the most important aspect of strategy development. These theories came to prominence during the 1990s. Innovation here refers to the development and exploitation of any resource of the organisation in a new and radical way (Markides, 2000). Knowledge, in this instance, means the collective wisdom and understanding of many people in the organisation, developed over many years.

3.5 EMERGENT STRATEGIES AND STRATEGY AS PRACTICE

3.5.1 Introduction
Differing views on the content, process and nature of strategic management have arisen because of the breadth and complexity of the subject (Lynch, 2010). The overall distinctions can be summarised as representing two main approaches to strategic management development referred to above:
The prescriptive approach which, for the purposes of this study, the researcher will also refer to as the traditional approach to strategy. Some commentators have judged strategic management to be essentially a linear and rational process, starting with where we are now and then developing new strategies for the future (Lynch, 2010).

A prescriptive strategy is one whose main objective has been identified in advance and whose main elements have been developed before the strategy commences.

The emergent approach. Other commentators take the view that strategic management emerges, adapting to human needs and continuing to develop over time. It is evolving, incremental and continuous and therefore cannot be easily or usefully summarised in a plan which then needs to be implemented. An emergent strategy (which for the purpose of this research will also be referred to as new or modern approach to strategy) is one whose final objective is unclear and whose elements are developing during the course of its life, as strategy proceeds (Lynch, 2010). The theorists of this approach often argue that long-term prescriptive strategies are of limited value.

3.5.2 Defining Strategy as Practice

From strategy as a practice perspective, strategy is conceptualised as socially-accomplished activity, constructed through the actions, interactions and negotiations of multiple actors and the situated prices upon which they draw (Jarzabkowski, 2005). The problem with such a definition is that it encompasses all types of social activity, to the extent that it is difficult to determine what activity is not strategic. Jarzabkowski (2005) argues that one of the ways to deal with this problem is to focus on those activities that draw on strategic practices. However, she adopts the view that activity is considered strategic to the extent that it is consequential for the strategic outcomes, directions, survival and competitive advantage of the firm (Johnson et al. 2003), even where these consequences are not part of an intended and formally-articulated strategy.

One of the challenges of strategy as practice perspective is identifying phenomena under investigation. Whittington (2006) proposes that three elements of theory of practice may be isolated - praxis, practices and practitioners - each of which comprises a different analytic choice and entry into the study of strategy as practice (Jarzabkowski, 2005).
While many practice theorists have identified one or more of these elements as discrete but interrelated social phenomena (for example, de Certeau (1984), Gidens (1984), Schatzki (2001), Sztompka (1991), Turner (1994) and Reckwitz, (2002)), this provides a helpful summation that identifies their common theoretical principles and that may be used to define each term (Jarzbkowski, 2007:6).

Firstly, praxis is “an emphatic term to describe the whole human action.” (Jazbkowski, 2005: 249). Clearly such a broad definition is too all-encompassing and ambiguous to study, requiring some further explanation. Sztompka (1991) helps to delineate the more micro and macro properties of praxis by proposing that it unfolds as the nexus of what is going on in society and what people are doing. Praxis comprises the interconnection between the actions of different, dispersed individuals and groups and those socially, politically, and economically embedded institutions within which individuals act and to which they contribute (Jarzbkowski, 2007). This definition is important, as it indicates that praxis is both an embedded concept that may be operationalised at different levels from the institutional to the micro, and also dynamic, shifting fluidly through the interactions between levels.

Practices provide a range of possible entry points into the phenomena of practice. Practices are defined as “routinized types of behaviour which consist of several elements interconnected to one another, forms of bodily activities, forms of mental activities, things and their use, a background knowledge in the form of understanding, know-how, states of emotion and motivational knowledge” (Reckwitz, 2002:249). The use of such practices is intrinsically connected to “doing” because they provide the behavioural, cognitive, procedural, discursive and physical resources through which multiple actors are able to interact in order to socially accomplish collective activity. As these resources are utilised in routine ways that form patterns, they may be studied to understand how strategic activity is constructed.

Finally, practitioners are the actors, those individuals who draw upon practices to act. Practitioners are thus interrelated with practices and praxis. They derive agency through their use of practices – ways of behaving, thinking, emoting, knowing and acting – prevalent within their society, combining, coordinating and adapting them to their needs in order to act within and influence that society (Reckwitz, 2002:250). Practitioners thus shape strategic activity through who they are, how they act, and what practices they draw upon in that action.

Strategy is supposed to lead an organisation through changes and shifts to secure its future growth and sustainable success.
“Strategy as practice is a community of scholars interested in the practice of strategy. What we are agreed on is the importance of a focus on the processes and practices constituting the everyday activities of organisational life and relating to strategic outcomes, if we are to move our field forward” Jarzakowski (2003:11).

Strategy is depicted as an activity by the proponents of strategy as practice. Jarzabkowski (2003:14) argued that, “The strategic planning cycle is a powerful practice for distributing an increasingly consistent interpretation of desirable strategic activity based upon accountability and financial viability.”

Key strategic practices are identified as those formal operating procedures involved in the direction-setting, resource allocation, monitoring and control. While these are not the only practices from which strategic action is constructed, they are theoretically valid within the strategic management literature and are innately practical, being concerned with doing strategy (Jarzabkowski 2003:23).

For Whittington (2004:63), “Strategy as a practice enables both illumination of a significant phenomenon that has hitherto been obscure and an improvement of something in which people personally, and society in general, have a great deal at stake”.

Strategy as practice concerns both managers who strategise and those whose possible field of action might be governed by those strategies (Carter, Cleggs and Kornberger, 2008). Carter et al. (2008) argue that most publications in the strategy as a practice area start from premises that share a more managerial perspective.

On the other hand, Johnson et al. (2003:12) argue that the “challenge for an activity-based view will be to transform descriptive contributions into more helpful models of managing”. He also states that a major justification for strategy as a practice approach is that managers are more demanding in terms of their expectations from business schools (Johnson et al., 2003:5) than was the case at the outset of strategy discourse. Therefore, there is a “strong instrumental reason” for strategy as a practice approach: it makes more sense to practitioners than the older approaches.

Strategy as practice focuses on top management teams as the locus of strategising. A case in point is Jarzabkowski (2003:31) who argues that, “The central analytic question examined is how top teams do strategies in UK universities, not how it is possible that they do what they do, nor what constitutes these top teams and allows them to call their activities strategic”. Based on this analysis, Carter et al. (2008:88) conclude that from an epistemological point of view, the strategy as a practice approach seems to resemble a
crude version of positivism that understands practice as being closer to reality and delivering a more accurate description of the real world.

3.5.3. What do strategists do?
This question focuses on what doing strategy involves and, most importantly, how that doing shapes strategy. The question focuses upon those specific, situated practices those practitioners engage in when they are working on strategy.

Jarzabkowski (2007) argues that such a question goes beyond simple classifications of what practitioners do, to how they go about that action, incorporating their situated and person-specific knowledge. Practice researchers wish to understand how the conduct of a meeting (Jarzabkowski and Seidl, 2006), the discursive interactions within that meeting (Samara-Fredericks, 2005) or the way that actors deploy vested interests and intentions in the meeting (Vourela, 2005) shape the social accomplishment of strategy, rather than simply to classify the types of practices in which strategists engage.

Empirically, the question of what strategists do will be tied up with how researchers define their interests in who is a strategist (Jarzabkowski, 2007). For example, research that problematises how the doing of strategy is shaped by the identity of the strategists (Beech and Johnson, 2005) indicates an analysis of what strategists do that is very proximal to who a strategist is. By contrast, research that aims to uncover what happens in strategy workshops (Hendry and Seidl, 2003, Hodgkinson et al., 2006), or how administrative procedures are used (Jarzabkowski, 2005) and their implications for shaping strategy, is less concerned with who the strategist is and more focused upon how specific practices are used in the action of strategy. These positions represent different choices for analysing what strategists do, which indicate different interconnections between who a strategist is, what a strategist does and the implications for strategy praxis.

3.5.4 An analysis of strategists and their doings
Jarzabkowski (2007) states that ‘strategy as practice’ studies, with their strong focus on the empirical detail through which strategy is constructed, may lack an outcome, the “so what” problem. Secondly, that the drilling deep approach taken by much strategy as practice research, which has been labelled “micro” (Johnson et al., 2003) leads to explanations that are inconsequential in any wider sense than the specific situation to which they pertain. She further argues that these are important challenges that ‘strategy as practice’ agenda must
address in order to be credible within the field of strategic management research, which is dominated by an economics-based focus on outcome measures at the factory and industry level.

3.5.5 Analysis of strategy as practice

Analysing ‘strategy as practice’ literature, it becomes evident that the concept of practice is not clearly defined. For example, in her 2004 article, Jarzabkowski (2004:545) differentiates between practice and practices: “Practice is the actual activity, events or work of strategy, while practices are those traditions, norms, rules and routines through which the work of strategy is constructed.” In so doing, practice looks similar to action, whereas practices become the formal procedures of organisations. The term “practice” implies repetitive performance in order to become practised - that is, to attain recurrent, habitual or routine accomplishments of particular actions (Jarzabkowski, 2004: 531). Carter et al. (2008) state that Jarzabkowski (2004) links the ‘strategy as practice’ approach back to the resource-based view of the firm. As she puts it, the “concept of localised practice is present in the resource-based view which posits what localised and hence distinctive strategic contexts are value creating “ (Jarzabkowski, 2004:537). In addition, she also links practice to dynamic capability theory (Teece et al., 1997). According to Carter et al. (2008), for her the concept of new resource configuration equals adaptive practice. Carter et al. (2008) conclude that the ‘strategy as practice’ approach has adopted an unclear and contradictory definition of practice. In fact, practice can mean a myriad of things including events, routines, rules, or simply “being closer to reality” and being more practical (Carter et al., 2008:9).

Carter et al. (2008) challenge both the notion of strategy and practice, philosophically and sociologically. They base their argument on the work done by Veyne (1997:153) who argues that practice is “not some mysterious agency, some substratum of history, some hidden engine, it is what people do”. He argues that we should not judge people according to their ideologies. It is deeds rather than words that matter most when the two diverge. Furthermore, Veyne (1997) argues that with strategy, some strategies emerge while others are implemented top-down. The object strategy does not exist as a starting-point, but only the practices associated with the word make us believe that strategy is a “thing” that can be observed, crafted and managed in departments, whereas it is, in fact, only a projection of possible practices, practices that might differ and change fundamentally from one setting of strategy to another. Carter et al. (2008:11) argue that the problem is starting with the “object” strategy and trying to explain how it was manufactured; rather, we should forget (for a
moment) the word strategy and see which practices produce endurable or recurring events that eventually turn into things or events that are even addressed as strategy”.

Their conclusion from this analysis is that strategy does not exist independently of a set of practices that form its base. In fact, strategy might happen in different departments, different circumstances and different contexts. However, only a small percentage of actions that occur will be called strategic, because they revolve around a set of practices that constitute what is formally acknowledged to be strategy. It is the practices and rituals of strategy-making that might constitute a person to be a strategist. Strategy only exists as an object constituted by a certain practice; however, the practice itself is not a priori or beforehand strategic in any respect (Veyne, 1997:167).

Understanding practice is long overdue in strategy-making (Carter et al., 2008). Carter et al. (2008) argue that to concentrate on practice as being what people do is, however, to restrict oneself unnecessarily to a narrow and under-theorised view of practice. They further state that to understand practice, it is important to engage with issues of power, reality construction, symbolic order, actor networks and language games (Carter et al., 2008:15).

3.5.6 Limitations of Emergent (New) Strategies

There are a number of basic concerns about the emergent strategic approach which are normally raised by those who favour the prescriptive strategic approach. These are as follows:

(i) It is entirely correct that there are political groups and individuals that need to be persuaded that a strategy is optimal, but to elevate this process to the level of strategic management is to abdicate responsibility for the final decisions that need to be taken.

(ii) Although the process of strategy selection and choice has to be tempered by what managers are prepared to accept, this does not make it wrong. Rational decision-making based on evidence has a greater likelihood of success than hunch and personal whim. Thus, the debate should take place but be conditioned by evidence and logic.

(iii) Management control will be simpler and clearer where the basis of the actions to be undertaken has been planned in advance.
Resources of the group need to be allocated between the demands of competing operating companies. This can only be undertaken at the centre. It therefore demands some central strategic overview.

3.5.7 Conclusion
Despite some limitations against emergent strategies, compared to planned or intended strategies, the notion of emergent strategies is supported, for example, by an increasingly volatile and rapidly-changing environment.

3.6 THE FIRM AND THE ENVIRONMENT

3.6.1 Introduction
This section will cover how the environment affects strategy implementation of a firm, with specific reference to the Zimbabwean environment which prevailed during the period under review. In addition, the researcher will attempt to demonstrate how a developing economy such as Zimbabwe, with its post-colonial challenges and fragile democracy, face a unique set of forces which have an impact on the implementation of the strategic management process.

It could be argued that in a developing economy such as Zimbabwe, organisations are not managed purely along the lines of economic logic, but that business decisions also have to be made against the backdrop of a dominant political and ideological climate (Goldman, 2010).

3.6.2 Environmental Analysis
It is imperative that firms have a thorough knowledge of the environment in which they compete, as variables in the environment impact on competitiveness as well as survival and growth.

Environment can be described as the sum of the variables impacting on the competitiveness, and ultimately the survival and growth of a firm (Nienaber, 2010). The environment is typically divided into three sub-environments: the micro, the market and the macro environments.
Nienaber (2010), citing Carpenter (2009), suggests that the internal environment consists of the micro-environment or the firm itself, while the external environment consists of the market and macro-environments. This study will consider some of the variables in the environment that are considered to be unique to Africa in general, and Zimbabwe in particular.

As stated, the internal or micro-environment consists of the firm itself, is reflected in the profile of the firm and includes:

(i) The management of the firm and its resources, as evident in, among other things, key performance indicators such as financial ratios, activity and profitability ratios.

(ii) The strengths, weaknesses, capabilities and competencies of the firm, which impact on the successful implementation of its strategy.

Management may utilise different tools, such as the Resource-Based View (RBV) and Strengths, Weaknesses, Opportunities and Threats (SWOT) to conduct an internal environmental analysis. This analysis will identify strengths and weaknesses and determine the extent to which the firm’s capabilities and competencies allow it to compete in its particular environment.

The external environment is discussed in Sections 3.6.4 to 3.6.11 below.

3.6.3 The profile of the firm

The firm’s profile is generally reflected by its strengths, weaknesses, capabilities and competencies. Identification and analysis of these variables is crucial to strategy formulation and implementation, which aims to create a fit between the internal and external environment, thereby ensuring the successful performance of the firm (Nienaber, 2010).

The firm’s mission is considered to be the starting-point for evaluating its profile. This is because the mission is generally deemed to be the origin of all activities in the firm. The mission determines the business the firm is already in and the business it should be in. Consequently, the mission sets a firm apart from its rivals by indicating the needs it is trying to satisfy, the customer group it is targeting and the technologies that it uses to serve the target market.
The focus on the customer is crucial for achieving a competitive advantage over rivals. In general, most African firms do not emphasise customer satisfaction (Nienaber 2010). Customers are the blood within the veins of any business and they are crucial for the survival of the business. Since strategy has to do with the performance and survival of a business, it is very important that customers are given priority in strategy formulation for the good of the firm. However, it should be noted that there are examples of African firms that excel in customer service, such as Basil Read Holdings, SAB Miller Ltd, AECI Ltd, according to Nienaber, (2010). This study will, nevertheless, be focusing mainly on the financial services sector. This follows that the development of the competitive advantage and strategy will be analysed from the banking sector perspective.

A firm’s processes and systems must be used to channel activities in such a way that the firm can achieve a competitive advantage over its rivals. These processes are the activities a firm engages in to design, produce and sell its products or services. On the other hand, systems are an assembly of parts functioning together as a unit to achieve an outcome.

In most cases, the processes and systems use some form of technology. Africa is generally considered to be technologically disadvantaged and one would want to see how some banks, for example, have succeeded in getting all their processes and systems working well. Could it be that technology played a role in the collapse of some of the banks in Zimbabwe? Was it the bank’s mission or failure to focus on the customer that resulted in some of the banks’ downfall? These are some of the issues that this research intends to address.

The factors comprising the internal environment have the potential to derail a firm’s competitive advantage. On the other hand, if management does a proper internal environmental analysis as part of its strategic management, it can achieve its vision and mission. While having already alluded to the importance of the internal environment, this study will also look to what extent this internal environment analysis played a role in the survival or demise of some banks in Zimbabwe.

3.6.4 The market environment
The market environment comprises variables like customers, competitors, substitute products, new entrants, buyers and suppliers. These variables all impact on the strategy of the firm. The Zimbabwean financial services sector had a total of 26 financial institutions during the period under review.
3.6.5 The macro-environment
The macro-environment can be divided into six sub-environments: economic, political, legal, technological, social, physical, ecological and global environments. Africa is considered to be an emerging continent, which is generally associated with threats rather than opportunities. Zimbabwe is one of the emerging economies that experienced an unprecedented volatile economic climate in the country during the period under review (2000 – 2008). This volatility resulted in the collapse of more than six financial institutions in the country.

Interest rates, inflation and exchange rates which are the other variables in the economic environment reached unprecedented levels in Zimbabwe. Interest rates at peak were in excess of 900% per annum, inflation rates ran into billions and exchange rates went into quintillions (Economic Intelligent Unit Country Report, 2007).

This made the strategic management process extremely challenging for firms operating under such severe conditions. Most businesses in Zimbabwe discarded long-term planning during the period under review, because the economic variables were changing very fast. At one point in time, prices were being reviewed at least twice per day. The economic environment became highly unpredictable.

3.6.6 The political and legal environment
The political and legal environments comprise variables such as trade agreements and legislation that may hold opportunities and threats for Zimbabwean firms in general, and banks in particular.

The Zimbabwean political environment was characterised by violence and many people lost their lives. Although there are no official statistics, the figure is estimated to be in excess of 500 people that were killed owing to violence. Furthermore, there was an absence of rule of law, which resulted in a chaotic legal environment

3.6.7 The technological environment
The Zimbabwean economy is largely based on exploiting raw materials such as coal, iron, goal, diamonds, platinum and agricultural products such as tobacco, maize, wheat and
cotton, unlike that of an innovative economy such as the United States of America and the Nordic countries.

This means that Zimbabwe is generally not as technologically advanced as developed economies. Although the general reality and perception that Zimbabwe is not technologically advanced is a burden on the country's competitiveness, and may hamper a firm's ability to survive and grow in the long run, many firms do operate successfully in a high-tech environment. Mukono-tronics which manufactures high-technology equipment is one such example.

In addition, the banking industry is also characterised by using high-technology equipment in the form of point-of-sale terminals, mobile banking, internet banking and loan application devices, among others.

3.6.8 The social environment
The most important variable in the social environment is the population of Zimbabwe. The population of Zimbabwe is 13 million of whom 90% are unemployed. The bankable population is estimated around 750 000, according to the central bank statistics.

Most people lost their faith in the banking sector after the collapse of some of the financial institutions and consequently about 35% of the bankable population had bank accounts during the period under review. Most people were now keeping money in their homes during the period under review.

Furthermore, the life expectancy of Zimbabweans at birth is approximately 40 years, according to The Economist. HIV and AIDS are the major health risks faced by the Zimbabweans.

3.6.9 The physical and ecological environment
The physical environment primarily comprises infrastructure, whether this be basic, technological, scientific or human resources. The extent to which the infrastructure meets business needs is important, as it impacts on competitiveness. Firms can only operate within the limitations imposed by infrastructure. One of the main limitations that Zimbabwean banks faced was poor telephone connectivity and power cuts.
In Zimbabwe, infrastructure weaknesses include poor road networks, poor telephone communication, deteriorating quality of water resources and roads, and the brain drain, amongst others. Infrastructure strength includes the relatively low cost of labour and high literacy rates.

The ecological environment consists of the limited resources from which firms obtain their raw materials, their production capacity, levels of pollution and similar factors. The drought in Zimbabwe during the period under review affected banking business because agriculture is one of the highest contributors to the economy’s Gross Domestic Product (GDP).

3.6.10 The global environment
Zimbabwe forms part of the global environment and as such is influenced by global events such as the foreign policies of different nations, particularly Europe. The political environment in Zimbabwe has resulted in most European nations imposing sanctions on the country. It has been very difficult for most businesses to operate in Zimbabwe because of lack of lines of credit from foreign banks.

Consequently, there has been a serious liquidity crunch in the economy because of the sanctions and lack of foreign aid. To ensure survival, banks have had to come up with new strategies.

3.6.11 Challenges related to strategy implementation in Zimbabwe
It should be noted that the implementation of strategy relies on a thorough understanding of the environment in which the business functions (Goldman, 2010).

Zimbabwe presents its own challenges to the successful implementation of strategy. Most of these challenges stem from the fact that Zimbabwe is a developing country, and in developing countries the divide between economic reality and ideological agenda is not very clear. Organisations in developing countries are not managed purely along the lines of economic logic, but business decisions also have to be made against the backdrop of a dominant and ideological climate (Goldman, 2010).

The economic situation that prevailed in Zimbabwe during the period under review ignored logic and common sense (Muranda, 2006). The environment was associated with bad governance, chaotic land reforms, absence of rule of law which made it extremely difficult to
do business in the country. Most of the information on the state of the Zimbabwean economy has already been covered in Chapters 1 and 2.

It therefore came as no surprise when some of the businesses collapsed, including banks which are the subject of discussion in this study.

