

Developing Dynamic Capabilities for Bank Turnaround

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This article explores the evolution of dynamic capabilities over the bank turnaround cycle from perspective of the resource-based view of the firm. A longitudinal case study uncovered how National Commercial Bank Jamaica sensed threats, mobilized resources to seize opportunity, and transformed for corporate turnaround. The period of study was 1985 to 2011 using data from secondary sources and interviews of company personnel. Managerial cognition created biased perception of reality to delay strategic intervention. New leadership strengthened the bank's business model by building intangible assets and leveraging external relationships. Employee training and incentives facilitated deployment of new knowledge and motivated organizational learning and innovation for corporate renewal.

JEL Codes: D21, G21 and M10

1. Introduction

Some of the world's largest banks reported substantial losses during the global financial crisis of 2007-2008 (Crotty 2009; The Economist 2009). In the aftermath, banks face tighter regulation, intensifying competition, rapid changes in technology and volatile consumer preferences. These conditions escalate the likelihood of more losses and make profit recovery quite challenging. History suggests that managers require more guidance on how to rescue failing banks.

Strategy literature contains a substantial body of knowledge, on corporate turnaround management, developed over the past four decades. The most popular school of thought posits that viable firms can recover from organizational decline by resolving financial distress, changing strategy and increasing efficiency (Schoenberg et al 2013; Arogyaswamy et al 1995). Only a few studies focus on banks and these suggest that turnaround arises from cost control and revenue enhancement (Clausen 1990; O'Neill 1986). However, there is need for granular understanding of the process (Panditt 2000; Pearce and Robbins 1993).

Schoenberg, et al. (2013: p.253) commented: "The resource-based view and dynamic capability perspectives could also provide insightful lenses to explore turnaround." Teece et al (1997) posited that increases in business profitability arise from dynamic capabilities defined as the firm's capacity to create, extend or modify its resources base. Ordinary capabilities are high-level routines for deploying resources to produce and sell goods and services. These capabilities become dynamic if the firm can purposefully reconfigure and redeploy resources to cope with environmental changes. However, this concept has escaped the attention of

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Lawrence

turnaround scholars despite evidence of radical environmental changes that made existing tangible and intangible assets uncompetitive and eroded business profitability in the marketplace. Easterby-Smith et al (2008) noted that dynamic capabilities remain hidden until exercised and are associated with tacit organizational elements and intangibles such as processes, managerial cognition and knowledge.

Research in this area can help to resolve the debate about how to manage resources in turnaround situations particularly in respect of deriving value from strategic assets (Morrow et al 2007). The concept of dynamic capabilities is of particular relevance for banks because they need to reconfigure the way they create and deliver value for survival and prosperity in highly volatile environments (Sun & Chan 2011). Therefore, the purpose of this study was to identify the key activities pertaining to dynamic capabilities in the bank turnaround process. Specifically, the study explored answers to two research questions in the strategy literature based on the resource based view:

RQ1: What are the dynamic capabilities for bank recovery from profit decline?

RQ2: How do managers develop and leverage dynamic capabilities for bank turnaround?

Teece (2007) proposed that dynamic capabilities become particularly critical in developing environments open to international commerce. So, this article reports findings from a study of corporate transformation and turnaround of a bank located in Jamaica, a small developing island economy that is open to international trade and highly exposed to natural disasters and economic shocks (International Monetary Fund, 2013). This is the first study of the corporate turnaround process to explore the role of dynamic capabilities. Important concepts and themes were derived, from integration of literature on corporate turnaround and dynamic capabilities, to conduct historical analysis and longitudinal case study of the turnaround experience of National Commercial Bank Jamaica Limited (NCB). Findings revealed that bank recovery from decline involved careful orchestration of the interplay between managerial cognitions and resource management at each stage of the corporate turnaround cycle.

The next section of this article presents a review of literature to evolve concepts and themes for the NCB case study. Section 3 reports the methodology used for the study including research design and procedures for data collection and analysis. Section 4 reports observations made, during the case study, and important findings. Section 5 is the conclusion and discusses how the study contributes to theory development, limitations of the study, suggestion for future research and implication for managerial practice.

2. Literature Review

Corporate turnaround refers to decline and subsequent recovery in firm performance (Schmitt & Raisch 2013; Schendel et al 1976). Organizational decline is progressive resource deficiency from subtle erosion to depletion (Heine & Rindfleisch 2013; Weitzel & Jonsson 1989). The firm achieves recovery when it returns to sustainable profitability. Turnaround is only worthwhile attempting if the firm can regenerate its resources for good financial health (Schoenberg, et al 2013; Hofer 1980). Yeh and Fang (2011) observed that business

Lawrence

turnaround involves shedding or adding resources as necessary to arrest the problem and take corrective action. However, there is need for clarity about how to orchestrate resources for corporate turnaround. Furthermore, Panditt (2000) noted that scholars have paid scant attention to the mindsets of managers attempting turnaround. These limitations constrain the building of turnaround theory.