3.7 SUMMARY OF KEY FINDINGS AND CONCLUDING REMARKS

The main objective of this chapter has been the review of the extant theoretical and empirical literature relevant to the field of strategy: what is known about the subject of strategy, the current state of empirical knowledge about strategic management processes, the dominant underlying assumptions about its nature and the best ways to approach strategy formulation and implementation in general, and in turbulent environments in particular.

One of the key findings from this literature review has been that there is no common agreement on strategy-making (Lynch, 2010) and what it is (Maritz, 2010), based on theory and amongst practitioners about how strategy-making occurs in organisations. This debate centred around two opposing views: the first associated with strategy-making as a formal, deliberate plan, and the second emergent strategies as evolving, ever-changing sets of outcomes that are eventually realised. However, perspectives have been defended with conviction and passion (Maritz, 2010). Accordingly, Nag, Hambrick and Chen (2007) confirm that strategic management is a prime example of an academic field where consensual meaning is fragile and even lacking.

Furthermore, some theorists have argued that theories such as the industry and environment-based theories of strategy are mainly applicable to developed economies of the Western and Anglo-American worlds (Lynch, 2010) and not necessarily to developing economies characterised by relatively volatile environments.

In addition, the modern approaches to strategy, such as the complexity and chaos theory and the dynamic capabilities approach, also fail to accommodate the unique challenges associated with business environments operating in fragile democracies in Africa. The definition and causes of turbulence in developed economies differ from those in African countries such as Zimbabwe. More specifically, the turbulence in Zimbabwe, unlike in some
developed economies, was not caused by new technology, new product introductions or new entrants. As stated, the main causes of the turbulence during the period under investigation were:

(i) Bad governance.
(ii) Political ideology.
(iii) Absence of rule of law.
(iv) Poorly-planned, broad-based black economic empowerment programmes.
(v) Chaotic land reform programme.

The literature review has also demonstrated that both schools of thought (the traditional or prescriptive and the new or emergent) have some serious shortcomings (Maritz, 2010; Goldman, 2010; Lynch, 2010; Pretorius, 2010).

In fact, it was observed that businesses in developing economies such as Zimbabwe, with their unique environments, have their own ways of managing strategy, and businesses are not always managed on purely rational or along economic logic. Business decisions also have to be made against the backdrop of a dominant political and ideological climate.

In summary, the literature review has shown that business environments in the twenty-first century are becoming increasingly complex, turbulent and unpredictable and that traditional approaches to strategy formulation and development are becoming increasingly unsuitable for such turbulent environments (Naidoo, 2006). To be successful in such environments, businesses will have to adopt new ways of developing strategies in the turbulent environments, particularly in Africa. While traditional strategy begins with a plan and ends with actions, for many executives too much is happening too fast for a strategy-first approach in a highly-turbulent environment.

From the key findings, the following have been identified in terms of the research gap:

(i) The inconclusiveness of the debate on what strategy-making is and how it should be done.
(ii) The inapplicability of some of the strategy-related theories in an African environment, as argued by Lynch (2010) and Goldman (2010). This is coupled with the fact that businesses in developing economies are not managed purely through economic logic, but that there are other factors that can affect the formulation and implementation of business strategy, which
include politics, absence of rule of law, corruption, and ideological agenda among others (Goldman, 2010).

(iii) The inherent weaknesses of both theoretical approaches (the prescriptive and emergent) to strategy.

The above factors have now given birth to and confirm the research problem which is: **Current strategic management paradigms or approaches utilised by banks are inadequate to respond to a turbulent and chaotic financial services environment in Zimbabwe.**

Having identified the research problem, the following Chapter covers in detail, the research design and methodology which will guide the way to address this research problem.
CHAPTER 4:

RESEARCH DESIGN AND METHODOLOGY
4.1 INTRODUCTION

The purpose of this chapter is to explain the research design methodology that will guide the way to address the research problem, which is:

**Current strategic management paradigms or approaches utilised by banks are inadequate to respond to a turbulent and chaotic financial services environment in Zimbabwe.**

From the research problem, the research questions to be answered are:

i. What were the characteristics of strategic planning systems of banks operating in a turbulent and chaotic environment?

ii. What were the key success factors of the banks that survived the turbulence?

iii. What was the impact of increased environmental volatility and unpredictability on the Strategic Management process of the banks?

While many definitions of research design exist, and while they differ in detail, the following general essentials were identified (Bloomberg, Cooper and Schindler, 2008:195):

- The design is an activity and time-based plan
- The design is always based on the research question
- The design guides the selection of sources and types of information
- The design is a framework for specifying the relationships among the study’s variables
- The design outlines the procedures for easy research activity

Thus, the design provides answers for questions such as these:

- What kinds of answers is the study looking for, and which methods will be applied to find them?
- What techniques will be used to gather data?
- What kind of sampling will be used?
- How will time and cost constraints be dealt with?

4.2 BUSINESS RESEARCH

Business research can be defined as a systematic investigation of phenomena of interest to business decision-makers (Naidoo, 2006). The use of scientific business research, which is
a specialised type of investigation characterised by the rigour of the analytical tools and techniques applied, can result in research-based decision-making becoming an important tool for those organisations seeking competitive advantage. Some of the defining characteristics of scientific business research are:

- The purpose of the research must be clearly defined
- The research process must be detailed in a research proposal
- The research design must be thoroughly planned
- The limitations must be frankly revealed
- The analysis of the data must be sufficiently adequate to reveal its significance and the methods of the analysis should be appropriate
- The findings must be presented unambiguously
- The conclusions must be justified

(Cooper and Schindler, 1998: 14-18)

A research design is a plan that guides the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with efficiency in procedure (Babbie and Mouton, 2003:74). A research design is a strategic framework for action that serves as a bridge between research questions and the execution or implementation of the research (Terre Blanche and Durrheim, 1999:29).

The key features of any research design are methodology, collection and assignment of samples, collection and analysis of data along with procedures and instruments to be used, all of which will be presented in this chapter. This research was conducted using multiple case studies as research strategy, which is but one of several approaches to research in the social sciences. Other approaches include, but are not limited to experiments, surveys, historic and archival, and economic and epistemological research (Yin, 2009).

The research approach is thus always based on the research question and serves as the basis for the plan and structure of the research study (Cooper and Schindler, 2003). The research question can also be regarded as the foundation for successful questionnaire or interview guide development. Hofstee (2006) suggests that the methodology chapter should follow a generic approach and cover the areas outlined in Figure 4.1 below, which indicates the relationships between research design and research methodology.
Each approach has its own specific advantages and disadvantages, depending on which of the following three conditions prevail. These are: the type of research question, the control an investigator has over actual behavioural events and the focus on contemporary as opposed to historical phenomena. In general, case studies are the preferred method when (a) how or why questions are being posed, (b) the investigator has little control over events and (c) the focus is on a contemporary phenomenon within a real-life context.

Given the research problem and research objectives of this study, this chapter will highlight the research approach, methodology and process relevant to this study, explain the sampling design and method, elaborate on interviews and data collection process and discuss the case study approach to this study. This chapter is concluded by looking at reliability, trustworthiness and validity, as well as ethical considerations related to this research.
4.3 RESEARCH PURPOSE AND OBJECTIVES

4.3.1 Purpose of the research
The purpose of the study could be defined as the research outcomes the researcher wants to achieve and, as stated, should be linked to the research question (Bryman, 2008; Saunders et al., 2012). This study accordingly focused on the strategic management approach to business that managers adopted in the turbulent environment in the Zimbabwean financial services sector between 2000 and 2008. The comparative research was intended to study survivor banks and the ones that collapsed, in order to identify the differences in their strategic approaches on the assumption that they all faced the same turbulent environment. For ease of reference, the research questions and research objectives are again stated in Sections 4.3.2 and 4.3.3 below, in terms of the previously-stated research problem and research questions.

4.3.2 Research Questions
As stated in Chapter 1, the research questions for this study are as follows:

(i) What were the characteristics of strategic planning systems of banks operating in a turbulent and chaotic environment in Zimbabwe?

(ii) What were the key success factors of the banks that survived the turbulence?

(iii) What was the impact of increased environmental volatility and unpredictability on Strategic Management process of the banks?

4.3.3 Objectives of the research
Saunders et al. (2012) propose that research objectives allow the researcher to operationalise the research question. The objectives are useful for expressing how the researcher intends to structure the research process to answer the research questions.

To simplify the process of formulating objectives, Saunders et al. (2012:44) suggest that several key concepts ought to be followed. Firstly, transparency of research objectives ensures that the objectives are clear, realistic and unambiguous. Secondly, specificity of research objectives guarantees that the research objectives are easily understood. Thirdly, relevancy warrants that the research objectives link to the research questions and that the purpose of the broader research project is clear. Fourthly, research objectives should demonstrate interconnectivity to ensure that, when taken together as a set, they serve to illustrate the steps in the research process from its start to its conclusion, without leaving any
gaps. In this way, the research objectives form a coherent whole. Fifthly, answerability is a key concept which largely ensures that the intended outcome of the research is achievable. Where it relates to data, the nature of the data required needs to be clear. Sixthly, measurability is important to ensure that the intended outcome or product of the research objectives will be evident when they have been achieved. The research objectives must be formulated with the above requirements in mind.

As derived from the research questions, the objectives are stated below:

1. To identify and recommend strategic management paradigms or approaches applicable to a turbulent environment in Zimbabwe.
2. To compare survivor banks and those that did not survive the turbulent economic environment to identify and explain the differences in their approaches and strategies.
3. To identify key success factors for banks operating in a turbulent environment.
4. To recommend strategic management approaches applicable to banks operating in a turbulent environment.

The research paradigms are introduced in the following section.

4.3.4 Research Paradigms
Bryman (2005:453) identified a paradigm as a cluster of beliefs and dictates which for scientists in a particular discipline influence what should be studied, how research should be done and how results should be interpreted. Paradigms are opposing views or belief systems that are a reflection of, and guide, the decisions that researchers make (Tashakkori and Teddlie, 1998:71). According to Collis and Hussey (2003:47) there are two main paradigms: namely, the phenomenological and positivistic research paradigms.

The phenomenological paradigm attempts to understand people’s perceptions, perspectives and understanding of a particular situation (De Vos et al., 2005:264). However, its findings need to be related to an existing body of theory and research.

The positivistic paradigm associated with the quantitative research approach asserts that real events can be observed empirically and explained with logical analysis (Cresswell,
To summarise, the distinguishing characteristics of the positivistic paradigm and the phenomenological paradigm are highlighted in Table 4.1 below:

Table 4.1: The Distinguishing Characteristics of these Paradigms

<table>
<thead>
<tr>
<th>Positivistic paradigm</th>
<th>Phenomenological paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concerned with hypothesis testing</td>
<td>Concerned with generating theories</td>
</tr>
<tr>
<td>Tends to produce quantitative data</td>
<td>Tends to produce qualitative data</td>
</tr>
<tr>
<td>Uses large samples</td>
<td>Uses small samples</td>
</tr>
<tr>
<td>Data are highly specific</td>
<td>Data are rich and subjective</td>
</tr>
<tr>
<td>Reliability is high</td>
<td>Reliability is low</td>
</tr>
<tr>
<td>Validity is low</td>
<td>Validity is high</td>
</tr>
<tr>
<td>Generalises from sample to population</td>
<td>Generalises from one setting to another</td>
</tr>
</tbody>
</table>

Source: Collis and Hussey (2003:55)

Within this study, phenomenological paradigm was considered to be the most appropriate research paradigm mainly due to the nature of the qualitative data, absence of hypothesis testing, use of small samples and the subjective nature of the data.

In the section that follows, the research approach and methodology is highlighted.

### 4.4 RESEARCH APPROACH AND METHODOLOGY

#### 4.4.1 Introduction

There are three research approaches described by Saunders et al., (2012). The first approach is a deductive approach. In the deductive approach, the research starts with theory, often developed from academic literature, with the researcher designing a research strategy to test the theory.

The second research approach is an inductive approach. In the inductive approach, the researcher starts by collecting data to explore the phenomenon and then generates or builds theory in the form of a conceptual framework.

The third approach is the abductive approach which entails collecting data to explore a
phenomenon, identify themes and explain patterns to generate a new or modify an existing theory which will be subsequently tested through additional data collection. The starting point in the current research was reviewing academic literature on strategic management and different strategic management theories or paradigms. Following an extensive literature review, a research strategy was then designed.

4.4.2 Methodological choice
There are a number of research methods that can be used, as shown in Figure 4.2 below. The use of a single data collection technique and corresponding analytic technique is called a mono-method. The use of more than one data collection technique and analytical procedures to answer the research question is defined as a multiple-method. Multiple methods were used in this research.

Bryman (2008) advocates the use of multiple methods within business and management research, mainly due to the fact it is likely to overcome weaknesses associated with using only one method, as well as providing scope for a richer approach to data collection, analysis and interpretation.

Figure 4.2: Methodological Choice in Research

Source: Saunders et al. (2012:24)
The research strategy used in this study was a multiple case study. There were multiple cases that were used for banks that survived and those that collapsed during the period under review. The case studies included in-depth interviews with Chief Executive Officers or other Senior Executives of both failed and survivor banks. The rationale and reasons for a qualitative research approach and multiple case study as research strategy is further explained in Section 4.3.1 below.

The first research phase was exploratory, in order to gain deeper insights into strategic methods used by the Zimbabwean bankers in a turbulent environment, against the background of existing literature on strategic management paradigms. The insights generated from this phase were then used to develop interview guides for the empirical survey.

As stated, respondents were mainly Chief Executive Officers or Managing Directors or Divisional Heads responsible for Bank Strategy formulation, and Heads of Treasury Departments. These were considered to be the appropriate candidates for this part of the research, as they play a critical role in driving the strategic decisions of their organisations.

The total number of bank officials approached was 16, of whom 14 participated in the research. Despite the small number of respondents, this gave an 88% response rate. According to Punch (2003), a low response rate can raise questions on reliability and validity, hence researchers should strive for a response rate of at least 60% in order to ensure replicability of the methodology (Yin, 2009). In view of the foregoing, a response rate of 88% for this research was deemed acceptable.

It was determined that eight of the fourteen respondents had served their banks for more than ten years, which meant that they were fairly experienced executives. The relevance of the extensive number of years of involvement in the banking industry is that their insights are based on real experience attained over the years.

There is empirical evidence that where data are sought from few but knowledgeable participants or respondents, the information is more accurate than cases where information is pooled from a much larger group of less knowledgeable individuals (Huber and Power, 1985). This explains why the respondents in this study were only top executives within the selected banks.
This approach is consistent with that of Huber and Power (1985) who point out that the accuracy of data collected from an organisation is best restricted to more knowledgeable respondents, as compared to broadening the number of respondents. They cite examples where data from just three knowledgeable respondents were more accurate than a summary of data from a much larger group of less knowledgeable respondents. This supports the idea of not necessarily broadening the number of respondents from each bank and thus the approach that was followed in this study. In the section that follows, the generic research process is explained as a basis for the current research with reference to the relevance of this process to the current research where applicable.

4.5 THE RESEARCH PROCESS

4.5.1 Introduction
In this section, the stages of research process are outlined, the rationale for a qualitative research approach and the choice of a multiple case study approach are explained and the sampling design, data analysis and ethical considerations are discussed.

4.5.2 Research Process Stages
A multiple case study approach has been adopted for this research and the study followed the research plan according to the stages outlined below:

Stage 1: The formulation of the research problem

The research problem to be investigated was formulated from the literature that examined the background to the problem, and is repeated here for ease of reference:

:Current strategic management paradigms or approaches utilised by banks are inadequate to respond to a turbulent and chaotic financial services environment in Zimbabwe.

Stage 2: The identification of the research purpose and the research objectives

Using the identified research problem, the research purpose and research objectives were identified. These have already been highlighted in Chapter 1 and 4 (Section 4.3). The
subject area of banks operating in a turbulent environment in developing economies is relatively new and there is paucity of literature and research in that area.

Stage 3: Qualitative approach

A qualitative investigation was performed through a multiple case study approach and sources of evidence which included conducting personal interviews with respondents from six commercial banks, archival records, documentation and press articles.

The benefits from these different sources of evidence was maximised by creating hybrid strategies from each of the different multiple sources. The use of multiple sources of evidence in case studies allowed the investigator to address a broader range of historical and behavioural issues. However, the most important advantage of using multiple sources of evidence was the development of converging lines of inquiry, a process of triangulation and corroboration. Thus, any case study finding or conclusion is likely to be more convincing and accurate if it is based on several different sources of information, following a corroboratory mode (Yin, 2009).

Furthermore, the reliability of the information in this study was increased through the maintenance of a chain of evidence similar to that used in forensic investigations. This allowed an external observer or reader of the case study to follow the derivation of any evidence from initial research questions to the ultimate case study conclusions, as shown in Figure 4.3 below.
It was the intention of this research to enable the external observer to trace the steps in either direction (from conclusions back to initial research questions or from questions to conclusions). No original evidence should have been lost through carelessness or bias and therefore fail to receive appropriate attention in considering the facts of a case.

Once these objectives had been achieved, the case study would have addressed the methodological problem of determining construct validity, thereby increasing the overall quality of the case study (Yin, 2009).

Achieving the goal of reliability of the information has to do with the way the investigator will organise and document the data collected for the case studies. The lack of a formal database for most case studies is a major shortcoming of case study research (Yin, 2009).

For the current research, the database was in the form of notes, documents, tabular materials and narratives. The investigator ensured that the notes would be stored in such a
manner that they could be easily retrieved. In addition, case study documents are easily retrievable for inspection or perusal as part of the process, in order to ensure the reliability of the information. Further information on case study as a research strategy appears in Section 4.8.3.

**Stage 4: The design instrument**

Using the literature review and the key themes from the qualitative investigation, an interview guide or schedule was developed to ensure that the research purpose and objectives are appropriately addressed. This appears in *Annexure 3*. The Interview Guide was evaluated by a panel of experts which included Professor Hawkins of the University of Zimbabwe and Dr Makoni, a Senior Lecturer at the University of Nottingham, Trent.
Figure 4.4: Flow Chart of Typical Research Stages

Stage 1
RESEARCH PROBLEM

Stage 2
RESEARCH PURPOSE
RESEARCH OBJECTIVES

Stage 3
LITERATURE REVIEW

Stage 4
QUALITATIVE ANALYSIS
PERSONAL INTERVIEWS

Stage 5
INSTRUMENT DESIGN

Stage 6
PILOT STUDY

Stage 7
RESEARCH PROPOSITION

Stage 8
DISTRIBUTION OF FINAL QUESTIONNAIRE

Stage 9
DATA ANALYSIS

Level of importance
Extent of Implementation
GAP

RESULTS

THEORETICAL MODEL
4.5.3 Research Strategy

4.5.3.1 Introduction

The research strategy is the general plan of how a researcher will go about answering the research questions. Saunders et al. (2012) point out that there are a number of strategies that can be followed: namely, experiment survey, archival research, case study, ethnography, action research, grounded theory and narrative inquiry. More than one strategy can be used in research method. In this research multiple case studies, narrative enquiry and archival research through the documents were used.

4.5.3.2 Narrative inquiry

Saunders et al. (2012) suggest that in narrative inquiry, the participant plays the role of narrator whilst the researcher adopts the role of a listener and facilitates the process. In-depth interviews, as already highlighted above, can be used in narrative inquiry as a method to collect information and are best conducted by following three main steps: namely, Interview guide development, production of raw data and the organisation of the data (Saunders et al, 2012). This approach was followed in this study.

4.5.3.3 Interview Guide

Following extensive literature review on strategic management, several questions were developed. Consistent with the recommendations by Saunders et al. (2012), the questions that were developed sought specific events that happened within the bank (in relation to strategic management of financial institutions in a turbulent environment).

The questions addressed the why and how elements of strategic management in a turbulent environment which enabled the researcher to get further insight on the subject. The in-depth interview guide is shown as Annexure 3.

4.5.3.4 Production of raw data

Voice recordings were done in all interviews, following the consent of the respondents. An LG phone was used to record all the sessions. In addition to the LG, an iPad 3 was used to record the interviews during the session as a back-up measure. In this way, the researcher
ensured that there was an additional electronic copy in case something happened to the first
device. Notes were also transcribed during the interview process to make the transcription
process manageable.

4.5.3.5 Organising the data

The transcriptions of all the interviews are shown in Annexure 4. The interview transcriptions
were formatted in such a way that they included the time at which the interview responses
were given. The responses for the interviews were then used to explain and support the
findings that were obtained in the study.

4.5.4 Research Design

Research methodology which is part of research design is a structure of guidelines or
activities to assist in generating valid and reliable research results (De Vos Strydom, Fouche
and Delport, 2005:117). Collins and Hussey (2003:55) are of the opinion that research
methodology is therefore concerned with the following main issues:

- Why certain data were collected
- From where the data were collected (population and sampling),
- How the data were collected
- When the data were collected
- What data were collected and
- How the data were analysed (research instruments)

4.5.5 Quantitative versus Qualitative Research

In any research enquiry, the researcher has to determine whether the study will be
quantitative or qualitative in nature. A quantitative study is an inquiry into a social or human
problem, based on testing a theory composed of variables, measured with numbers and
analysed with procedures, in order to determine whether the predictive generalisations of the
theory hold true (Cresswell, 1994:1-2). Quantitative research is associated with the
positivistic paradigm which will be discussed in the next section.

Alternatively, qualitative research is an inquiry process of understanding a social or human
problem, based on building a complex, holistic picture, formed with words, reporting detailed
views of informants and conducted in a natural setting (De Vos et al. 2005:93). Qualitative
research is associated with the phenomenological paradigm. An overview of the phenomenological paradigm will be given in the next section.

The distinctions between quantitative research and qualitative research can be summarised as follows, according to Kaplan and Duchon (1988:580) and Cresswell (1994:21-24):

Quantitative research is generally done by making use of scientific methods which can include:

- The generation of models, theories and hypotheses
- The development of instruments and methods for measurement
- Experimental control and manipulation of variables
- Collection of empirical data
- Modelling and analysis of data
- Evaluation of results

Qualitative research usually has one or more of the following features:

- A focus on natural settings
- An interest in meanings, perspectives and understandings
- An emphasis on process
- A concern with inductive analysis and grounded theory

Qualitative research methods are used in many branches of scientific research to help answer questions that statistics and measurements cannot answer and they can also provide a more in-depth examination of complex questions (Nicholas, 2011). While qualitative research methods have been traditionally viewed as less reliable and more prone to bias and subjectivity, proponents argue that all research is at risk of bias and subjectivity.

On the other hand, quantitative research is generally regarded as the most reliable source of information, since it always involves the use of numbers, often uses calculations, and derives concrete facts through careful observations and creative analyses (Nicholas, 2011). Some believe that mathematical finds and laws are the closest things to the truth that science can ever hope to approach.

Nicholas (2011) argues that qualitative research methods allow researchers to explore complex questions, including value-laden inquiries and subjective information. Data are often
collected through in-depth, one-on-one interviews, surveys or small focus groups in order to explore an issue more fully and with less restriction. This ability of qualitative methods to look holistically at a problem has led to its increased use in research, especially in the social sciences. In psychology, for example, many questions concerning the brain cannot be quantified, such as how a person thinks or feels. This research is qualitative in nature and was carried out through multiple case studies.

4.6 SAMPLING DESIGN AND PROCESS

4.6.1 Introduction
According to Cooper and Schindler (1998:219), there are several decisions to securing a sample, such as:

- What is the relevant population?
- What is the type of the sample?
- What is the size of the sample?

The process of sampling involves any procedure using a small number of parts of the whole population to draw conclusions regarding the population (Terre Blanche et al., 1999:44-45), while the purpose of sampling is to enable researchers to estimate some unknown characteristic of the population (Collis and Hussey, 2003:155-160). In this section, the following stages in the sampling process - namely, the relevant population, the sample, and the sampling unit - will be discussed.

4.6.2 The relevant population
For research purposes, a population can be defined as including all people or items with the characteristics one wishes to understand or any complete group of people or any collection of items under consideration for the research purpose (Sekaran, 2000:226). The research population is defined as a group that the research wants to generalise about (Cresswell, 1994:119).

In this study the target population was comprised of 16 registered commercial banks.
4.6.3 Unit of analysis and sampling methods

4.6.3.1 Introduction
The unit of analysis was a commercial bank.

There are two main categories of sampling methods: namely, probability and non-probability sampling methods (De Vos et al., 2005:193-199). This research used a non-probability sampling method because it is qualitative. Non-probability sampling is any sampling method where some elements of the population have no chance of selection. It involves the selection of elements based on assumptions regarding the population of interest which forms the criteria for selection. In essence, therefore, the units of the sample are selected on the basis of personal judgement.

Non-probability sampling includes accidental sampling, quota sampling, purposive sampling and convenience sampling (De Vos et al., 2005:198-200). This research used both convenience and purposive sampling methods.

Purposive sampling is virtually synonymous with qualitative research (Palys, 2008).

4.6.3.2 Purposive Sampling

Purposive sampling represents a group of different non-probability sampling techniques. Also known as judgmental, selective or subjective sampling, purposive sampling relies on the judgement of the researcher when it comes to selecting the units (e.g. people, cases/organisations, events, pieces of data) that are to be studied (Lund Research, 2012). Usually, the sample being investigated is quite small, especially when compared with probability sampling techniques.

Unlike the various sampling techniques that can be used under probability sampling (e.g., simple random sampling, stratified random sampling, etc.), the goal of purposive sampling is not to select units randomly from a population to create a sample with the intention of making generalisations (i.e. statistical inferences) from that sample to the population of interest [see the article: Probability sampling]. This is the general intent of research that is guided by a quantitative research design (Lund Research, 2012)

The main goal of purposive sampling is to focus on particular characteristics of a population that are of interest, which will best enable the researcher to answer his/her research
questions. In this study, the focus was on Strategic Management characteristics of banks operating in a turbulent and chaotic environment.

The sample being studied is not representative of the population, but for researchers pursuing qualitative or mixed methods research designs, this is not considered to be a weakness. Rather it is a choice, the purpose of which varies depending on the type of purposing sampling technique that is used. For example, in homogeneous sampling, units are selected based on their having similar characteristics because such characteristics are of particular interest to the researcher. This study focused on six commercial banks (three that survived and three that collapsed) as sampling units.

4.6.3.3 Homogeneous Sampling

Homogeneous sampling is a purposive sampling technique that aims to achieve a homogeneous sample: that is, a sample whose units (e.g., people, cases, etc.) share the same (or very similar) characteristics or traits (e.g., a group of people that are similar in terms of age, gender, background, occupation, etc.) (Lund Research, 2012). In this study, the homogeneous sampling was the two groups of banks (the ones that survived the turbulence and the ones that collapsed).

A homogeneous sample is often chosen when the research question that is being addressed is specific to the characteristics of the particular group of interest, which is subsequently examined in detail. In this case, the research questions were focusing specifically on commercial banks operating in a turbulent and chaotic environment.

It should be noted that, although homogeneous sampling method was used in this study, Extreme or Deviant sampling was also used because one of the objectives of this study was to compare banks that survived with those that failed and these were two extreme cases.

4.6.3.4 Extreme or Deviant Sampling

Extreme (or deviant) case sampling is a type of purposive sampling that is used to focus on cases that are special or unusual, typically in the sense that the cases highlight notable outcomes, failures or successes. These extreme (or deviant) cases are useful because they often provide significant insight into a particular phenomenon, which can act as lessons (or cases of best practice) that guide future research and practice. In some cases, extreme (or
deviant) case sampling is thought to reflect the purest form of insight into the phenomenon being studied.

4.6.3.5 Advantages of Purposive Sampling

According to Lund Research (2012), there are a wide range of qualitative research designs that researchers can draw on. Achieving the goals of such qualitative research designs requires different types of sampling strategy and sampling technique.

One of the major benefits of purposive sampling is the wide range of sampling techniques that can be used across such qualitative research designs; purposive sampling techniques that range from homogeneous sampling through to extreme or deviant case sampling, expert sampling, and more.

This study focused on mainly homogeneous and extreme sampling.

Whilst the various purposive sampling techniques each have different goals, they can provide researchers with the justification to make generalisations from the sample that is being studied, whether such generalisations are theoretical, analytic and/or logical in nature (Lund Research, 2012).

Qualitative research designs can involve multiple phases, with each phase building on the previous one. In such instances, different types of sampling technique may be required at each phase. Purposive sampling is useful in these instances because it provides a wide range of non-probability sampling techniques for the researcher to draw on.

4.6.3.6 Disadvantages of Purposive Sampling

Purposive samples, irrespective of the type of purposive sampling used, can be highly prone to researcher bias. The idea that a purposive sample has been created, based on the judgement of the researcher, is not a good defence when it comes to alleviating possible researcher biases, especially when compared with probability sampling techniques that are designed to reduce such biases. However, this judgemental, subjective component of purpose sampling is only a major disadvantage when such judgements are ill-conceived or poorly considered: that is, where judgements have not been based on clear criteria, whether a theoretical framework, expert elicitation, or some other accepted criteria (Lund Research, 2012).
The subjectivity and non-probability based nature of unit selection (i.e. selecting people, cases/organisations, etc.) in purposive sampling means that it can be difficult to defend the representativeness of the sample. In other words, it can be difficult to convince the reader that the judgement the researcher used to select units to study was appropriate. For this reason, it can also be difficult to convince the reader that research using purposive sampling achieved theoretical/analytic/logical generalisation. After all, if different units had been selected, would the results and any generalisations have been the same? These are some of the issues to consider when one is deciding on a sampling method.

4.6.3.7 Convenience Sampling

A convenience sample is simply one where the units that are selected for inclusion in the sample are the easiest to access. This is in stark contrast to probability sampling techniques, where the selection of units is made randomly (Lund Research, 2012).

In this study, the researcher was mainly interested in looking at banks that survived the turbulence and those that collapsed during the period under review. As such, the researcher identified the banks in the two different categories and approached the ones from which a detailed analysis of the issues that were being investigated would be obtained. The main criteria used were easy access, availability of information and the quality of information the researcher was investigating.

4.6.3.8 Advantages of Convenience Sampling

Convenience sampling is very easy to carry out, with few rules governing how the sample should be collected. The relative cost and time required to carry out a convenience sample are small in comparison with probability-sampling techniques. This enables the researcher to achieve the sample size he/she wants in a relatively fast and inexpensive way. The convenience sample may help the researcher to gather useful data and information that would not have been possible using probability-sampling techniques, which require more formal access to lists of populations (Lund Research, 2012).

4.6.3.9 Disadvantages of Convenience Sampling

The convenience sample often suffers from a number of biases. A convenience sample can lead to under- or over-representation of particular groups within a sample (Lund Research, 2012). One does not know why the relevant people agreed to participate in the study - for example, some of the executive banks may have agreed because they wanted to vent their
frustrations towards the central bank which they blamed for their collapse. Did others take part out of kindness or they were just trying to be nice? This again has a potential to prejudice the accuracy of the results.

Since the sampling frame is not known, and the sample is not chosen at random, the inherent bias in convenience sampling means that the sample is unlikely to be representative of the population being studied. This undermines one’s ability to make generalisations from their sample to the population they are studying.

Whilst convenience sampling should be treated with caution, its low cost and ease of use make it the preferred choice for a significant proportion of academic students (Lund Research, 2012).

4.6.3.10 The Sample

A sample is a “subgroup of a population” (Frey et al., 2000). The sample should be “representative” in the sense that each sample unit will represent the characteristics of a known number of units in the population. Sampling theory is important to understand in regard to selecting a sampling method because it seeks to make sampling more efficient (Latham, 2007). Latham posits that using correct sampling methods allows researchers the ability to reduce research costs, conduct research more efficiently, have greater flexibility and provide for greater accuracy.

This research is a multiple-case design and therefore a sampling logic should not be used and the typical criteria regarding sampling size are also not relevant (Yin, 2000). However, this qualitative study focused on six commercial banks, three that failed during the turbulent era and three that survived the turbulence.

4.7 INTERVIEWS AND DATA COLLECTION

4.7.1 Introduction
The interviews were carried out at the top two levels, which were the Chief Executive of the Company and their Direct reports. These were the people that were deemed to be mainly responsible for Strategy formulation in respective business.
4.7.2 Benefits of in-depth interviews
There are several reasons why in-depth interviews were used during this study.

4.7.2.1 The purpose of the research

The in-depth interviews give the researcher an opportunity to “probe” answers in cases where interviewees have to explain their responses. This allowed the researcher to broaden his understanding of what exactly happened during the turbulent environment and how these banks were operating.

Probing adds meaning and significance to the data. In-depth interviews allow participants to share as much information as possible in an unconstrained environment, as questions are open-ended (Cooper and Schindler, 2003; Saunders et al, 2012). The information that is collected is detailed and is useful in exploring topics and explaining findings.

4.7.2.2 The significance of establishing personal contact

Given the profile of the respondents which are senior executives of the banks, these people are more likely to agree to being interviewed rather than having to complete a questionnaire (Saunders, 2012).

4.7.2.3 The nature of the questions

In-depth interviews provide an advantageous approach where the questions are either complex or open-ended (Saunders, 2012). This approach gave the researcher an opportunity to provide additional guidance by using questions to promote discussion and elaboration by participants. The aim of in-depth interviews is to provide a relaxed environment in which the participant is open to discuss topics fully.

4.7.2.4 Length of time and completeness of the process

The length of time that the respondents would take to provide the information meant that, in order to ensure completeness of the information gathered, their undivided attention would be required.

4.7.3 Improving the reliability of in-depth interviews

4.7.3.1 Introduction
In order to avoid data quality issues when in-depth interviews are being conducted, Saunders (2012) suggests that there should be three key considerations that are taken into account.

4.7.3.2 Level of knowledge

Company documents which included Monetary Policy Statements, annual reports, minutes of the executive meetings and strategic documents were also reviewed to demonstrate knowledge around the subject and also to draw on relevant practices within the organisation that were relevant to the study.

4.7.3.3 Developing interview themes and supplying information to the interviewee before the interview

Interviewees were supplied beforehand with the relevant information relating to the interview. This ensured that the respondents were adequately prepared for the interviews. The following themes that reflect the variables being studied were shared with the participants before the interviews:

- The causes of bank crises and how banks responded to such crises
- How strategies were formulated during crises
- Diversification versus core business in banking
- Key success factors for banks operating in turbulent environments
- The role of politics and governance and how this affected business

4.7.3.4 The appropriateness of the intended interview location

All interviews took place in offices and there were no disturbances during the course of the interviews.

4.7.4 Checklist for the in-depth interviews

4.7.4.1 Introduction

In-depth interviews which were one hour in duration were conducted. This was the amount of time agreed with the respondents, given their tight work schedules. Both the introductory letter and the consent to participate by the respondent used in the survey may be found in Annexures 1 and 2 respectively. The researcher started by asking some broad questions as
a way of setting up the scene and ensuring that the interviewee was relaxed and appreciated the fact that this was an academic exercise which would be treated confidentially.

4.7.4.2 Information supplied through the introductory letter before the interview

- Themes to be addressed during the interview, as highlighted in paragraph 4.6.3 above.
- Definitions of banking crisis and strategic management, as outlined in the interview guide shown as Annexure 3.

4.7.4.3 Nature of and environment in which interviews were conducted

- The meeting was a formal meeting and very professional. The meetings were held in interview rooms where there were no interruptions.

4.7.4.4 Opening the interview

- The researcher started by greeting the respondent and introducing himself to the latter, also thanking him for affording the researcher the opportunity to discuss with him their experiences during the turbulent environment that prevailed during the period under review.
- It was very encouraging to note that most of the respondents were very cooperative, particularly those of the failed banks who felt they had a score to settle with the regulatory authorities whom they felt were responsible for their demise. As a result, they were very candid with their own interpretation of what caused their demise.
- The purpose of the research was clearly stated and the right to confidentiality was also addressed.
- The respondent’s right not to answer any question that they were not comfortable with was highlighted and also the right not to continue at any one point.
- The offer to provide a summary of the research findings was also made.

The request to record the interview was stated and agreed, an LG phone was used and an iPad 3 Super note was used simultaneously as backup.
4.7.4.5 Asking questions and behaviour during the interview

- The researcher started with broad questions as a way of setting the scene for the meeting.
- The researcher closely followed the guide in order to ensure that all the key issues were addressed and this was also a way of ensuring that the interview would be finished within the agreed time frame which was one hour.
- The researcher made sure he would acknowledge the comments from the respondent by nodding his head, also assuring the respondent that the researcher was finding the feedback very interesting and relevant to the subject matter.
- There was a demonstration of attentive skills by the researcher as a way of encouraging the respondents to pour out their hearts about their experiences.
- This was a very emotional meeting from the respondents’ point of view, particularly of those whose banks had collapsed during the turbulent period.
- The researcher also had to show empathy during the process, appreciating the challenges that the respondents of the failed banks faced.
- The researcher constantly tried to summarise the responses from the respondents as a way of ensuring that the former had fully understood the responses.

4.7.4.6 Closing the interview

- The respondents were thanked for their time taken to contribute towards this research and were promised the summary of the findings. It was also agreed that the names of the banks would not be published for confidentiality reasons. This explains why, in Chapter 5 on Findings, the names of the banks were not disclosed. They are just being referred to as banks A, B, C, D, E and F.

4.8 VALIDITY, RELIABILITY AND GENERALISABILITY OF THE RESEARCH

4.8.1 Introduction

Every type of empirical research has an implicit, if not explicit, research design. The design is the logical sequence that connects the empirical data to a study’s initial research questions and, ultimately, to its conclusions.
Generalisability can be defined as the extension of the research findings and conclusions from a study conducted on a sample population to the population at large. Its relative absence from the methodological literature is likely attributable to it being seen by many qualitative researchers as a preoccupation of those who take a specifically quantitative, approach to research (Williams, 2004). According to Williams (2004) for many qualitative researchers, it is a nonissue because the role of qualitative research is to interpret the meanings of agents within particular social contexts, rather than measuring, explaining, or predicting. Those who deny the possibility of generalization argue that individual consciousess are free to attach different meanings to the same actions or circumstances.

Yin (2009) argues that the development of research design is a very difficult part of doing case studies. Unlike other research methods, a comprehensive “catalogue” of research designs for case studies has yet to be developed. Research has shown that there are very few resources covering such design considerations as the assignment of subjects to different groups, the selection of different stimuli or experimental conditions (Yin, 2009:25).

The research design is a blueprint for the research dealing with at least four problems: what questions to study, what data are relevant, what data to collect and how to analyse the results (Philliber, Schwab and Sasloss, 1980; Yin, 2009).

The main purpose of the design is to help avoid the situation in which the evidence does not address the initial research questions.

For case studies, theory development as part of the design phase is essential, whether the ensuing case study’s purpose is to develop or test theory. In this research, this case study investigated whether the current strategic management paradigms at the time were adequate for banks operating in a turbulent environment (Pretorius, 2010).

The development of this theoretical framework from the literature review aided in defining the appropriate research design and data collection (Yin, 2009).

The researcher used three tests to establish the quality of this empirical research. These were construct validity, internal validity and reliability validity. In this study, the tests will be conducted as follows:
4.8.2 Construct Validity
The main challenge for the investigator was the development of a sufficiently operational set of measures and avoidance of subjective judgments in data collection (Yin, 2009). This was managed by the use of multiple sources of evidence, as will be highlighted later under “collection of data.”

4.8.3 Reliability
The goal of reliability is to minimise the errors and biases in the study. The most important advantage presented by using multiple sources of evidence, as highlighted in this study, is the development of converging lines of inquiry, a process of triangulation and corroboration. Triangulation was used during evaluation. With data triangulation, the potential problems of construct validity can be addressed because the multiple sources of evidence essentially provide multiple measures of the same phenomenon. In the next section, the case study as a research strategy is explored in detail.

This research used multiple sources of evidence which includes interviews, documents, archival records and empirical data. The use of multiple sources of evidence in case studies allows an investigator to address a broader range of historical and behavioural issues. However, the main advantage of this method is the development of converging lines of inquiry which means that any case study finding or conclusion is likely to be more convincing and accurate if it is based on several different sources of information (Yin, 2009).

With data triangulation, the potential problems of construct validity can also be addressed, because the multiple sources of evidence essentially provide multiple measures of the same phenomenon.

The data collected from the various sources during the research will be triangulated, as shown in Figure 4.5 below.
Convergence of Evidence
(Single study)

Source: Yin, 2009: 117

**Figure 4.5: Convergence of Evidence**

This method will ensure that the invaluable advantage of case study strategy is maintained. Yin (2009) argues that one analysis of case study methods found that those case studies using multiple sources of evidence were rated more highly in terms of quality than those that relied on only single sources of information. The desk research findings are briefly highlighted in the following section.
4.8.4 Internal validity

Internal Validity is the approximate truth about inferences regarding cause-effect or causal relationships (Williams, 2004). This means that internal validity is only relevant in studies that try to establish a causal relationship. It's not relevant in most observational or descriptive studies. However for studies that assess the effects of social programs or interventions, internal validity is perhaps the primary consideration.

4.8.5 Content validity

Content validity is a research method that refers to how well a test measures the behaviour for which it is intended (Williams, 2004). Content related evidence of validity comes from the judgement of people who are either experts in the testing of that particular content area or are content experts.

4.9 CASE STUDY AS A RESEARCH STRATEGY

4.9.1 Qualitative Research as a framework for Case Study research

According to Cooper and Emory (1995), a research study may be viewed as exploratory or formal, the distinction being found in the degree of structure and the immediate objective of the study.

This study commenced on an exploratory note, with a qualitative approach due to the paucity of literature on strategic response of banks to turbulent environments in developing economies and followed a multiple case study approach.

Qualitative research is an unstructured, exploratory research method based on small samples intended to provide insight into, and understanding of, the problem setting (Naidoo, 2006).

It is an interpretative approach focusing on people’s opinions or upon natural occurrences. It employs methods such as field experiments, case studies and interviews. Researchers will collect data and interpret it to produce a conclusion. Researchers will use a variety of qualitative methods in a multi-method research to draw a conclusion from the sample group under question. The goal is to formulate an accurate representation of the entire group.
In this study, the qualitative research was executed through personal interviews with the leadership of six financial institutions (three that survived the turbulence and three that failed to survive).

Face-to-face interviews were conducted with executive leadership from six banks, as stated above. This method seems appropriate in view of the initial exploratory nature of this study. The choice of the members of the group was based on the match of the business to the research questions, the accessibility and availability of the bank’s leadership and their willingness to be interviewed. Nevertheless, only the top two levels in the leadership hierarchy were targeted.

In order to manage and extract meaningful trends from the qualitative data generated by the interviews, the size of the group was to be limited to six (Naidoo, 2006). The interviewer (researcher) guided the discussion in order to maintain it within the boundaries of the research topic, using the Interview Guide highlighted above.

According to Cooper and Schindler (1998), a personal interview is a two-way conversation, initiated by the interviewer to obtain information from a respondent. The interviewer generally controls the topics and patterns of the conversation. The main advantages of this process are:

- The depth of the information and detail that can be secured
- The greater control that interviewers possess in this type of interrogation
- The ability to adjust the language of the interview
  (Naidoo, 2006)

A successful personal interview must meet three broad conditions:

- Availability of the required information from the respondent
- An understanding by the respondent of his or her role
- Adequate motivation by the respondent to cooperate

(Cooper and Schindler, 1998).

A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident (Yin, 2009). This means that case studies are used when one
wants to understand a real-life phenomenon in depth, but such understanding encompassed important contextual conditions because they were highly pertinent to the phenomenon of study (Yin and Davis, 2007).

The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented and with what result (Yin 2009:17). However, it should be noted that, although the case study is a distinctive form of empirical inquiry, many research investigators nevertheless disdain the strategy. The greatest concern has been the lack of rigour of case study research. Too many times, the case study investigator has been sloppy, has not followed systematic procedures or has allowed equivocal evidence of biased views to influence the direction of the findings and conclusions (Yin, 2009: 14).

A second common concern about case studies is that they provide little basis for scientific generalisation. A third frequent complaint about case studies is that they take too long and they result in massive, unreadable documents.

As previously stated, this research study is a multiple case study. The case study is but one of several ways of doing social science research. Other ways include but are not limited to experiments, surveys, histories and economic research (Yin, 2009). The research methodology has been influenced by the nature of the questions being posed in the study.

In general, case studies are the preferred method when how and why questions are being posed (Yin, 2009). This case study research was commenced by developing a plan which incorporated the identification of research questions or the rationale for doing a case study. Case study is not sampling research. However, selecting cases must be carried out so as to maximise what can be learnt in the period of time available (Stake, 1995, Yin, 2009).

4.9.2 The Case study research process

The case study research process involves various stages which include plan, design, prepare, collect, analyse and share. The planning stage involves identification of research questions or any other rationale for doing a case study. Furthermore, after a decision has been made to use the case study strategy, one then has to fully understand its strengths and limitations.

The planning stage was followed by the research design. A research design is the logic that links the data to be collected and the conclusions to be drawn to the initial questions of the
study (Yin, 2009). Articulating theory about what is being studied and what is to be learnt helps to make case study designs explicit and operational. This stage will also define the unit of analysis and the likely cases to be studied. It is during the design phase that the theory, propositions and issues underlying the anticipated study are going to be developed. The case study design will be identified, indicating whether it will be a single or multiple case study approach during this phase.

The design stage was followed by the prepare stage. This stage included the development of the case study protocol, the screening of the candidate cases to be part of the case study and the conducting of the pilot study.

The prepare stage was then followed by the collect stage. Case study evidence came from six sources such as documents, archival records, interviews, direct observation, participant-observation and physical artifacts (Yin, 2009). This called for mastering different data collection procedures.

The collect stage was followed by the analysis stage. Data analysis consists of examining, categorising, tabulating, testing or otherwise re-combining evidence to draw empirically-based conclusions.

The final stage was share. This involved reporting the results and findings of the case study research. It was necessary to display enough evidence for readers to reach their own conclusions.

The six interactive stages of the case study research process are presented diagrammatically below.
The determination of the questions significant for this topic was done through literature review (Cooper, 1984; Yin, 2009). The research purpose, the research objectives and the research propositions were stated in Chapter 1, as well as the scope and demarcation of the study.

4.9.3 Multiple Case Studies

4.9.3.1 Introduction

This research involved multiple case studies focusing on six banks in Zimbabwe. Multiple case designs have distinct advantages and disadvantages in comparison to single case designs. The evidence from multiple case studies is often considered more compelling and the overall study is therefore regarded as being more robust (Harriott and Firestone, 1983; Yin, 2009).

Each case was carefully selected from banks that failed and those that succeeded during the period under discussion in Zimbabwe.

The diagram below shows the case study method:
4.9.4 Building theory from qualitative data and proposition development
A proposition is a statement about concepts that may be judged true or false, if it refers to
the observable phenomena, while a hypothesis is a proposition that is formulated for
empirical testing (Cooper and Schindler, 1998; Naidoo, 2006). Theories can be created by
the development of a set of propositions that establish a relationship between things in a
systematic way (Henning, 2004). Thus, proposition research is useful in researching areas
that are new and that can be observed and described in order to generate new theories and
contribute to the development of the area’s body of knowledge. A theory is a system of ideas
and abstracts that organises knowledge about the social world (Neuman, 2000).

The literature review reported in Chapter 3 shows the paucity of literature and research on
the strategic response of banks to turbulent and volatile environments.

4.9.5 Building theory from case study
There is widespread acknowledgement of qualitative research as a valuable and valid
research approach (Eisenhardt, 1989; Carrol and Swatman, 2000). However, many authors
have argued that each research strategy has advantages and disadvantages. Therefore, no
strategy is more appropriate than all the others for all research purposes (Cepeda and
Martin, 2004).

Cepeda and Martin (2004) identify three main reasons why case study research is a viable
management research strategy. Firstly, the researcher can study management in a natural
setting, learn about its state of the art, and generate theories from practice. Secondly, the
case method allows the researcher to answer how and why issues in order to understand
the nature and complexity of the processes taking place. Thirdly, a case study approach is
an appropriate way to explore areas where research studies are scarce.

This study adopted Eisenhardt’s (2001) “road map” for building theories from case study, as
shown below.

**Table 4.2: Process of Building Theory from Case Study**
<table>
<thead>
<tr>
<th>Step</th>
<th>Activity</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting Started</td>
<td>Definition of research question.</td>
<td>Focuses efforts. Provides better grounding of construct measures.</td>
</tr>
<tr>
<td>Selecting Cases</td>
<td>Neither theory nor hypothesis. Specified population.</td>
<td>Retains theoretical flexibility. Constrains extraneous variation and sharpens external validity. Focuses efforts on theoretical useful cases i.e. those that replicate or extend theory by filling conceptual categories</td>
</tr>
<tr>
<td>Entering the field</td>
<td>Overlaps data collection and analysis, including field notes. Flexible and opportunistic data collection methods.</td>
<td>Speeds analysis and reveals helpful adjustments to data collection Allows investigators to take advantage of emergent themes and unique case features.</td>
</tr>
<tr>
<td>Analysing data</td>
<td>Within case analysis. Cross-case pattern search using divergent techniques.</td>
<td>Gains familiarity with data and preliminary theory generation. Forces investigators to see through multiple lenses.</td>
</tr>
<tr>
<td>Shaping hypothesis</td>
<td>Iterative tabulation of evidence for each construct. Replication and not sampling, logic across cases. Search for “why” behind relationships</td>
<td>Sharpens construct definition validity and measurability. Confirms, extends and sharpens theory. Builds internal validity.</td>
</tr>
<tr>
<td>Enfolding literature</td>
<td>Comparison with conflicting literature.</td>
<td>Builds internal validity, raises theoretical levels and sharpens construct definitions.</td>
</tr>
</tbody>
</table>
Many pieces of theory-building processes are evident in the literature. However, there is substantial confusion about how to combine them, when to conduct this type of study and how to evaluate it (Eisenhardt, 2001).

### 4.9.6 Data Collection Procedures

This thesis is a comparative study of how banks responded to a turbulent and chaotic environment in Zimbabwe during the period from 2000 to 2008. The Zimbabwean economy experienced severe environmental turbulence emanating from a chaotic land reform, bad governance, economic mismanagement and the absence of rule of law between 2000 and 2008. The turbulence resulted in the closure of at least ten financial institutions, including five commercial banks. However, some of the commercial banks survived the turbulence.

It was the objective of this research to identify strategic management paradigms or approaches applicable to banks operating in a turbulent environment in Zimbabwe, and the following data collection procedures were applied.

It should be appreciated that the investigator collected data from people and institutions in their everyday situations, not within the controlled confines of a laboratory, the sanctity of a library, or the structured limitations of a survey questionnaire (Yin, 2009).

The researcher did not have control over the data collection environment. Furthermore, he had to conform to the interviewee’s schedule and availability. The nature of the interview was much more open-ended and flexible.

The investigator had to have explicit and well-planned field procedures encompassing guidelines for coping with behaviours, given the foregoing comments.

The field procedures of the protocol for this research included the following:

- Gaining access to key banks or interviewees
- Having sufficient resources while in the field, including laptop and quiet place to write notes privately
- Making a clear schedule of the data collection activities that are expected to be completed within specified periods of time and
- Providing for unanticipated events, including changes in the availability of interviewees as well as changes in the mood and motivation of the case study investigator

4.9.7 Framework for and approach to the case study research

4.9.7.1 Introduction

The heart of this protocol was a set of substantive questions reflecting the investigator’s line of inquiry. These protocol questions in essence were a reminder of what needs to be collected and why. The main purpose of these questions was to keep the researcher on track as data collection proceeded, and are provided for ease of reference.

(i) What were the characteristics of strategic planning systems of banks operating in a turbulent and chaotic environment in a developing economy?

(ii) How did banks formulate their strategies against a background of bad governance, absence of rule of law, corruption and economic mismanagement?

(iii) What was the impact of increased volatility and unpredictability of the environment on the bank’s strategic management process?

The case study research was undertaken with the purpose of determining why and to what extent current strategic management paradigms were inadequate for unique business environments obtaining in developing markets such as Zimbabwe.

The selection of the banks to be used in this study was fairly straightforward, given the fact that the banks that collapsed are well-known and those that performed well during the period under study are also known.

The definition for survivor banks for the purposes of this study are the banks that did not collapse and also managed to post profits during the period under review.
4.9.7.2 Data Analysis

Qualitative research methods are ways of investigating a specific topic by identifying, examining and interpreting specific patterns and themes usually in written or textual forms. Qualitative methods are good for investigating the depth and meaning in a specific area of research. Analysis of qualitative data often involves measuring words in written, verbal or audio forms in order to find these meanings.

Yin (2009) argues that the analysis of case study evidence is one of the least developed and most difficult aspects of doing case studies. Unlike statistical analysis, there are few fixed formulas to guide the investigator. Much depends on the investigator’s own style of rigorous empirical thinking, along with sufficient presentation of evidence and careful consideration of alternative interpretations.

The next step was to identify the evidence that addressed this question. From the evidence, the researcher will then draw a tentative conclusion based on the weight of the evidence. This process was continued with the other questions until the remaining research questions have been addressed.

4.9.7.3 Data Analysis tools and strategies

While computer-assisted tools are one of the tools one could use to analyse the data, given the nature of this research which included interviews, this procedure posed serious challenges. Verbatim records are likely to be only part of the total array of case study evidence. The case study will typically be about complex events and behaviour, occurring within a possibly more complex, real-life context (Yin, 2009).

Unless one can convert all the evidence, including the field notes and the archival documents that might have been collected into the required textual form, computerised tools cannot readily handle this greater array of evidence, according to some scholars.

The narrative data came from a variety of sources during this study. The sources included individual interviews, documents, reports and news articles among other sources.
4.9.7.4 The Analysis process

Once the above data had been collected, the following steps were taken to analyse and interpret the data.

Step 1: Get to know the data.

Good analysis depends on understanding the data. The researcher had to read and reread the text. In addition, the researcher had to listen several times to the recordings. This process was followed by the writing down of all the impressions that the researcher had as he was going through the data lest these impressions would be useful later.

The quality of the data was first assessed by the researcher before the analysis took place.

Step 2: Focus the Analysis

The next step was to review the purpose of the evaluation and what the researcher wanted to find out. This was followed by the identification of a few questions that the researcher wanted to answer. These questions were then written down.

It should be noted that the focus of the analysis was determined by the purpose of the evaluation and how the researcher was going to use the results.

The researcher decided to focus by question or topic which was in the Interview Guide. The researcher looked at how all the interviewees responded to each question or topic. The data was organised by question to look across all respondents and their answers in order to identify consistencies and differences. All the data from each question were put together. After this process, the connections and relationships between questions were then explored.

Step 3: Categorise Information.

After focusing the analysis, the next step was to code the data. This process included identification of themes or patterns, ideas, concepts, behaviours, incidents, terminology or phrases used.

This was the followed by organizing this information into coherent categories that summarised and brought meaning to the text. This involved reading and re-reading the text and identifying coherent categories.

Abbreviated codes of words or letters were assigned and placed next to the themes and ideas that were found during this analysis. This enabled the researcher to organise the data into categories. The researcher then provided descriptive label for each category that had
been created. This process of categorization continued until all relevant themes had been identified and labelled (Renner, 2003)

Step 4 Identify patterns and connections within and between categories

As the data was being organised into categories by question, patterns and connections both within and between categories were emerging.

The researcher had to summarise information pertaining to a particular theme, capturing similarities and differences in people’s responses within a category. This was followed by looking at the key ideas that were being expressed within each category. Furthermore, the researcher looked at similarities and differences in the way people responded including subtle variations.

Step 5: Interpretation- bringing together

The identified themes and connections were then used to explain the findings.

The first step during this process was development of a list of key points or important findings the researcher discovered as a result of the categorisation and sorting of data. The researcher then had to consider the following issues: What were the major lessons? What were the new things learnt in this study? What will those who use the results of the evaluation be most interested in knowing?

4.9.7.5 Enhancing the data analysis process

The researcher was cognisant of the fact that bias could influence the results. In order to increase the credibility of the findings, the researcher used several sources of data as highlighted paragraph 4.9.7.3 above.

In addition, the researcher tried to avoid generalisation across a population. Instead the goal was to provide understanding from the respondent’s perspective. Narrative data provide for clarification, understanding and explanation not for generalisation (Renner, 2003)

4.9.8 Relevance of Desk Research Findings

In addition to the field research that was carried out, there was also desk research that was done to complement the research that had been carried out. This included publications from
the Reserve Bank of Zimbabwe such as Monetary Policy statements, newspaper articles and economic publications from the Reserve Bank of Zimbabwe.

The researcher visited the Reserve Bank of Zimbabwe and media houses to access publications on the bank crisis in Zimbabwe during the period under review. Results of the desk research appear mainly in Chapters 2 and 3, while background information on the context of the research was also provided in Chapter 1.

This information was also critical, not only in the development of a convergence line of inquiry but also in triangulation with the information obtained through the one-hour in-depth interviews with bank executives, as highlighted above.

Having discussed the generic research process, the qualitative research approach and case study research within the context of qualitative research in preceding sections, the discussion in this chapter is concluded by emphasising ethical considerations in relation to the current research.

4.10 ETHICAL CONSIDERATIONS

It was important for the researcher as he carried out this research to adhere to ethical norms. Firstly, norms promote the aims of the research such as knowledge, truth and avoidance of error. Prohibitions against fabricating, falsifying or misrepresenting research data promote the truth and avoid error. Secondly, since this research involved a great deal of cooperation and coordination among many different people in different banks and institutions such as the Reserve Bank, ethical standards promote the values that are essential to collaborative work, such as trust, accountability, mutual respect and fairness.

In carrying out this research, the researcher was guided by the following ethical principles:

- Honesty
- Objectivity
- Integrity
- Carefulness
- Openness
- Confidentiality
- Respect for intellectual property
- Responsible publication
The researcher strove for honesty in all communications, honestly reporting data, results, methods and procedures and publication status. The data was not be fabricated, misrepresented or falsified.

With regard to objectivity, the researcher also strove to avoid bias in data analysis, data interpretation, personal decisions and other aspects of research where objectivity was expected or required.

The researcher will act with sincerity and strive for consistency of thought and action as far as integrity is concerned.

Avoidance of careless errors and negligence by carefully and critically examining this research work was also critical. The researcher strove to keep good records of research activities, such as data collection, research design, and correspondence with agencies or journals.

As regards openness, the researcher shared data, results, ideas, tools, resources and was open to criticism and new ideas.

Intellectual property was respected in that the researcher honored copyrights, and other forms of intellectual property. Furthermore, he did not use unpublished data, methods, or results without permission and gave credit where credit was due. He also gave proper acknowledgement or credit for all contributions to research. The researcher avoided plagiarising.

In relation to confidentiality, the researcher strove to protect confidential communications, such as papers or reports submitted for publication and personnel records. Banking is mainly about trust and confidentiality and is a very sensitive industry. The researcher had a full appreciation of the importance of keeping confidential information, having worked in the same industry for more than 15 years.

In order to advance research and contribute towards the body of knowledge, the researcher endeavoured to disseminate the research findings through publication in suitable media. In addition, he avoided wasteful and duplicative publication.

Finally, it is important for the researcher to disclose social, cultural beliefs and values to enable the reader to make his or her own judgment on whether the interpretation given by
the researcher is valid and unbiased. The researcher is a born again Christian who upholds high moral standards. In addition, he grew up under a strict Shona culture and values which shaped his adulthood.

4.11 SUMMARY

The purpose of this chapter was to explain the research design methodology that guided the way to address the research problem which, as stated in the introduction of this chapter, is: 

Current strategic management paradigms or approaches utilised by banks are inadequate to respond to a turbulent and chaotic financial services environment in Zimbabwe.

From the research problem, the research question was developed and, for ease of reference, is stated below:

What were the characteristics of strategic planning systems of banks operating in a turbulent and chaotic environment?

It was observed in this chapter that, while many definitions of research design exist, and while they differ in detail, the following general essentials had been identified (Bloomberg, Cooper and Schindler, 2008:195):

- The design is an activity and time-based plan
- The design is always based on the research question
- The design guides the selection of sources and types of information
- The design is a framework for specifying the relationships amongst the study’s variables
- The design outlines the procedures for easy research activity

Thus, the design provides answers for questions such as the kinds of answers the study is looking for and what methods to be applied to find them. Furthermore, what techniques are to be used to gather the data and also the kind of sampling to be used during the research.

The research purpose and objectives were also covered in this chapter. The purpose of the study was defined as the research outcomes the researcher wants to achieve and, as was stated, should be linked to the research question (Bryman 2008; Saunders et al., 2012). This study accordingly focused on the strategic management approach to business that

This research was conducted using multiple case studies as research strategy, which is but one of several approaches to research in the social sciences. In addition, the stages of research process were outlined, the rationale for a qualitative research approach and the choice of a multiple case study approach explained, while the sampling design, data analysis and ethical considerations were also discussed.

This chapter also discussed the research strategy and research design or methodology. The research strategy is the general plan of how a researcher will go about answering the research questions. Saunders et al. (2012) point out that there are a number of strategies that can be followed: namely, experiment survey, archival research, case study, ethnography, action research, grounded theory and narrative inquiry. More than one strategy can be used in the research method. In this research multiple case studies, narrative enquiry and archival research through the documents were used. Research methodology which is part of research design is a structure of guidelines or activities to assist in generating valid and reliable research results (De Vos, Strydom, Fouche and Delport, 2005:117).

The merits and demerits of both quantitative and qualitative research methods were also covered in this chapter. It also covered sampling, and the different types of sampling included convenience, purposive, deviant and homogeneous, amongst others. Both the advantages and disadvantages of these sampling methods were also highlighted.

The other topic covered was data collection and Interviews, during which the issue of in-depth interviews with Senior Executives of the banks involved in this study was discussed. Furthermore, validity, reliability and generalisability of the research were also covered in this chapter.

Case study as a research strategy was extensively discussed in this chapter. The discussion covered qualitative research as a framework for case study research, case study research process, multiple case studies, building theory from qualitative data and case study and data collection procedures.

Finally, ethical considerations were also discussed. It is important for the researcher as he carries out this research to adhere to ethical norms. Firstly, norms promote the aims of the
research such as knowledge, truth and avoidance of error. Prohibitions against fabricating, falsifying or misrepresenting research data promote the truth and avoid error. Secondly, since this research will involve a great deal of cooperation and coordination among many different people in different banks and institutions such as the Reserve Bank, ethical standards promote the values that are essential to collaborative work, such as trust, accountability, mutual respect and fairness.

The next chapter presents the results that were obtained from the application of the research methodology which was outlined in this chapter.
CHAPTER 5:

DATA PRESENTATION, ANALYSIS AND INTERPRETATION
5.1 INTRODUCTION

This chapter presents the results that were obtained from both the multiple case study and the extensive desk research that was carried out to address the research problem which was:

**Current strategic management paradigms or approaches utilised by banks are inadequate to respond to a turbulent and chaotic financial services environment in Zimbabwe.**

(Charharbaghi and Willis, 2000, Grant, 2010).

The study focused on the strategic management approaches to business in the Zimbabwean financial services environment between 2000 and 2008 that managers adopted in the turbulent environment. The comparative research was intended to study survivor banks and the ones that collapsed to try to find out the differences in their approaches on the assumption that they all faced the same turbulent environment.

Below are the research questions that this study has been attempting to address during the course of the research:

1. What were the characteristics of strategic planning systems of banks operating in a turbulent and chaotic environment in Zimbabwe?
2. What were the key success factors of the banks that survived the turbulence?
3. What was the impact of increased volatility and unpredictability on the Strategic Management process of the banks?

The purpose of this study was achieved through the attainment of the following research objectives:

(a) To identify and recommend strategic management paradigms or approaches applicable to a turbulent environment in Zimbabwe.

(b) To compare survivor banks and those that did not survive the turbulent economic environment in order to identify and explain the differences in their approaches, the key success factors and also other factors that prevented the other banks from succeeding.

(c) To identify key success factors for banks operating in a turbulent environment.
To recommend strategic management approaches applicable to banks operating in a turbulent environment.

The insights that were obtained from the interviews with Chief Executive Officers and other Bank Executives of both survivor and failed banks are also discussed in this chapter. Furthermore, there is a triangulation process involving information from the in-depth interviews and summary of the desk research findings that was carried out. The research was carried out through conducting personal interviews with bank officials of both failed and successful banks, archival records, documentation and press articles.

5.2 RESEARCH METHOD

5.2.1 Introduction

Most studies of strategic planning processes have used questionnaire data (Grant, 2003). The result is quantitative data that can be subjected to statistical analysis, but which fail to capture the richness and complexity of the firm’s planning practices. Ramanujam et al. (1986:348) observed that “…planning systems are multifaceted management systems that are context-embedded. Hence, they cannot be adequately described in terms of one or two characteristics such as formality.” Not only are questionnaire-based descriptions of strategic planning systems overly thin, they lack consistency (Boyd and Reuning-Elliot, 1998: 182). To gain insight into how different characteristics of the different banks’ planning systems interacted, the researcher adopted a comparative case study approach.

After obtaining clearance from the banks’ executives to carry out the interviews, interviews were arranged with the Chief Executive Officers and with one or two other strategic-planning officials, where possible with the manager or executive with the responsibility for the administration and support of the strategic management process for the six banks that were used in the multiple case study analysis.

For confidentiality reasons, the names of the banks used are not disclosed (this was one of the conditions of the agreement with the respective banks). Banks A, B and C were the failed banks, while banks D, E and F were the successful banks or the banks that survived the turbulent and chaotic environment.
For the purposes of this chapter, the researcher used descriptive analysis, as a way of transforming the raw data into understandable information which could easily be deduced by the reader, guided by the problem statement.

5.2.2 Sample Description
Although the respondents were not deliberately distinguished according to gender, age or any other demographic variables, all the respondents were male executives. The total number of bank officials was 16, out of whom 14 participated in the research.

This gives an 88% rating to the feedback process. As has already been highlighted in Chapter 4 above, there is empirical evidence that where data are sought from few but knowledgeable participants or respondents, the information is more accurate than cases where information is pooled from a much larger group of less knowledgeable individuals (Huber and Power, 1985).

The objective of using this multiple case study approach was to enable the researcher to draw a single set of "cross-case" conclusions (Yin, 2009). The feedback from the three failed banks, for example, had a common focus on a mechanistic or rational approach to strategic planning processes. On the other hand, the feedback from the other three banks had a common focus on an emergent strategic-planning approach. The information on each of the two groups of banks (survivor and failed banks) was corroborated by the other, as will be shown in the findings of this study.

None of the bank officials interviewed had served for less than one year. One cannot say, therefore, that some of these executives failed, because they did not have enough experience to formulate effective strategies.

5.2.3 Profile of the respondents
The profile of the respondents was considered to be important for this study, given the nature of the research problem that needed to be addressed.

Strategic issues are usually dealt with at the strategic level of the organisation by the top management team. This is usually the responsibility of the Chief Executive Officer and his direct reports. These officials are expected to be knowledgeable about the bank’s business strategy.
This approach is consistent with that of Huber and Power (1985) who point out that the accuracy of data collected from an organisation is best restricted to more knowledgeable individuals, as compared to broadening the number of respondents.

Table 5.1 below shows the profile of the interviewees who participated in this research.

**Table 5.1: Interviewees Who Participated in the Research**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Position at the time of Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td></td>
<td>General Manager, Corporate Planning</td>
</tr>
<tr>
<td></td>
<td>Group Treasurer</td>
</tr>
<tr>
<td>B</td>
<td>Managing Director</td>
</tr>
<tr>
<td></td>
<td>Senior Manager, Corporate Strategy Division</td>
</tr>
<tr>
<td></td>
<td>Head, Treasury</td>
</tr>
<tr>
<td>C</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td></td>
<td>Division Head, Corporate Planning</td>
</tr>
<tr>
<td>D</td>
<td>Managing Director</td>
</tr>
<tr>
<td></td>
<td>Senior Manager, Corporate Planning</td>
</tr>
<tr>
<td>E</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td></td>
<td>Head, Treasury</td>
</tr>
<tr>
<td>F</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td></td>
<td>Senior Manager, Corporate Planning</td>
</tr>
</tbody>
</table>

The interviews were conducted between September 2013 and April 2014. The interviews were semi-structured and the researcher used an Interview Guide. As stated in Chapter 4, the interviews and full reports of the interviews were written up immediately after each interview.

The interviews covered the following areas:
• The planning process, including the annual planning cycle, who is involved, the methodologies employed and the content and role of meetings and documents
• The structures and role of corporate strategic planning department and of strategic planning specialists at business level
• The linkages between strategic planning and other systems of decision-making, coordination and control, including budgeting and human resource management

Interview data were supplemented with information from newspaper articles, archival documents and publications from the Reserve Bank of Zimbabwe, which included Monetary Policy Statements, a report from a Panel of Experts set up by the Central Bank to investigate Causes of Bank Failures in Zimbabwe, information from the websites and annual reports, amongst others.

A case study describing each bank's strategic planning process was prepared. Where gaps or inconsistencies were apparent, the interviewees were contacted either telephonically or via email. Once written up, the case study was returned to the primary interviewee (typically the Head of Strategic Planning) for comment and amendment.

The amount and quality of data varied between banks, depending on their degree of cooperation and their concerns about disclosing proprietary information. For example, some of the respondents, particularly from failed banks, were highly emotional because some of them felt they had been unfairly treated by the Reserve Bank of Zimbabwe and so they used this opportunity to release all the anger and emotions they had been harbouring. On the other hand, the other banks were very cautious in their responses. Suffice it to say that, on the whole, most of the respondents were very cooperative since they also saw the value in this study.

5.2.4 Scientific and academic quality of processing and presentation.
The table below shows information relating to the total number of survived and closed banks along with their sizes, number of employees and total number of bank officials who were qualified for the interview.
Table 5.2: Status of survivor and failed banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Number of branches</th>
<th>Number of employees</th>
<th>No. of bank officials qualified for the interview.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>18</td>
<td>138</td>
<td>4</td>
</tr>
<tr>
<td>B</td>
<td>12</td>
<td>115</td>
<td>4</td>
</tr>
<tr>
<td>C</td>
<td>14</td>
<td>128</td>
<td>3</td>
</tr>
<tr>
<td>D</td>
<td>30</td>
<td>160</td>
<td>3</td>
</tr>
<tr>
<td>E</td>
<td>28</td>
<td>145</td>
<td>2</td>
</tr>
<tr>
<td>F</td>
<td>22</td>
<td>133</td>
<td>3</td>
</tr>
</tbody>
</table>

It can be noted from Table 5.2 above that failed banks were also overstaffed given the number of branches they owned. In addition, they were also top heavy.

5.3 RESEARCH PROBLEM

The research problem has already been highlighted in 5.1 above and it states that: Current strategic management paradigms or approaches utilised by banks are inadequate to respond to a turbulent and chaotic financial services environment in Zimbabwe.

Approaches to strategic management vary from being formal (through planned events or activities that occur regularly, using prescribed tools and models) to being informal (done as and when deemed necessary) and from being deliberate (intentional and planned) to being emergent (seizing opportunities or avoiding threats as they emerge). These approaches can therefore be broadly divided into two main opposing views: one associated with strategy-making as a formal, deliberate plan and the other associated with strategies as evolving, ever-changing sets of outcomes that are eventually realised (Maritz, 2010).

According to the research findings, the failed banks used the former type of strategies, while the successful banks used mainly the latter type of strategies.
5.4 ADDRESSING THE RESEARCH QUESTIONS

The research investigation was designed in such a way that links the data to be collected (and the conclusions to be drawn) to the initial questions of the study (Yin, 2009).

5.4.1 Strategic Management Paradigms or approaches used by Zimbabwean banks in a turbulent and chaotic environment

The general comment from most of the respondents from successful banks was that these were unchartered waters and none of them had ever experienced this before. As a result, their approach to this challenge was mainly exploratory.

This is in line with the emergent approach (see Figure 5.3 below) to strategy that looks at strategy as an art, as opposed to strategy as a science. This view holds that strategies should be a creative adaptation to environmental challenges (Maritz, 2010). According to the art perspective, the lack of environmental predictability and the fast pace of change suggests that the inherent value of strategic planning is limited. Instead, strategists should incorporate substantial creativity and intuition in order to design a comprehensive strategy for the firm (Maritz, 2010).

Survivor banks focused on application of informal strategies as a survival strategy. In other words, their strategies were evolving in response to the changes that were taking place in the environment. This called for innovation by the respondents, adaptability, creativity and quick implementation of decisions.

One of the Chief Executive Officers of a survivor bank stated that, “...we discovered that when events are moving at unprecedented speed, as was happening in Zimbabwe, the time intervals between obtaining information, analysing information, taking decisions and implementing those decisions need to be tightly compressed.” The researcher coined this process as Strategic Intensity.

Strategic intensity requires total immersion in the business’s operational details and the day-to-day competitive climate the business is facing, along with hands-on involvement and follow-through. Surviving a volatile environment requires frequent operational adjustments. “Our guiding principle was 'head in, hands on',' stated one of the Chief Executives of survivor banks.
The common theme coming out of Chief Executive Officers from survivor banks was that they had to move with speed. They had to move faster than the changes that were taking place in the environment. The terminology that came from this discussion was “Strategic Intensity” as a strategy. The implication was that normal strategic planning processes had to be bypassed.

Maritz (2010: 51) argues that “…many of the assumptions that were embedded in traditional strategy models may be incomplete and outdated as we approach the new competitive milieu. This reality should force a re-examination of the traditional strategy paradigms.” Feedback from the respondents of banks D, E and F clearly confirmed this assertion by Maritz (2010).

This study established that contrary to the planning or deliberate approach to strategy, the business environment is not predictable nor is it easy to forecast or analyse. This is because the environment is constantly changing. Increased volatility of the business environment made systematic strategic planning more difficult. It was observed during the interviews that rapid change requires strategies that are flexible and creative, characteristics which, according to Hamel, are seldom associated with formalised planning: “In the vast majority of companies, strategic planning is a calendar-driven ritual …which assumes that the future will be more or less like the present” (Hamel, 1996:70).

Furthermore, the respondents also stated that their structures were very “fluid”. In other words, they were constantly changing their structures, depending on the changes that were taking place in the environment. Roles and responsibilities were evolving, depending on the strategy that was being implemented. One of the respondents compared this to a game of soccer where a midfielder can be asked to play the role of a striker or defender depending on the strategy the coach is trying to pursue at that point in time, whether it is attack or defence.
The failed banks were operating in the blue shaded area in Figure 5.1. This approach is associated with a formal process of formulating and implementing strategies. According to the findings of this study, the respondents of failed banks stated that they chose to focus on the competitive environment, with a view to ensuring they could out-manoeuvre their competitors. They also highlighted that their objectives were clearly defined prior to the commencement of their strategies.

This means that the bank executives of failed banks followed a systematic process of environmental, competitive and internal analysis and then built the organisation’s strategy on this foundation, as shown in Figure 5.2 below.

**Rational Planning Approach**

![Figure 5.2: Rational or Prescriptive Approach to Strategy](image-url)
This approach’s main objective was to attain a match or fit between internal capabilities and external possibilities. It can therefore be concluded that this approach is concerned with crafting a strategic position for the organisation, based on the attractiveness of industry and organisational capabilities.

It also meant that the moment executives saw the industry becoming unattractive, they decided to focus on alternative industries, thereby neglecting their core business by diversifying into seemingly attractive industries.

However, it can be argued that strategies do not get completed in the same way that buildings do. They are works in progress which are always changing and should have fluid structures with permeable walls (Maritz, 2010). As such, managers cannot just hand strategies over to others for implementation in the way architects hand over plans to builders for construction. In this instance, strategy was being used as a posture and a plan.

It was also noted during the interviews that the Chief Executive Officers of failed banks left their managers below them to execute the “agreed” strategies, while they concentrated on other businesses outside of banking. This was also confirmed by the report from a Panel of Experts, as shown by the following excerpts from their report below:

- Poor asset and liability management manifested through the investment of short-term funds in illiquid assets which included furniture, real estate property, bricks and fridges, as well as shares on the Stock Exchange. These transactions were being conducted via the holding company at a time when the bank was already experiencing serious liquidity constraints.
- The bank was thus operating outside the confines of the Banking Act and Regulations through engaging in non-banking activities via a wholly-owned special purpose vehicle (Reserve Bank Supplement: 5 May: 2004:1).

The managers who were left to implement these strategies had to take the strategy as given, since it had been handed over to them by their seniors. This meant that these managers did not have the authority to adjust the plans in response to the changes that were taking place in the environment. At the same time, their seniors were preoccupied with other non-banking activities, and this led, inter alia, to the collapse of their financial institutions. Some of the respondents from failed banks admitted that “….the banking industry was no longer as attractive and so we had to look for greener pastures.”

On the other hand, the successful banks focused on the emergent strategy process
highlighted in Figure 5.1 above. In this instance, strategy was seen as “a creative adaptation to environmental challenges that were prevailing during the period under review,” according to some of the respondents from successful banks. The respondents from successful banks highlighted the fact that lack of environmental predictability and the fast pace of change meant that the inherent value of formal strategic planning was limited.

Instead, these respondents stated during the interviews that they had to incorporate “substantial creativity and intuition in order to craft a comprehensive strategy” for their banks. The respondents also mentioned the importance of “gathering experience.” Strategic learning was found to be critical to an emergent approach to strategy. These respondents also stated that “many of the assumptions that were embedded in traditional strategy models proved to be incomplete and outdated” during the period under review. This is in line with Maritz (2010: 51), who argued that the need for strategic thinking and behaviour among managers has never been more urgent and this reality should force a re-examination of the traditional strategy paradigms in certain circumstances.

The respondents also highlighted the fact that their focus was on strategic intent, as opposed to the traditional strategic planning approach which focuses on creating fit between existing resources and emerging opportunities. They argued that “no one knew what the future held,” so how could one come up with a definitive strategic plan for the future?

These respondents believed that strategy had to be seen as a perspective, as highlighted in Figure 5.1 above. Unlike the respondents from failed banks, the respondents from successful banks stated that their approach to strategy-making permitted adaptation and learning through continuous interaction between their strategy formulation and strategy implementation, in which strategy was constantly being adjusted and revised in the light of the changes that were taking place in the turbulent environment. Consequently, they argued that strategy emerges in adapting to the changes in the environment and, because such a process is hard to define in advance, it is therefore difficult to analyse and predict in a clear and structured way.

The interview process also brought out the following conclusions about strategic management:

- That strategies emerge from an unclear background and often in a muddled and disorganised way, so the resulting strategies themselves may therefore be unclear and not fully resolved.
That rational strategic process is unlikely to reflect reality; options identified will not be comprehensive and the selection process will be flawed (Lynch, 2010).

The strategic planning processes adopted by banks A, B and C (the failed banks) are depicted below in Figures 5.3, 5.4 and 5.5 respectively.
Economic Forecast; Inflation, GDP, etc

Corporate Strategic Plan

Draft Business Plan

Discussion with top management Team

Revised Business Plan

Capex Budget

Performance reporting and appraisal

Annual Performance Plans

Accountability, Mgt individual objectives

Figure 5.3: Strategic Planning Process for Bank A

Economic Planning Department issues, economic indicators such as inflation rates, GDP, market share figures, competitor information

Corporate issues Financial and Strategic directives to Branch Managers.

Preliminary Strategic Plans prepared by Business units including retail branches

Performance Appraisal

Planning department issues revised scenario

Discussion with Corporate

Strategic plans revised by Business units and retail branches

Strategic Plans provide basis for: Performance targets. Annual budgets.

Planning department consolidates Strategic Plans to create draft Business Plan

Corporate Plan approved by the board

Figure 5.4 Strategic Management Process for Bank B
10 Year Strategic Plan forecast (scenario) → Formulation of 5 year strategic plans
- Corporate Strategic plan.
- Departmental Plans
→ Tactical plans (1 year)
- Performance targets.
- Capex budget
- Operating budget

Performance Appraisal → Corporate Approval

Figure 5.5 Strategic Management Process for Bank C
5.4.2 Strategic Management Process for banks A, B and C (failed banks)

5.4.2.1 Introduction
The strategic planning processes for Banks A, B and C were all built around an annual planning cycle. The respondents highlighted that they had annual Strategic Planning seminars which were held in resort towns where all the strategic plans for their businesses were discussed by top management. Despite the differences between banks in the depiction of their planning processes and the terminology they used to describe it, the similarities were sufficient to identify a generic strategic planning cycle, as shown in Figure 5.6 below.

The principal stages of the planning process common to the failed banks (Banks A, B and C) were as described in paragraphs 5.4.1.2.1 to 5.4.2.1.9 below:

5.4.2.2 Planning guidelines
The starting point for the annual strategic planning retreats was an announcement by the head office of the guidelines and assumptions to be used by the business units to prepare their business level strategic plans. These guidelines and assumptions comprised two major elements. Firstly, there was a view of the external environment: this typically included guidance to the forecast on inflation rates, Gross Domestic Product figures, market share figures and other competitive information for the banking industry.

Secondly, corporate management provided overall direction to the planning process through a statement of priorities, guidelines and expectations. A key aspect of this direction was setting company-wide performance targets such as cost to income ratios, profitability figures, targets for low cost liability products such as current accounts and savings accounts, amongst others.

5.4.2.3 Draft business plans
Strategic plans were formulated bottom up, and individual business units took the initiative in formulating their strategic plans.
5.4.2.4  *Discussion with corporate*

The draft business plans were submitted to the banks' head office. After some initial analysis by the corporate planning staff, a meeting was held between senior corporate and senior divisional management. These face-to-face meetings lasted between two hours and a full day and discussed the rationale for the strategies being pursued, the performance implications of these strategies and the compatibility of the business strategy with corporate goals.

5.4.2.5  *Revised business plans*

The business plans were then revised in the light of discussions with the head office executives.

5.4.2.6  *Annual capital and operating budgets*

The strategic planning process was closely linked to the annual budgeting process. Although budgeting was coordinated and administered by the Finance department, the first year of the strategic plan typically provided the basis for next year's capital expenditure budget and operating budget.

5.4.2.7  *Corporate plan*

The corporate plan resulted from the aggregation of business plans which was undertaken by the corporate planning department.

5.4.2.8  *Board Approval*

The final formality of the strategic planning formulation was approval of the corporate and business plans by the board of directors.

5.4.2.9  *Performance targets*

From the corporate and business plans, a limited number of key financial and strategic targets were extracted to provide the basis for performance monitoring and appraisal. Targets related to the time-frame of the plan, with a more detailed emphasis on performance targets for the coming year.
5.4.2.10 Performance appraisal

The performance plans provided the basis for corporate level appraisal of business level performance. In addition to the ongoing performance, monitoring, a key event was the annual meeting between the top executives and divisional managers to discuss each business’s performance during the prior year.

The planning cycle for all these banks was almost the same, because the financial year for all the banks in Zimbabwe runs from January to December. The planning season for the following year usually starts in October and for others in November.

The generic planning cycle for these failed banks was therefore as shown in Figure 5.6 below.
5.4.3 Strategic Management Processes for banks D, E and F (successful banks)

On the other hand, the respondents from the other three successful banks (banks D, E and F) acknowledged major changes in their strategic planning processes during the period under review.

These respondents had a different approach to their strategic management process as shown in Figure 5.6 above. Theirs was not a formalised approach, but instead, their strategies were birthed through an emergent process.

Figures 5.7, 5.8 and 5.9 below show the strategic management processes of banks D, E and F respectively. The common theme from their strategic management approaches was that their strategies were crafted by adjusting and adapting to the changes that were taking place in the environment.

![Figure 5.7: Strategic Management process for Bank D](image-url)
Figure 5.8: Strategic Management Process for Bank E
Environmental Scanning and Analysis

Developing strategic vision

Crafting different strategic options to meet set goals

Implementing and executing the chosen strategy

Monitoring developments evaluating performance

Revise as needed in the light of actual performance, changing conditions and new ideas

Figure 5.9: Strategic Management Process for Bank F
5.4.4 Differences in strategic approaches between failed and successful banks

There were notable differences in strategic management approaches between failed and successful banks, as already highlighted above. The important differences that were identified are presented below.

5.4.4.1 Formality and regularity

- All the failed banks had formalised planning systems which were less flexible compared to those of the successful banks. There was greater reliance upon written reports and formal presentations.

- These differences were related primarily to overall management styles in which the failed banks retained more traditional hierarchical structures and formalised administrative styles, in contrast to successful banks that had encouraged a more flexible and adaptive management style.

- The degree of formalisation of the planning process was also linked to the emphasis given to performance targets in the strategic planning process. Most of the failed banks placed the biggest emphasis on establishing rigorous financial targets for their banks and had planning processes that were comparatively formal. In terms of regularity, all these failed banks pursued an annual planning cycle. However, the successful banks had moved away from standardised, calendar-driven annual cycles, they updated environmental analysis and performance targets annually (or more frequently), but called for a revision of business strategies only when circumstances required. Most of the respondents from the successful banks confirmed that their plans were frequently revised because of the dynamic nature of the economic environment.

5.4.4.2 Time horizons of strategic plans

Generally, most of the banks which had formalised planning systems ranged between three and five years, although Bank C had a long-term plan that extended for ten years. This was typically qualitative and scenario-based.
5.4.4.3 Role of planning departments

The role of strategic planning departments varied amongst the various banks. In some of the banks such as Bank B, the planning department played a pivotal role in coordinating and integrating the strategic management process. In Banks C, E and F, a more interventionist role of corporate planning departments was apparent.

Table 5.2: Strategic Management Processes for Banks A, B, C, D, E and F

<table>
<thead>
<tr>
<th>Bank</th>
<th>Type and Nature of Strategic Planning Process</th>
<th>Frequency</th>
<th>Strategic Planning Objectives</th>
</tr>
</thead>
</table>
| A    | Formalised 5-year Strategic Plan.             | Annual – every October. | Emphasis on:  
• Meeting the set targets for the business  
• Cost reduction  
• Service quality  
• Diversification |
|      | A longer-term qualitative view of the development of the bank is created by the Corporate Planning department. | | |
| B    | Formalised 3-year Strategic Plan.             | Annual Planning cycle | Emphasis on:  
• Corporate control of all divisions involved  
• Looking for alternative markets  
• Meeting and exceeding set budget figures |
|      | Strategic plans formulated by each business unit such as Corporate Banking, Retail Banking and Treasury. | | |
| C    | Formalised 10-year Strategic Plan.            | Annual - every November. | Emphasis on:  
• Creating shareholder return through acquisition of new businesses  
• Improved customer service  
• Cost cutting  
• Meeting sales targets  
• Meeting key performance indicators |
|      | Formulated for each business unit and the whole bank. Five-year strategic plans are closely linked with annual operating plans which have a very strong financial bias. | | |
| D    | 5-year Strategic Plan formulated for business units and the whole bank.  
The 5-year Strategic Plan was based mainly on the survival of the | Reviews were done monthly and necessary adjustments and changes were | Emphasis on:  
• Strategic fit with changes in the environment  
• Operational adjustments |
|      | | | |
|   | business in a turbulent environment. | made during the reviews. | in response to changes in the market  
  - Speed, adaptability and Implementation very crucial  
  - Meeting the changing business targets |
|---|--------------------------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------|
| E | 4-year Strategic Plan formulated with a focus on uncertainty-based theory to show that strategic management development is complex, unstable and subject to major fluctuations, thus making it difficult to carry out useful forecasts. | Reviews were done every two weeks to take into account the hyperinflationary environment. | Emphasis on:  
  - Survival-based strategies  
  - Business strategy had to emerge and be adaptable rather than aim for false certainties.  
  - Speed and adaptability  
  - Business strategy was however not random and uncertain  
  - Innovation and creativity considered very key. |
| F | 3-year Strategic Plan formulated with a focus on the people element in the strategy. | Monthly reviews were carried out and the necessary adjustments done in response to the changes taking place in the dynamic environment. | Emphasis on:  
  - Difficulties that can arise as new strategies are introduced and confront people with the need for change due to uncertainty  
  - They believe that strategic logic is limited by the processes and people already existing in the organisation  
  - Speed in decision-making and implementation crucial |

### 5.4.5 Evolution of strategic planning systems in the banking industry

All six banks acknowledged major changes in their strategic planning practices during the period under review, compared to the early 1990s.

While the basic framework of strategic planning in terms of a strategic planning cycle and its key phases remained little changed, the content of the strategic plans, the strategic planning
process and the role of the planning departments within the banks’ management systems changed considerably (Grant, 2003).

During the period prior to the period under review, there were no established Corporate Planning departments in most of the banks, according to the feedback from the respondents. However, by early 2000 most of the banks had now established Corporate Planning departments. The main objective of the Corporate Planning department was the provision of forecasting trends in the financial services sector and they worked very closely with the Bank’s Economist in providing these data. Almost every bank had a Bank Economist who was responsible for supplying both macro-economic and micro-economic data to the bank’s executive team for planning purposes. The role of Corporate Planning departments became very critical at the height of hyperinflation in Zimbabwe.

The responsibility included forecasting demand, market share figures, financial performance of the banks and administering the strategic planning methodologies and techniques for the banks. This pivotal role resulted in them exerting significant influence, not just over the process of strategy formulation, but in many instances over its content as well.

This study also established that the changes in the macro-economic environment and the introduction of the new Monetary Policy Statement by the Central Bank resulted in far-reaching implications for the banks’ strategies, structures and processes, including their strategic planning systems. This was worsened by the turbulent environment that was caused by a chaotic land reform programme, high inflation and depreciation of the local currency.

It also meant that during the turbulent environment, it was no longer practical to make accurate forecasts and this then triggered a change in the strategic planning process for some of the banks, especially banks D, E and F. These banks, which eventually survived the turbulent environment, reduced their forecasting efforts and instead adopted scenario planning. Replacing single forecasts of the Corporate Planning Departments with alternative scenarios for the future had important implications for the nature of strategic planning processes (Grant, 2003). Scenario analysis became a tool for contingency planning that fostered alertness and responsiveness among decision-makers to changing market circumstances.

On the other hand, banks A, B and C stated that they were reluctant to use scenario analysis because of the perceived costs of developing and disseminating scenarios in terms of management time.
5.4.6 Changes in the Strategic Planning responsibilities

As the volatility and turbulence increased in the Zimbabwean economy, there were two major changes in strategic planning responsibilities. Firstly, there was a shift of decision-making responsibility from mainly the Chief Executive Officer and one or two of his or her direct reports to business level managers. Some banks set up Crisis Management Teams to deal with the increased volatility that was taking place. There was also a shift of planning responsibilities from planning staff to line managers. This helped in the speedy implementation of decisions, since authority had been decentralised. This was evident in banks D, E and F. On the other hand, banks A, B and C did not make any major changes in terms of responsibilities of the planning departments.

By mid-2005 strategic planning processes, especially in banks D, E and F, were primarily bottom-up processes. Heads of departments were empowered to develop strategic plans for their respective units. This was extremely strong in Bank E. The corporate influence was primarily in establishing the broad context for business strategy formulation and intervention to question, criticise and cajole business managers during the review meetings. As a result, there was decentralisation of decision-making authority, particularly in banks D, E and F.

The key focus for these banks was mainly on speed in decision-making to respond to the fast-changing external environment. Strategic planning systems became less about planning and more about operations and implementation. The role of the corporate headquarters in strategic planning focused less on endorsing and approving business level strategies and more on negotiating with heads of departments over expected performance levels and questioning and challenging the thinking and logic behind their proposed strategies in order to enhance the quality of the division’s strategy-making.

On the other hand, for banks A, B and C, decision-making remained highly centralised. Directives were given from the head office to the respective divisions. The top teams of these banks maintained a firm grip on the strategic planning processes within their banks, because they wanted to ensure that the managers below them were not involved in other activities outside banking that they were now concentrating on. This was highly evident in Bank B. Top management’s main focus was on diversification to other non-core banking activities. As a result, the main strategy of the bank remained a guarded secret to most of the middle managers. These managers had become passive recipients of what was going on in bank B.
5.4.7 **Content of the Strategic Plans**

One of the main challenges during this study was the reluctance by most of the banks involved in this research to make available their detailed strategic plans. Nevertheless, one had to deduce from the interviews that some significant changes had occurred in the content of the strategic plans, especially during the period under review.

One of the major changes was the shortening of time horizons. All the banks reported a shortening of time horizons in terms of their planning. This was not surprising because the environment had become increasingly turbulent, thereby making it difficult to predict the future.

There was also a shift from detailed planning to strategic direction. Increased volatility and instability resulted not only in less formality and rigidity of the planning process, particularly for successful banks, but also in less precision and greater flexibility in the content of the strategic plans (Grant, 2003).

The third finding in terms of content of the strategic plans was the increased emphasis on performance planning. The focus was now on performance targets, away from forecasts and specific strategic decisions that specified timetables and resource deployments.

There was also a focus on financial targets which included cost to income ratios, profitability ratios, income targets, deposit mix and growth of assets such as loans and overdrafts. Most of the successful banks concentrated on cutting costs during the period under review.

The essential complements to performance plans were performance reviews. At all the banks, reviews of business performance against performance targets and strategic plans were central elements of the strategic planning process.

5.4.8 **The role of strategic planning**

Changes in the strategic planning practices of banks pointed to the different roles of strategic planning within organisations (Grant, 2003).

While prior to the turbulent environment in Zimbabwe, strategic planning systems were mechanisms for formulating strategy, and it was a highly formalised process which included planning for growth and allocating the necessary resources. The whole scenario changed with the coming of turbulence and increased volatility in the environment.
When the respondents were asked to identify the sources of critical strategic decisions that their banks had made during the period under review, including acquisitions, restructuring and divestments, it was evident that few had their origins in the plans that emerged from strategic planning systems. The typical sequence was that strategic decisions were made in response to opportunities and threats that appeared and were subsequently incorporated into strategic plans.

5.4.9 Analysis of Rational or Deliberate Strategies versus Emergent Strategies used by failed and successful banks respectively

The duality of wanting to intentionally design the future, while needing to gradually explore, learn and adapt to an unfolding reality is the tension central to the topic of strategy formation (De Wit and Meyer, 2010).

It is the conflicting need to figure things out in advance versus the need to find things out along the way which was the main challenge faced by the bank executives during the period under review.

The respondents stated that, while they wanted to forecast the future and craft strategies to prepare for it, there was need to appreciate that experimentation, learning and flexibility were needed to deal with the fundamental unpredictability of the future events. It was noted during the in-depth interviews that the environment had become highly dynamic and events were changing very fast, which made it very difficult to predict the future. There was a need to balance the two extremes of planning the strategy and also to be able to adjust and adapt to the changes that were taking place in the environment which had become highly turbulent and chaotic.

Failure to manage this balance of the two extremes resulted in banks A, B and C collapsing. On the other hand, this study established that banks D, E and F survived because they embraced the changes that were taking place in the environment and were able to make the necessary changes and adjustments to their planned strategies. Their strategies “emerged” from some of the events that were taking place in the environment.

The study established that at an operational level, all the banks had some degree of planning, in terms of the various units such as treasury, marketing, retail banking, corporate banking, finance and administration and agri-business departments. The only difference came through the frequent adjustments of the intended plans by some of the banks, especially D, E and F which came as a result of changes that were taking place in the
environment. On the other hand, the failed banks' plans remained almost static and were only reviewed annually.

However, it should be noted that it is important for businesses to have a plan. A plan is an intended course of action, stipulating which measures a person or organisation proposes to take (De Wit and Meyer, 2010). The banks that had formalised plans were justified since this gave them a sense of direction for their businesses (De Wit and Meyer, 2010). Without these objectives and plans, organisations would be adrift. “Deliberateness is a quality that the strategy formation process cannot do without” (De Wit and Meyer, 2010:117). Nevertheless, this study established that while it is important to engage in deliberate planning, there is need to ensure that managers remain alert to the changes and trends that will be taking place in the environment.

On the other hand, a strategy emerges when it comes into being along the way. Where managers divert from their original plans (deliberately) but their behaviour is still strategic, it can be said that the strategy is emergent - gradually shaped during an iterative process of “thinking” and “doing” (De Wit and Meyer, 2010). Managers of banks D, E and F were able to explore, learn and piece together a consistent set of behaviours over time during the period under review, as highlighted in Table 5.3. This meant that strategy would “emerge” from this practice of exploring, learning and adjusting to the trends in the environment.

A major shift in strategy generally requires a major shift in the political and cultural landscape within an organisation. Consequently, according to respondents from successful banks, there was need to have a strong human resources strategy which included building coalitions, blocking rivals, convincing wavering parties and confronting opposing ideas. This was one of the main reasons why bank E survived the turbulence. The respondents from this bank highlighted the fact that their corporate strategy was built around a very strong human resource focus.

The in-depth interviews with respondents from the two groups of banks (the failed and the successful) brought an interesting paradox into the strategies that each of these banks pursued, as shown in Table 5.3 below which is the researcher's own compilation.
### Table 5.3: Rational or Deliberate versus Emergent Strategies

<table>
<thead>
<tr>
<th>Rational/ Deliberate Strategy (used by banks A, B and C)</th>
<th>Emergent Strategy (used by banks D, E and F)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Creates commitment and permanence.</strong> These banks would commit upfront and would make plans that were difficult to reverse, such as investing in some of the non-core banking businesses.</td>
<td><strong>Allows flexibility.</strong> Successful banks were able to keep their options open by not unnecessarily committing themselves to irreversible actions and investments.</td>
</tr>
<tr>
<td><strong>Gives direction.</strong> Objectives were clearly set at the beginning of the year and were only reviewed annually.</td>
<td><strong>Allows for opportunism</strong> and managers are able to take advantage of opportunities in the market. Objectives would be adjusted accordingly depending on the opportunities.</td>
</tr>
<tr>
<td><strong>Plans</strong> were used as a means of programming all organisational activities. The managers of the above-mentioned banks would set their plans and this allowed their banks to be run with “clockwork precision, reliability and efficiency of a machine,” according to some of the respondents.</td>
<td><strong>Allows for on-going learning.</strong> The banks were able to continuously learn, explore and adjust their strategies to suit the changes in the market.</td>
</tr>
<tr>
<td><strong>Optimisation.</strong> Respondents from the above-mentioned banks stated that their focus was on optimisation of resource allocation and they were able to choose the optimal course of action before committing resources. It was at this juncture that most of them decided to diversify and look for other opportunities where they had to allocate most of their resources.</td>
<td><strong>Support.</strong> A major shift in strategy would require support from all the staff members. This meant that these executives would focus on building coalitions, blocking rivals, convincing wavering parties and confronting opposing ideas. This was prevalent in bank E whose main strategy was built around a focus on human resource management.</td>
</tr>
</tbody>
</table>
5.5 DIVERSIFICATION AS A STRATEGY

5.5.1 Introduction
It was interesting to note that all the failed banks, which were incidentally all local banks, chose diversification as an alternative strategy and moved away from their core business of banking, because banking was no longer as profitable and lucrative as before.

These banks were owner-managed. The managers of these banks were also shareholders. There was extensive diversion of management’s attention from day-to-day running of the financial institutions, with more focus placed on the running of commercial enterprises outside the task of running their banks. As these Chief Executives concentrated on other businesses, their core business of banking suffered. They were running away from a more controlled or regulated banking environment to other industries where there were no stringent regulations.

However, the primary driver of re-focusing or diversification for banks A, B and C were the perceived lucrative returns from other business opportunities outside of banking. Banking had become less attractive due to poor returns which were now being experienced in the sector. For example, one would borrow money today at a given interest rate and by the time they were supposed to pay back in two years’ or five years' time, depending on the duration of the loan facility, the money would have lost value because inflation was moving at unprecedented levels, as shown in Table 1 in Chapter 1 of this study.

The interest rates that banks were allowed to charge were not aligned to the rate of inflation which was changing on a daily basis. It was observed that by the time one paid back the bank loan, the value would have been eroded to a minus figure and this is what made banking very unattractive, according to the respondents.

The study established that the bank executives, instead of lending the money to bank customers, decided to use that money to invest in other non-core banking activities where they could obtain higher returns compared to banking which had become less profitable. They had lost interest in banking, hence some of them were now involved in other businesses such as cattle ranching, construction and mining at the expense of banking, from which they were siphoning money to propel the newly-found ventures.
The key lesson is that all the banks that decided to diversify and move away from core business collapsed. Grant (2010:401) argued that “…for a company that has taken its original or main business as far as it can go, diversification as a means of channelling surplus resources should certainly be considered. For the company that has not yet developed its main business to the full potential, however, diversification is probably one of the riskiest strategic choices that can be made”. The findings of this study confirmed Grant’s argument about diversification.

It is important for managers to be adequately informed about the risk complexion of the businesses they want to diversify into before embarking on a diversification strategy.

One of the respondents stated that “…diversification is a conundrum. The quest to enter new fields of business has probably caused more value destruction than any other type of strategic decision, as was experienced by failed banks”.

### 5.5.2 Confirmation by the Reserve Bank Governor

This was further confirmed by comments from the Central Bank Governor who stated in his maiden Monetary Policy statement in December 2003 that evasion from core banking business and tying disproportionately large sums of depositors’ funds in speculative activities, thereby exposing their businesses to high risk of asset price bubbles, was one of the causes of bank failure.

The Reserve Bank of Zimbabwe Governor bemoaned the “…destructive effects of the widespread corporate incest, untoward behaviour and financial cannibalism that had entrenched itself in our midst, spurred by the gratuitous subordination of corporate governance norms in pursuit of personal gain, as well as lax supervision and surveillance regime” (Monetary Policy Statement: 2004:10).

### 5.5.3 Collaboration from desk research findings

In addition, there were also findings that came from the Panel of experts which had been set up by the Reserve Bank of Zimbabwe Governor to make an in-depth enquiry and assessment of the entirety of what had transpired in the failed banks.

Their findings also confirmed the feedback from the in-depth interviews that were conducted by the researcher and they were as follows:
Some of the directors of these banks carried on the business of the bank recklessly, with gross negligence and intent to defraud the depositors.

Rapid expansion of the bank with no proper internal controls and early warning systems.

Poor management information systems which compromised the integrity of the bank’s financial records.

Poor asset and liability management manifested through the investment of short-term funds in illiquid assets which included furniture, real estate property, bricks and fridges, as well as shares on the Stock Exchange. These transactions were being conducted via the holding company at a time the bank was already experiencing serious liquidity constraints.

The bank was thus operating outside the confines of the Banking Act and Regulations through engaging in non-banking activities via a wholly-owned special purpose vehicle (Reserve Bank Supplement: 5 May: 2004:1).

The findings from the in-depth interviews and desk research confirm that diversification as a strategy failed to work for the banks that adopted it.

5.6 KEY SUCCESS FACTORS FOR BANKS OPERATING IN A TURBULENT ENVIRONMENT

The study established the following key success factors during the in-depth interviews with the respondents.

5.6.1 Organisational Agility
Organisational agility was identified as one of the key success factors by the respondents during this study. This agility was characterised by the ability of the banks to transform information into insight, in response to market movements during the period under review. Rapid decision-making and execution were not only important, but essential to a bank’s competitive standing and survival. However, some of the respondents admitted that their banks were not flexible enough to compete successfully. They were not agile enough to anticipate fundamental marketplace shifts that were taking place frequently.
The main obstacle to improved business responsiveness was slow decision-making, and conflicting departmental goals and priorities.

5.6.2 Role of Management in a turbulent and chaotic environment
The respondents from successful banks also stated the need for everyone to remain calm and focused during crisis times and this was seen as one of the critical roles of top management. To preserve a “business as usual” status in times of turbulence, some of the banks had to have the right processes and controls in place as a general management discipline, according to one of the respondents.

5.6.3 Communication and teamwork
It was also noted by the respondents of successful or survivor banks that communication and teamwork were critical during the period under review. This was the time to strengthen their teams. Management had to reassure anxious staff members whose confidence had been dented by the turbulence. It was very important for the leaders to be forthright and direct with their staff and communicate with greater frequency. Staff members were also involved in the decision-making process by contributing their ideas towards the strategy of their banks.

5.6.4 Other key success factors
In addition to the above, respondents were requested to select three key attributes among the following factors which they considered to be important as critical success factors for a bank operating in a turbulent and chaotic environment:

- Rapid decision-making and execution
- A high performance culture
- The ability to access the right information at the right time
- Accountability and credibility
- Flexible management of teams and human resources
- Decentralised or flat management structures

Rapid decision-making and execution were identified by the respondents as the most critical success factor for banks operating in a turbulent environment. These key success factors were noted as defining attributes of an agile business operating in a turbulent environment.
In order to nurture an environment where innovation and customer centricity can be used as strategic tools to survive in business, those polled emphasised the importance of a high performance culture, and the ability to access the right information at the right time in this regard.

These were the top four factors (from the above-listed factors the respondents were expected to choose from) that were highlighted by the respondents during the in-depth interviews.

The flat management structures enabled some of the banks to improve information flow and in turn speed up decision-making.

Based on the discussion in this section, the key success factors that were highlighted by the Chief Executive Officers of survivor banks are summarised below:

5.6.5 The ability to adjust, adapt and implement strategies within the shortest possible time
One of the most important key success factors was the ability to adjust, adapt and implement strategies within the shortest possible time, since the environment was highly “fluid”. Most of the survivor banks managed to develop a quick response capability (Thompson, Strickland and Gamble, 2010). The respondents highlighted the fact that, because no company can predict all of the changes that will occur, it was crucial to have an organisational capability to be able to react quickly, improvising if necessary. This meant shifting resources internally, adapting existing competencies and capabilities, as required, creating new competencies and capabilities and not falling far behind rivals. From a strategy perspective, this meant that strategies could be timeously adapted to changing environmental circumstances that aligned to the emergent strategy approach generally adopted by successful banks.

5.6.6 Establishment of fluid structures
The establishment of “fluid” or flexible structures was necessary because managerial and organisational responsibilities were changing constantly in response to the changes that were taking place in the marketplace. It was further established that traditionally, hierarchical structures have emphasised control and the need for unitary lines of command (Grant, 2010). However, according to the Chief Executives of survivor banks, the primary goal had
to shift to building outstanding capabilities in their organisational design strategy and so emphasis was now on the need to achieve effective coordination.

There was a need to deploy multiple capabilities and, since coordination needs of different capabilities vary, the Chief Executives had to make sure that their bank structures encompassed different patterns of interaction. Consequently, the traditional unitary structures became redundant. Their capabilities were also being enhanced from their parent organisations the moment they realised the level of turbulence that was taking place in Zimbabwe. This is why some of them had Regional Reporting structures where they also had to report to their Regional Heads outside the country. All of this could be accomplished within the emergent strategy approach that survival banks adopted.

5.6.7 Strategic Fit
Strategic Fit was also identified as one of the key success factors. It was stated that Strategy had to fit with the “fluid business environment, with the structures that were also changing in response to the strategy, with management systems”. Any misalignment with any one of these pillars would compromise survival of the business, according to the respondents.

5.6.8 Redesigning organisational structure of the bank
Redesigning the organisation was another factor that came out during the investigations. As the business environment became more complex, more competitive and less predictable, survival required that banks performed at a higher level, with a broader repertoire of capabilities. Building multiple capabilities and achieving excellence across multiple performance dimensions required managing dilemmas that could not be resolved through simple trade-offs (Grant, 2010). The banks were expected to produce at low cost, while also being very innovative, and showing the entrepreneurial flair of a small start-up. The bank was expected to achieve high levels of reliability and consistency while also being flexible. All of these dilemmas were the aspects of underlying conflict between achieving operational efficiency today and adapting for tomorrow (Grant, 2010). The ability to manage these dilemmas is what made the difference between survival and failure. All these challenges are what necessitated changes in the organisational design that took place in some of the survivor banks.
5.7 THE IMPACT OF INCREASED VOLATILITY AND UNPREDICTABILITY ON
THE STRATEGIC MANAGEMENT PROCESS

The common response from most of the respondents about the impact of volatility and
unpredictability on the strategic management process was the challenge of managing under
conditions which were unique, where the outlook was uncertain, and even the current
situation was difficult to recognise, let alone comprehend. They stated that they had to make
frequent operational adjustments and quick responses to the changes that were taking
place.

The turbulence in the business environment reinforced the case against formal strategic
planning. According to the respondents, the economic and market forecasts had always
provided the foundation for strategic planning during the period prior to the crisis, but the
turbulence and the volatility now made it very difficult to plan for the long term. The challenge
of creating strategy when the future was unknown encouraged reconsideration of both the
process of strategy formulation and the nature of organisational strategy.

This study established that attempts by the survivor banks to reconcile systematic strategic
planning with turbulent, unpredictable business environments included scenario planning,
defining strategic intent and embarking on strategic innovation.

The respondents from banks D, E and F confirmed that they had to abandon single-
point forecasts in favour of alternative futures, thereby emphasising strategic flexibility that creates
option values. It was further noted during the in-depth interviews that the real purpose of
effective planning was not to make plans, but to change the mental models that decision-
makers carried in their heads (Grant, 2003).

It was also observed during these interviews, regarding the impact of turbulence and
volatility on strategic planning, that during uncertain times, strategy becomes less concerned
with specific actions and more with establishing clarity of direction within which short-term
flexibility can be reconciled with overall coordination of strategic decisions (Grant, 2003).

Furthermore, they mentioned the challenge of safeguarding the value of their business. Their
businesses were losing value every day because of the hyperinflation that was highlighted in
Chapter 1. It became very difficult to protect the value of a business in a hyperinflationary
environment. These respondents mentioned that emphasis was on survival rather than
long-run profitability or growth. Many of the conventional performance indicators such as
earnings per share, debt to equity ratios, excess of assets over liabilities and current ratios all lost significant relevance as a result of the volatility.

It was also noted during the interviews that the turbulent and chaotic environment shortened the time horizons for their banks. The greater the impact of the increased volatility and unpredictability, the more the banks focused their energies on surviving the present. Access to real-time information accordingly became very important during the period under review.

5.8 SUMMARY

This Chapter has presented the findings from the multiple case study research that was carried out using six commercial banks, three that survived the turbulence and three that collapsed during the turbulent business environment in Zimbabwe from 2000 to 2008. The findings from the in-depth multiple case study approach were corroborated by the desk research findings which included archival documents, newspaper articles, report from a Panel of Experts, set up the Reserve Bank of Zimbabwe to investigate causes of bank failure in Zimbabwe, and publications from the Reserve Bank of Zimbabwe, which included Monetary Policy Statements and Annual Reports during the period under review. The data have been analysed, interpreted and the findings presented in this chapter.

The following chapter presents the conclusions and recommendations emanating from these research findings and indicates areas for further study.
CHAPTER 6:

CONCLUSIONS AND RECOMMENDATIONS
6.1 INTRODUCTION

This research involved a comparative study of how banks responded to a turbulent and chaotic environment in Zimbabwe during the period 2000 to 2008. Following an extensive literature review, the following Research Problem was identified:

**Current strategic management paradigms or approaches utilised by banks are inadequate to respond to a turbulent and chaotic financial services environment in Zimbabwe.**

The motivation for this research therefore was to identify strategic management paradigms or approaches applicable to a bank operating in a turbulent and chaotic environment in Zimbabwe, by comparing successful and failed banks to try to identify the differences in their approaches and the key success factors that enabled the survival of those banks that did survive.

Fulfilment of the above research problem was achieved through a multiple case study research design involving a total of 6 commercial banks, three from the pool of survivor banks and three from the pool of failed banks.

Interviews were conducted with respondents from the sample used in this multiple case study which included Managing Directors, Corporate Planners and Heads of Treasury departments of both survivor and failed banks. This was further followed by intensive desk research which involved visiting the Reserve Bank of Zimbabwe to interview selected bank officials and to obtain all the relevant and available documentation and publications which included Monetary Policy Statements. Other relevant articles were obtained from media houses, company publications from the banks, Annual Reports of the banks, and Minutes of Executive Meetings held by some of the banks.

Finally, a report from a Panel of Experts that was set up by the Reserve Bank of Zimbabwe, chaired by a renowned Retired High Court Judge, Justice George Smith, to investigate causes of the financial crisis and probable reasons for the subsequent failure of all the local banks, also provided valuable information in support of the research in this study.

This chapter accordingly presents the conclusions of this study, highlighting important contributions emanating from the research, the limitations of the research, and recommendations aligned to the objectives that were set out at the beginning of this study. In closing, areas for further research are indicated. These aspects are discussed in the relevant subsections of this chapter.
6.2 CONCLUSIONS

6.2.1 Strategic management approaches or paradigms in a turbulent environment

The first objective of the research was to identify strategic management paradigms or approaches applicable to a turbulent environment, as was experienced during 2000 to 2008 in Zimbabwe. Interest in strategic management approaches for banks operating in turbulent environments has been driven by the fact that a gap in the strategic management field relating to situations such as these was identified following an extensive literature review presented in Chapters 2 and 3 of this study, as justified by the following:

(a) The inconclusiveness of the debate on what strategy is and how strategy should be carried out in organisations (De Wit and Meyer, 2010).

(b) The inapplicability of some of the theories in an emerging market environment in general, but in an African environment in particular, as argued by Lynch (2010) and Goldman (2010). This is coupled with the fact that businesses in developing economies and emerging markets are not managed purely through economic logic, but that there are other factors that can affect the formulation and implementation of strategy which, inter alia, include politics, absence of rule of law, corruption and ideological agenda, among others (Goldman, 2010).

(c) Grant’s (2010:26) argument that “…strategic management is still a young field and the existing toolbox of concepts and techniques remains woefully inadequate. If existing analytical techniques do not adequately address the problems of strategy-making and strategy implementation under conditions of uncertainty, technological change and complexity, we need to augment and extend our analytical toolkit.”

The study pointed to a process of planned emergence in which strategic planning provided a mechanism for coordinating decentralised strategy formulation within a structure of demanding performance targets and clear corporate guidelines. In addition, the survival of banks D, E and F came as a result of largely disbanding traditional aspects of strategic planning associated with rational, top-down, strategy design and embracing adaptive emergent aspects of strategy-making. As the business environment became more turbulent, and less predictable, strategy-making for survivor banks became more concerned with speed in obtaining relevant information, analysing information, taking decisions and implementing those decisions “at the speed of light,” according to one of the respondents.

According to the emergent perspective of strategy, lack of environmental predictability and the fast pace of change suggest that the inherent value of formal strategic planning is limited. Instead, strategists should incorporate substantial creativity and intuition in order to
design a comprehensive strategy for the firm (Maritz, 2010). This is what made the difference between survival and failure for banks in Zimbabwe during the period under review.

The banking executives had to adapt to the unique business environment they found themselves in. Their decisions had to emerge from the complex or chaotic processes which were confronting them and within which they had to interpret the intended strategy, and adapt its potential shortcomings, to a changing external environment.

According to the respondents of survivor banks, it was established that “...when events are moving at unprecedented speed, as was happening, the time intervals between obtaining information, analysing information, taking decisions and implementing those decisions need to be tightly compressed.”

This researcher has coined this approach of decision compression as a “Strategic Intensity model”, signifying the tight compression that was highlighted by the Chief Executives of survivor banks.

This research established that, in terms of the so-called Strategic Intensity Model, total immersion in the business operational details and the day-to-day competitive climate the business is experiencing, along with hands-on involvement and follow-through, are required, Surviving a volatile environment requires frequent and ongoing operational adjustments.

It can therefore be concluded from the above discussion that the Strategic Management approach in turbulent environments requires Information, Speed, Adaptability and Implementation of those decisions within the shortest possible times. This is the process that has now been coined Strategic Intensity Model.

While both rational or formalised strategic planning and emergent strategic planning have advantageous characteristics, they are, in a sense, opposites and can be contradictory. This means that a bank could not fully commit to formalised long-term plans while at the same time adapting itself flexibly and opportunistically to unfolding circumstances. It is, however, acknowledged that formal intended strategic plans that were in place prior to the advent of a crisis such as the one under review would probably serve as the organisation’s point of departure, as it embarks on an innovative and more flexible approach to adapt to rapidly-changing circumstances.

According to the findings of this research, those who chose and adopted the emergent approach prevailed over those who chose to retain the formalised or deliberate approach.
It can be argued from the above analysis that strategy formation process is not about rigidity. One cannot set a rigid course of action in advance because no one can predict the future.

However, there is a need for flexibility in shaping the course of action by gradually blending together initiatives into a coherent pattern of action (De Wit and Meyer, 2010). It has been established in this study that making relevant strategies involves strategic thinking, sense-making, reflecting, learning and changing the organisation in accordance with the changes in the environment, in pursuing organisational objectives.

Strategy formation is messy, fragmented and piecemeal, much more like the unstructured and unpredictable process of exploration and invention than the orderly processes of design and production (De Wit and Meyer, 2010:124). However, on the other hand, there is a school of thought which prefers to press strategy formation into an orderly, mechanistic straight-jacket, as exhibited in Figures 5.2 and 5.3 above. This school of thought believes that strategies must be intentionally designed and executed. However, while such an approach is ostensibly acceptable in stable environments, this proved fatal to the banks that adopted this approach in Zimbabwe during the period under review.

The emergent school of thought does not question the value of planning and control as a means for managing some organisational processes, but points out that strategy formation is not one of them. In general, managerial planning and control are valuable for routine activities that need to be efficiently organised, such as finance and production. But formal planning is less suitable for non-routine activities – that is, for doing new things (De Wit and Meyer, 2010).

De Wit and Meyer (2010) argue that, just as Research and Development cannot plan the invention of new products, managers cannot plan the development of new strategies. It is not a process that can be neatly structured and controlled. New ideas and insight cannot be generated on demand, but surface at unexpected moments, often in unexpected places, as was highlighted by some of the respondents in this study who used this approach. However, visionary and inspiring leadership could fulfil an enhancing role in this regard.

It can also be concluded from this study that no one can objectively determine ahead of time which strategies will be successful and which ones will not. Therefore, managers engaged in the formation of new strategies must move incrementally, accommodating new ideas over time, adjusting and adapting and increasing commitment as these ideas and concepts gradually prove their viability in practice. This demands that managers behave not as
planners, but as inventors - searching, experimenting, learning, doubting and avoiding premature closure and being locked into one course (De Wit and Meyer, 2010).

Furthermore, recognising that strategy formation is essentially an innovation process has more consequences. Innovation is inherently subversive, rebelling against the status quo and challenging those who are emotionally, intellectually or politically wedded to the current state of affairs, as was experienced at bank E in this study. Creating new strategies involves confronting people’s cognitive maps, questioning the organisational culture, threatening individuals’ current interests and disrupting the distribution of power within the organisation (Hamel, 1996), and none of these processes can be conducted in an orderly fashion, let alone incorporated into a planning system (De Wit and Meyer, 2010).

Finally, the emergent approach to strategy is a process that recognises that strategy formation is a process of innovation and organisational development in the face of an unpredictable future. Under these conditions, strategies must be allowed to emerge (Grant, 2010). The findings on the strategic management approaches in this study point to the fact that, although the prescriptive or formalised planning model is probably the most widely used approach in strategy, its simplifying assumptions have long been recognised (Lynch, 2010). It has been established in this study that banks D, E and F survived because they managed to move beyond the simplifying assumptions of the formalised planning approach. They focused on the context or environment within which strategy was being developed. Their strategies “emerged” from the context or changes in the environment.

From the findings of this research, it can be concluded that the first objective has been achieved by confirming that the emergent approach to strategy is more applicable to a turbulent environment such as was experienced in Zimbabwe. All the successful banks used the emergent approach as opposed to the formalised one.

### 6.2.2 Comparison of survivor banks with failed banks

The second objective was to compare survivor banks and those that did not survive the turbulent economic environment, in order to identify and explain the differences in their approaches. This required that the key success factors for banks operating in turbulent and chaotic environments be evaluated to establish why some banks were successful and survived, while others failed. The key success factors as related to this study are summarised below at the end of this section, which in effect is the achievement of the third objective.
Most of the survivor banks managed to develop quick response capabilities, unlike the failed banks (Thompson, Strickland and Gamble, 2010). The respondents highlighted the fact that, because no company could predict all of the changes that would occur, it was crucial to have organisational capability to be able to react quickly, improvising if necessary. This meant shifting resources internally, adapting existing competencies and capabilities, creating new competencies and capabilities and not falling far behind rivals.

On the other hand, failed banks would commit upfront and would take plans that were difficult to reverse, such as also investing in non-core banking businesses. They failed to make swift responses to the changes in the market and so were unable to adjust and adapt their strategies to the changes in the environment.

Furthermore, rapid decision-making and execution was identified by the respondents as one of the critical success factors for banks operating in a turbulent environment. These were noted as defining attributes of an agile business operating in a turbulent environment. It has already been noted in paragraph 5.6.1 that organisational agility was very important during the turbulent environment.

However, failed banks decided to focus on diversification into non-core business as a survival strategy against the “dominant trend of the past two decades which has been refocusing on core business” (Grant, 2010:402). This became one of the main differences in the strategic approach between the successful and failed banks. It was observed in this study that administrative hierarchies are efficient in processing routine transactions in relatively stable environments, but in turbulent conditions, the pressure of decision-making on top management results in stress, inefficiency and delay. This is why banks D, E and F had to change their structures and decentralised their operations. These changes in structures assisted banks D, E and F to become more agile than banks A, B and C, as the business environment became more volatile and chaotic and because strategic decisions for the latter required approval at corporate levels, as shown in Figure 5.6 above.

This study has established that diversification as a strategy requires a firm base upon which other businesses can be built (Grant, 2010). If the base is shaky, as was experienced by the failed banks, there will be a contagious effect and all the other businesses will be equally affected. Grant (2010:402) argues that the quest to enter new fields has probably caused more value destruction than any other type of strategic decision. However, diversification as a “conundrum” can also offer growth options and the potential for a firm to free itself of the restrictions of a single industry. Banks A, B and C tried to “free” themselves from the
restrictions of the regulated financial services sector operating in a volatile external environment, but the strategy was not successful.

An important conclusion from this study is that diversification as a strategy in a turbulent environment can be disastrous if the foundation upon which it is being built is weak and also if there is no full appreciation of the risk complexion of the businesses involved. This study established that for a company that has not yet developed its main business to its full potential, diversification is probably one of the riskiest strategic choices that can be made (Grant, 2010). It was noted during the interviews that the banks that decided to diversify in effect did not have a solid base. Instead, they were moving away from banking to “free” themselves from the restrictions of the banking industry. Banking was no longer attractive. They were looking for ways to “strengthen” their positions.

If companies are to use diversification as part of their long-term strategic adaptation, and avoid the many errors that corporate executives of the unsuccessful banks made in the Zimbabwean financial services sector, then more effective analysis of diversification decisions is essential, where the objectives of diversification need to be clear and explicit. Rigorous analysis by the organisation that seeks to diversify should also counter the tendency for diversification to be a diversion from the reluctance of top management to come to terms with difficult conditions within their core business (Grant, 2010). Consequently, diversification should never be based on vague concepts of synergy that involves identifying linkages between different industries such as what happened with the unsuccessful banks in Zimbabwe.

6.2.3 Key Success Factors
This study identified the following as key successful factors for banks operating in a turbulent and chaotic environment:

(i) Organisational agility.

(ii) Rapid decision-making and execution.

(iii) High performance culture.

(iv) Decentralised or flat structures.

(v) Ability to access the right information at the right time.

(vi) Flexible management of teams and human resources
Organisational agility was the ability of the banks to adjust and adapt to the changes that were taking place in the environment within the shortest possible time. This was achieved through the decentralisation of the decision-making process, effective communication within the banks and ability to access the right information at the right time. In addition, a high performance culture was critical during the period under review.

From the findings of this research, it can be concluded that the second and third objectives have been achieved, in that the main difference between successful and failed banks was their approach to strategy in which the latter focused on formalised strategic management approach, while the former applied the emergent approach. In addition, the failed banks diversified into non-core businesses. Diversification as a strategy failed because the bank executives of the failed banks did not have a full appreciation of the risk complexion of the non-core businesses.

On the other hand, the main key success factors were characterised by organisational agility which involved decentralisation of decision-making structures, ability to adjust and adapt to rapid changes that were taking place in the environment and a high performance culture coupled with an effective communication strategy.

Objective four involves recommendations with regard to strategic management approaches applicable to banks operating in turbulent and chaotic environments, which are discussed in Section 6.3.4 below.

6.3 RECOMMENDATIONS
In response to the research objectives that the study set out to achieve, recommendations which could be useful in resolving important issues and challenges emanating from this study are presented below:

6.3.1 Review of the concept of owner-managed banks
The study found that bank failures experienced during the period 2000-2008 were associated with local indigenous ownership. In other words, the likelihood of bank failure increased with increasing indigenous ownership and, in fact, bank failures experienced during the period under review only happened to local indigenous banks or in cases where the major shareholder was indigenous.
It is recommended that the Reserve Bank of Zimbabwe should review the concept of shareholders managing their own banks and being the architects and implementers of the bank’s strategies.

Poor corporate governance resulting in such practices as insider-lending and lending to high-risk borrowers who would not pay back the loan was thus found to be the root cause of failure from an organisational perspective. All the Chief Executive Officers of failed banks were the main shareholders of their institutions and, consequently, accountability structures were open to abuse or abused. There was no transparency and accountability, according to a report from a Panel of Experts set up by the Reserve Bank of Zimbabwe and also confirmed by the investigations by the Bank Supervision Division at the Reserve Bank of Zimbabwe.

In addition, most of the board members sitting on the boards of these banks were either very close friends or family members. As a result, Chief Executive Officers took advantage of their relationships with fellow directors to advance their “selfish” desires at the expense of their customers, as stated by the Reserve Bank Governor.

It is recommended that, in accordance with Agency theory that underpins sound corporate governance, there be separation between management and ownership, which means between the responsibilities of shareholders in the business and the executive team. In addition, the directors of the board should be mainly independent so that there are checks and balances for governing.

A bank may have a great strategy, but its success can easily be compromised in the absence of adequate checks and balances and inadequate separation of management and ownerships if the shareholders are allowed to run the business. Banking is a very sensitive sector because one is dealing with other people’s money which means it is about trust and customer confidence which should never be eroded, hence tight and appropriate regulations are being recommended in this regard to safeguard people’s assets.

6.3.2 Impact of structures on strategy in a turbulent environment
The findings from this study point to the fact that the traditional leadership and management structures where there is one man or woman, an all-powerful demigod who knows it all, has to be bypassed, especially when operating in a turbulent environment (Grant, 2010).
Changing external environment, new strategic priorities and different types of organisational structures in turbulent environments calls for new approaches to leadership and strategising. This study has established that the rate of turbulence and chaos in Zimbabwe was too complex for Chief Executive Officers to be able to access the information necessary to act as peak or sole decision-maker (Grant, 2010). This is supported by Hamel (2007), who argues that there is a need to redefine the work of leadership:

“The notion of the leader as a heroic decision-maker is untenable. Leaders must be recast as social-systems, architects who enable innovation…” He further states that leaders will no longer be seen as grand visionaries, all-wise decision-makers, and iron-fisted disciplinarians. Instead, they need to become social architects, constitution writers and entrepreneurs of meaning. In this new model, the leader’s job is to create an environment where every employee has the chance to collaborate, innovate and excel. Not surprisingly, such an environment will also be conducive to coping successfully with emergent strategy approaches when required. The main focus of leadership should be on team-building, and the concept of “Team Leadership” is best suited to today’s turbulent environments (Grant, 2010:473).

It is recommended that leadership ensure that organisations continuously “shift and change” structures or positions within structures, according to the dictates in the environment. As the leadership thus adjusts and adapts to the changes in the market, there is also a need to monitor continuously whether the structures are still relevant, and if the teams and persons involved have the capacity to adapt to the new dictates in the market.

### 6.3.3 Enforcement of Banking Laws and Regulatory Requirements

All the strategies towards bringing stability in the banking sector have to start with looking at the banking laws, their adequacy and enforcement. Based on the results of this study, the legislative framework was not necessarily weak but the challenge was that laws were being violated, and that banking legislation did not necessarily keep up with change. For this reason, regulatory authorities need to be rather more proactive than reactive.

It is thus recommended that regulators such as the Reserve Bank of Zimbabwe, the Deposit Protection Board and other relevant institutions revise law enforcement strategies. Severe punitive actions must be applied to those banks that violate national banking laws and this must be done with speed if the Zimbabwean banking system is to restore depositors’ confidence.
However, it is important to note that the regulators alone may not succeed in this law enforcement endeavour. Hence, there is a need to muster the support of all stakeholders, including industry captains and industry representative bodies such as the Bankers’ Association of Zimbabwe, Confederation of Zimbabwe Industries and the Zimbabwe National Chamber of Commerce to bring about change in the financial services’ regulatory environment.

Incentives should also be awarded to those banks that are found to be responsible and adhering to existing regulatory requirements and banking laws. This would encourage bank executives and owners to exercise restraint on misbehaviours.

On the other hand, banks that are found to be violating banking laws and regulatory requirements must be punished. This will increase transparency, inter alia, in the eyes of depositors and, in return, might increase depositors’ confidence in the banking system. However, this recommendation must be addressed with speed and without exceptions.

6.3.4 Strategic Management approaches in turbulent environments

By comparing the strategic management and strategic planning approaches of successful and unsuccessful banks operating in turbulent and chaotic environments, it was established that the failed banks were associated with local indigenous ownership, mostly had formal, centralised organisational structures and autocratic leadership which tended to diversify into non-core industries and pursued formal, intended or deliberate, relatively inflexible strategies, inconsistent with the turbulent and rapidly-changing environment in which they operated.

Bank failures were mainly attributed to poor corporate governance, poor credit risk management, insider lending and lending to high-risk borrowers, low asset quality, inadequate capitalisation, apart from macro-economic causes that contributed to failure. In contrast, key success factors for the financial services sector and that the successful banks largely adhered to included: organisational agility, proactive role of management, communication and teamwork, rapid decision-making and execution, a high performance culture, accessing timely and accurate information, flexible management teams, flexible decentralised organisational structure, and accountability and credibility. Given these comparative situations, one of the most important findings and hence recommendations is that of deploying an emergent strategy, as opposed to a formal strategic planning approach.
The main advantage of the emergent strategic management approach was that it enabled management to adjust and adapt to the rapid changes that were taking place in the environment, thereby ensuring that the strategies remained relevant and conformed to the changes that were taking place. On the other hand, the formalised strategic management approaches adopted by failed banks were too rigid and failed to take into account the rapid changes that were taking place in the business environment.

6.4 CONTRIBUTION TO THE BODY OF KNOWLEDGE

This research makes a significant contribution to the existing body of knowledge by identifying and recommending Strategic Management approaches applicable to businesses operating in a turbulent and chaotic environment, in particular in developing markets such as Zimbabwe.

The literature review confirmed that the current strategic management prescriptions for businesses operating in turbulent environments were inadequate (Grant, 2010). This research has been an attempt to identify and address the inadequacies of current strategic management approaches for businesses operating in turbulent and chaotic environments. More specifically, this research identified the need for an emergent strategic management approach in turbulent environments.

Furthermore, this research also contributes towards the current debate in academic literature amongst practitioners of strategy, about how strategy in organisations is really made (Maritz, 2010). The debate centres around two opposing views: one associated with strategy-making as a formal, intended or deliberate plan, and the other associated with emerging strategies as evolving, ever-changing sets of outcomes that are eventually realised. This research established that strategy-making is birthed through an emergent process in turbulent and chaotic environments. In other words, strategy may emerge through adaptation to circumstances. In Zimbabwe, the banking executives of survivor banks had to adapt to the unique business environment they found themselves in. It was the ability to adjust, adapt and implement strategic as well as operational decisions as quickly as possible that resulted in the survival of the banks in Zimbabwe during the period under review.

It was further established in this research that when events are moving at unprecedented speed, as was happening in Zimbabwe, the time intervals between obtaining information, analysing information, taking decisions and implementing those decisions need to be tightly compressed - the researcher has coined for this the name of Strategic Intensity Model (SIM).
The findings from this study point to the fact that traditional permanent leadership or management structures where there is one all-powerful demigod who knows it all has to be bypassed when operating in a turbulent environment. There is a need to create an alternative top management structure, inter alia, dedicated to crisis management. It is also important for the businesses to have fluid structures that are flexible and constantly shifting in response to changes in the environment.

This study has also established what caused some banks to fail when others survived, even though they were all operating in the same environment. This research provides a good reference point for anyone who may want to study the causes of bank failures, particularly in developing economies similar to Zimbabwe.

6.5 LIMITATIONS OF THE STUDY

One of the limitations of this qualitative study is memory lapse given the amount of time that has elapsed since the events under review took place. Some of the interviewees were unlikely to have remembered in detail some of the incidents that took place during the period under review. This also could have compromised the quality of the information that was analysed.

Furthermore according to Leedy (2010), often people are likely to recall what might or should have happened based on their attitudes or beliefs rather than what actually did happen. This is another limitation of a qualitative study. Some of the respondents who were interviewed were also very bitter with the way they perceived the Reserve Bank Governor had treated them and this could also have biased the integrity of the information.

Although it could be perceived as a limitation, the relative small samples included in this research represented the core of the banking sector during the period under review.

6.6 AREAS FOR FURTHER STUDY

The researcher proposes the following areas for further research:

- The role of Corporate Governance in the financial services sector in turbulent environments.
• The effectiveness of microfinance banks in financial inclusion with focus on developing countries: such research should help the Reserve Bank of Zimbabwe and other relevant authorities in their strategies towards financial inclusion. The major aspect to look into in this case would be outreach of the microfinance banks.

• The impact of mergers of troubled indigenous banks on bank performance. It cannot be assumed that merging troubled indigenous banks would result in the desired positive performance of the bank concerned. This study should ascertain that assumption or disprove it.
7. ANNEXURES
ANNEXURE 1: INTRODUCTORY LETTER

20 Lingmell Close
Quinnington,
Borrowdale
Harare
25 September 2013

Dear Sir

Re: Doctor of Business Leadership Research project

My name is Douglas Mamvura and I am currently doing research with Professor Neuland and Prof Zake towards a Doctor of Business Leadership degree with the University of South Africa Graduate School of Business Leadership (SBL). Professor Neuland is the Area Head: Strategy, Governance and Marketing at the (UNISA SBL).

We are inviting you to participate in a study entitled:

**A Comparative Study of How Banks Responded to a Turbulent and Chaotic Environment in Zimbabwe: 2000 to 2008.**

The aim of this study is:

**To identify strategic management paradigms or approaches applicable to banks operating in a turbulent and chaotic environment in Zimbabwe.**

Ultimately, by means of this case study approach, I hope to identify and document answers to such questions as: What are the characteristics of strategic planning systems of banks operating in a turbulent and chaotic environment in a developing economy? What enabled some banks to survive, given the challenging economic environment that prevailed between 2000 and 2008 in Zimbabwe? How do banks formulate their strategies against a background of bad governance, absence of rule of law, corruption and mismanagement of the economy? What is the impact of increased volatility and unpredictability of the environment on the bank’s strategic management process? What were the merits of diversification, as opposed to sticking to core business in banking during the turbulent period?
I am conducting this research to find out your views about how a bank should respond to a turbulent and chaotic environment, such as was experienced in Zimbabwe during the period 2000 to 2008.

Your name was chosen as a participant because you have been identified as a valuable source of research information, given your status and the role you play in your organisation. Please note that being involved in this study is voluntary and you are under no obligation to consent to participation. Should you decide to take part, we would kindly request that you reply to this email by stating yes; if not, please just respond by stating no.

Please note that this research is highly confidential and the name of your organisation will not be disclosed. We would be very grateful if you would kindly give your time, experience and patience to the undersigned as he carries out the interviews. Partners in this research will have access to individual data and a confidentiality agreement has been put in place to maintain confidentiality. Your answers may be reviewed by people responsible for making sure that the research is done properly, including members of the Research Ethics Committee. Otherwise, records that identify you will be available only to people working on this study, unless you give permission for other people to see the records.

A report for the study may be submitted for publication, but individual respondents will not be identifiable in such a report. Hard copies of your answers will be stored by the researcher for a period of five years in a locked filing cabinet at the residence of the researcher for future research or academic purposes, while the electronic information will be stored on a password-protected computer.

After five years, all this information will be destroyed.

There are no costs associated with completing the questionnaire other than your time, and no payment or reward, financial or otherwise, is offered.

Should you be interested in the research findings, please contact the undersigned on +263 731 333 777 or doug@dpzcapital.net or dmamvura@mannabrands.co.zw.

Your cooperation is most essential if the case studies are to successfully guide and support final strategic management approaches or paradigms which will assist banks operating in a turbulent environment in developing economies such as Zimbabwe.
I wish to express my gratitude for your assistance and look forward to getting your confirmation of the dates at your earliest convenience.

Yours sincerely

Doug Mamvura
ANNEXURE 2: CONSENT TO PARTICIPATE IN THE STUDY (A)

By beginning the survey you acknowledge that:

- You have read this information and agree to participate in this research.
- You are aware of the nature, procedure, potential benefits and anticipated inconvenience of participation.
- You have read (or had explained to the undersigned) and understood the study, as explained in the information sheet.
- You have had sufficient opportunity to ask questions and are prepared to participate in the study.
- You understand that your participation is voluntary.
- You are aware that the findings of this study will be anonymously processed into a research report, journal publications and/or conference proceedings.
- You can print this informed consent agreement.

YES

NO
ANNEXURE 3: IN-DEPTH INTERVIEW GUIDE

The following interview guide was used as a guide during the interviews.

A. Opening the interview (all covered within 5 minutes).
   - Greet and thank the respondent for time taken to contribute towards the research.
   - Outline the purpose of the research and the progress.

B. DEMOGRAPHIC INFORMATION

Name ........................................... Position...........................................

Work Experience in the bank:
   a) 0 - 5 years □  d) 11 – 15 years □
   b) 6 - 10 years □  e) Over 16 years □

Department (optional): _____________________________________________________________

C. ACTUAL INTERVIEW

1. The financial services sector experienced an extremely turbulent and chaotic era between 2000 and 2008. What were your broad observations during this period under review?
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ___________________________________________________________________
   ___________________________________________________________________
   ___________________________________________________________________
   ___________________________________________________________________
   ___________________________________________________________________
   ___________________________________________________________________
   ___________________________________________________________________

   Probe: Find out how the respondents coped with the challenges and what were their key lessons during the period under review. Do not be judgmental as you probe.

2. How would you define banking crisis and what do you think were the causes in the
Zimbabwean financial services sector?

Probe: Was this crisis man-made or what exactly were the causes of this crisis, in your own opinion? Did you see this coming or did it take you by surprise?

3. What were the strategic management paradigms or applicable approaches that you used in the turbulent environment in Zimbabwe?

Probe: Where did these originate from? Were these from the Strategic Management literature or homegrown? Ask for specific examples.

4. What were your planning cycles? How often did you review your plans?

Probe: Who exactly was involved in your strategic planning? What were the planning processes like? Who initiated this planning cycle? Was it bottom-up or top-down?

5. What were the linkages between strategic planning and other systems of decision-making, coordination and control, including budgeting and human resource management?

Probe: Find out how strategy formulation was linked with other departments in the organisation. What role did the strategic planning department play in relation to other departments?
6. What were the characteristics of your strategic planning systems of banks operating in a turbulent and chaotic environment in Zimbabwe?

______________________________________________________________________
______________________________________________________________________

Probe: Find out if there was any planning at all during this turbulent and chaotic period. What was the duration of those plans? Was it five years, one year, one month, one week or daily, and why? With the way inflation was changing almost every three hours, how relevant was their planning during this chaotic period?

7. Did you have any strategies that you used as a bank against a background of political, social and economic environment?

   a) Yes [ ]  b) No [ ]

   If yes, please state them.

______________________________________________________________________
______________________________________________________________________
______________________________________________________________________

Probe: Can you please give examples of the strategies you employed during this period? How did you relate to the politicians, and how important was this relationship? Were you under pressure to lend to these politicians and did they take advantage of your vulnerability? How did you handle the hyperinflationary environment? How did you protect the value of your business at a time when the currency was losing value every day?

8. What were the key success factors that you used to survive the turbulence?

______________________________________________________________________
______________________________________________________________________
______________________________________________________________________

Probe: Why were these factors key to your survival? What was so special about each of these factors during the period under review? Were these factors new to you or had you
always implemented them? How did you come up with these factors? Were they just unique to you or to the whole market or industry?

9. Is there anything that you did, as a bank, that the failed banks did not do in order to survive the turbulence? (If the respondent is from a survivor bank).

   a) Yes □  b) No □

   If yes, please state what you did.

__________________________________________________________________________________
__________________________________________________________________________________
__________________________________________________________________________________

Probe: Could you please give specific examples of what you did that was different from other banks, particularly those that collapsed during the turbulence? Why do you think the failed banks decided to ignore some of your survival strategies? Was it because they were ignorant or were there other reasons? Please explain.

10. What were the effects of the institutional environment which resulted in the financial crisis in Zimbabwe?

__________________________________________________________________________________
__________________________________________________________________________________
__________________________________________________________________________________

Probe: What was your relationship with the Central Bank? To what extent was the Central Bank responsible for the crisis that took place in banking? How did the incoming of the new Central Bank Governor contribute to the adverse changes that took place in the financial services sector?

11. What was the impact of the increased volatility and unpredictability on the Strategic Management process of the bank?

__________________________________________________________________________________
__________________________________________________________________________________
__________________________________________________________________________________

Probe: Can you please highlight the key challenges that were caused by this volatility and unpredictability of the environment to your busy strategy? How often did you have to
change your strategies as a result of the changes that were taking place in the environment?

12. What are your overall views about strategy formulation during the period under review?

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

*Probe: This should give the researcher an opportunity to find out more about the strategy formulation during the period under review. Find out if the strategy was an emergent one or if it was a formal one which had been pre-planned.*

13. Did you ever consider diversification as a strategy? If so, what was its impact on your overall business strategy?

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

*Probe: Find out why the bank considered diversification as a strategy. What was the reason for following the strategy? For the bank that did not pursue diversification, what were the reasons?*

**Concluding Remarks**

I would like to thank you most sincerely for your time and the ideas you have shared with the researcher. It is my hope that the research findings from this study will certainly be very valuable to executives, particularly in the developing economies in Africa, who may encounter a similar challenge in the future.

END OF INTERVIEW GUIDE
ANNEXURE 4: STRUCTURE OF THE INTERVIEW LETTER

PARTICIPANT INFORMATION SHEET

16 October 2013


Dear Prospective Participant

Thank you for agreeing to take part in the above-mentioned interview.

As indicated telephonically, I am currently doing research with Professor Neuland and Prof Zake towards a Doctor of Business Leadership degree with the University of South Africa, Graduate School of Business Leadership (SBL). Professor Neuland is the Area Head: Strategy, Governance and Marketing at the (UNISA SBL).

We are inviting you to participate in a study entitled:


The interview will be one hour in duration and will be focusing mainly on the following questions:

- What are the characteristics of strategic planning systems of banks operating in a turbulent and chaotic environment in a developing economy?
- What enabled some banks to survive, given the challenging economic environment that prevailed between 2000 and 2008 in Zimbabwe?
- How do banks formulate their strategies against a background of bad governance, absence of rule of law, corruption and mismanagement of the economy?
- What is the impact of increased volatility and unpredictability of the environment on the bank’s strategic management process?

I am conducting this research to find out your views about how a bank should respond to a turbulent and chaotic environment such as was experienced in Zimbabwe during the period 2000 to 2008.

Your name was chosen as a participant because you have been identified as a valuable source of research information, given your status and the role you play in your organisation.

However, please note that being in this study is voluntary and you are under no obligation to give consent to participation. Should you decide to take part, we would kindly request that you reply to this email by stating yes; if not, please just respond by stating no.

Your responses are important in enabling me to a full understanding of how banks formulate their strategies in environments characterised by high turbulence and volatility in the African context, with specific reference to Zimbabwe.
Please note that this research is highly confidential and the name of your organisation will not be disclosed. We would be very grateful if you could please kindly give your time, experience and patience to the undersigned as he carries out the interviews. Partners in this research will have access to individual data and a confidentiality agreement has been put in place to maintain confidentiality. Your answers may be reviewed by people responsible for making sure that the research is done properly, including members of the Research Ethics Committee. Otherwise, records that identify you will be available only to people working on this study, unless you give permission for other people to see the records.

A report for the study may be submitted for publication, but individual respondents will not be identifiable in such a report. Hard copies of your answers will be stored by the researcher for a period of five years in a locked filing cabinet at the residence of the researcher for future research or academic purposes, while the electronic information will be stored on a password-protected computer.

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There are no costs associated with completing the questionnaire other than your time, and no payment or reward, financial or otherwise, is offered.

Should you be interested in the research findings, please contact the undersigned on +263 731 333 777 or doug@dpzcapital.net or dmamvura@mannabrands.co.zw.

Your cooperation is most essential if the case studies are to successfully guide and support final strategic management approaches or paradigms which will assist banks operating in a turbulent environment in developing economies such as Zimbabwe.

I wish to express my gratitude for your assistance and look forward to getting your confirmation of the dates at your earliest convenience.

Yours sincerely

Doug Mamvura
ANNEXURE 5:  CONSENT TO PARTICIPATE IN THIS STUDY (B)

I ……………………………………….(participant’s name) confirm that the person asking my consent to take part in this research has told me about the nature, procedure, potential benefits and anticipated inconvenience of participation.

I have read (or he has explained to me) and understood the study, as explained in the information sheet.

I have had sufficient opportunity to ask questions and am prepared to participate in the study.

I understand that my participation is voluntary and that I am free to withdraw at any time.

I am aware that the findings of this study will be anonymously processed into a research report, journal publications and/or conference proceedings.

I agree to the recording of the in-depth interview.

I have received a signed copy of the informed consent agreement.

Participant’s name and surname……………………………………………………………………

Participant’s signature………………………………………………………………………………

Researcher’s name and surname…………………………………………………………………..

Researcher’s signature………………………………………………………………………………

Witness’s name and surname……………………………………………………………………

Witness’s signature………………………………………………………………………………
ANNEXURE 6: MAJOR CAUSES OF BANK FAILURES

Table 7.1: Major Causes of Bank Failures

<table>
<thead>
<tr>
<th>BANK-SPECIFIC FACTOR</th>
<th>AVERAGE RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance</td>
<td>2.25</td>
</tr>
<tr>
<td>Credit risk management</td>
<td>2.75</td>
</tr>
<tr>
<td>Asset quality</td>
<td>3.10</td>
</tr>
<tr>
<td>Inadequate capitalisation</td>
<td>3.75</td>
</tr>
<tr>
<td>Liquidity</td>
<td>4.25</td>
</tr>
<tr>
<td>Earnings</td>
<td>4.82</td>
</tr>
</tbody>
</table>

Table 7.1 shows that poor corporate governance, poor credit risk management and asset quality were the top three bank-specific causes of bank failures experienced during the period 2000-2008, with average rankings of 2.25, 2.75 and 3.10 respectively. In other words, corporate governance was said to be the greatest cause of bank failures, followed by poor credit risk management and then asset quality.

Table 7.2: Major Macro-Economic Causes of Bank Failures

<table>
<thead>
<tr>
<th>MACRO-ECONOMIC FACTOR</th>
<th>AVERAGE RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low economic growth</td>
<td>2.60</td>
</tr>
<tr>
<td>Adverse trade shocks</td>
<td>2.80</td>
</tr>
<tr>
<td>Foreign liabilities</td>
<td>3.20</td>
</tr>
<tr>
<td>Over-regulation by the Reserve Bank</td>
<td>3.40</td>
</tr>
<tr>
<td>High interest rates</td>
<td>4.20</td>
</tr>
<tr>
<td>Exchange rate movements</td>
<td>5.20</td>
</tr>
</tbody>
</table>

Table 7.2 shows that low economic growth was the major macro-economic cause of bank failures in Zimbabwe during the period 2000-2008. This was followed by adverse trade shocks and foreign liabilities, with average rankings of 2.60, 2.80 and 3.20 respectively.
ANNEXURE 7: BANK FAILURE CAUSES SPECIFIC TO LOCAL BANKS

Table 7.3: Bank Failure Causes Specific to Local Indigenous Banks during the period 2000-2008

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>AVERAGE RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor corporate governance</td>
<td>2.10</td>
</tr>
<tr>
<td>Insider lending</td>
<td>2.23</td>
</tr>
<tr>
<td>Lending to high-risk borrowers</td>
<td>2.65</td>
</tr>
<tr>
<td>Macro-economic instability</td>
<td>4.25</td>
</tr>
<tr>
<td>Inadequate Capitalisation</td>
<td>4.52</td>
</tr>
<tr>
<td>Bank regulation and supervision</td>
<td>5.83</td>
</tr>
<tr>
<td>Forbearance</td>
<td>6.42</td>
</tr>
</tbody>
</table>

Table 7.3 shows that for indigenous banks, poor corporate governance and insider lending were the major causes of bank failures, with average rankings of 2.10 and 2.23 respectively. Lending to high-risk borrowers was third, with an average ranking of 2.65.

In this regard, most indigenous owners were said to be very greedy, hence they advanced themselves insider loans which in most cases were not paid back. This was said to have greatly affected the asset quality of the banks which in turn resulted in liquidity challenges.

An important observation was also made that all of the banks that failed during the period under review were indigenous.
ANNEXURE 8: COMPARISON BETWEEN BANK-SPECIFIC AND MACRO-ECONOMIC FACTORS CAUSING BANK FAILURES

Figure 7.1: Comparison between Bank-Specific and Macro-Economic Factors Causing Bank Failures

Figure 7.1 shows that bank-specific factors had a greater impact on bank failure than macro-economic factors.
ANNEXURE 9: OTHER CAUSES OF BANK FAILURE

Figure 7.2: Other causes of Bank Failures

The results shown in Figure 7.2 reveal that:

- The lower the bank’s capital, the higher the probability of its failure
- For most banks, greater reliance on brokered deposits is associated with an increased likelihood of bank failure
- Politically-directed lending is not a problem in most Zimbabwean banks, although in some cases it may result in bank failures
- Some Zimbabwean banks relied greatly on brokered deposits
Figure 7.3 shows that all the respondents concurred that local indigenous banks are more likely to experience bank failure than foreign-owned banks, mainly owing to poor corporate governance systems.
REFERENCES


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