The resource-based view theorizes that firms achieve competitive advantage and profitable growth by combining tangible and intangible assets in ways superior to rivals in the marketplace (Penrose 1959; Wernerfelt 1984). Competitive advantage can be sustained if these assets are valuable, rare, inimitable and non-substitutable (Barney 1991). These are VRIN resources. Grant (1991) argued that distinctive resources and capabilities enable the firm to establish its identity and purpose, craft effective strategy and earn corporate profits in excess of the cost of capital. Peteraf (1993) proposed that firms should adopt strategies that match their resources and capabilities. The finance literature suggests that risk-taking and increases in market share can improve bank profitability (Belkhaoui et al 2014). However, for corporate turnaround, distressed financial institutions must reduce the riskiness of their asset portfolios (DeGenarro & Lang 1993).

When faced with radical environmental change, the firm should reconfigure and redeploy its resources to create new competitive advantage and value (Teece 2007). Firms in turnaround situations need to build VRIN resources and find new ways of leveraging these tangible and intangible assets for recovery from decline (Morrow, et al 2007). The capacity to make these adjustments depends on the firm's dynamic capabilities which reside largely in the domain of top management and impacted by organizational systems and structures (Easterby-Smith et al 2008). Importantly, dynamic capabilities do not lead automatically to superior firm performance and must be well-targeted and deployed for best results. Although the notion of developing dynamic capabilities is not explicit in extant turnaround literature, Teece (2007) argued that three sets of activities are involved: sensing threats and opportunities, seizing opportunities and transforming capabilities and resources to fit new environmental conditions.

2.1 Capability to Sense Threat of Decline

Managers should search proactively for signs of organizational decline through market probing, listening to customers and scanning elements of the business ecosystem (Weitzel & Jonsson 1989). This is a process of knowledge discovery during which individuals use cognitive capabilities to accumulate, filter and interpret information and signals in whatever form they appear (Rodenbach & Brettel 2012). Cognition refers to mental processes of perception, memory, judgment and reasoning (Nadkarni and Barr 2008). Managers might not admit that firm performance is declining because of self-deception, a rigid organizational culture or excessive company politics, consensus and compromise (Lorange & Nelson 1987). Decline causes managers to dislike and blame each other, hide information, protect turf and deny responsibility (Kanter 2003). These conditions cause delayed response or even inaction (Heine & Rendfleisch 2013).

During the early stages of organizational decline, management has a period of warning and time to act because of significant increases in debt to equity ratio, an indicator of financial resource erosion (Hambrick & D'Aveni 1988). Decline becomes more severe and noticeable

Lawrence

over time and can ultimately trigger intervention by external agents (Gopinath 2005). Grinyer & McKiernan (1990) posited that intervention occurs when influential stakeholders become sufficiently dissatisfied with firm performance. Failure to find solutions using existing cognitions often result in resource cutbacks as a knee-jerk reaction to stem asset erosion. Managers will then try to change strategy within existing objectives, beliefs and rules. Radical transformation is a last resort. Moreover, Barker and Duhaime (1997) observed that the extent of strategic change is associated with the magnitude of organizational decline and the firm's capacity to make the necessary adjustments.

2.2 Capability to Seize Opportunity for Recovery

Schoenberg et al (2013: p.252) argued that turnaround is driven by a "committed leadership team whose mental models are appropriate to the environment the firm finds itself in." These ingrained assumptions and views of the world are motivated by past experience, organizational routines and behavior, data patterns, or expectations from plausible scenarios of the future. While turnaround leaders need to make correct strategic decisions, they must also restore the self-confidence of employees and garner support from all key stakeholders (Kanter 2003). However, conventional organizational practices and rules impede change to the extent that there is resistance to proposals for new action. Managerial cognition filters information such that those domains deemed to be most relevant get priority attention and others are ignored selectively. A change of leadership is often required, even at several organizational levels, to stem decline and seize turnaround opportunity through improved credibility of management and general acceptance of new strategic initiatives without the stigma of past mistakes (Harker & Sharma 2000).

After stemming asset erosion, the firm needs to rebuild resources for fueling organizational change and withstanding further environmental jolts. This requires financial restructuring, through private workouts or court proceedings, to reduce debt burden (Lawrence & Jones 2001; Hofer 1980). Resources are configured in an architecture or business model that articulates the customer value proposition taking into account the firm's risk appetite and how to profitably satisfy anticipated demand (Teece 2007). Tikkanen et al (2005) posited that every business model has two dimensions: (1) material elements, such as business networks and resources, and (2) cognitive capabilities for understanding the choices available, assembling evidence to validate opinions, setting organization boundaries, procuring appropriate technologies and having good appreciation of the value chain and ecosystem. The functioning of a business model is visible in the form of strategic decisions and actions (Tikkanen et al 2005). However, there is need for clarity on the process through which mental models generate capacity to rebuild company assets and profitability.

2.3 Capability to Transform for Sustained Turnaround

Firms achieve turnaround by recombining existing resources or acquiring new resources that meet the VRIN criteria (Morrow et al 2007). Managers must redeploy tangible and intangible assets to renew and transform the organization for improved strategic fit with its ecosystem (Teece 2007). Proper execution of a new business model requires collective learning, self-renewal and transformation to institutionalize change in organizational culture by engaging all employees (Blumenthal & Haspeslagh 1994). Wishnevsky (2004) reported empirical evidence

Lawrence

to show that transformation enhances the chances of bank survival. Aspara et al (2011: 622) stated that “the difference between success and failure of transformative activities boils down to the firm’s ability to change its business model effectively and in rhythm with the dynamics of the external environment.” The change must also be routinized or embedded within the organizational culture through training, effective communication, incentives, leadership by example and generating excitement about the transformation effort.

Renewal is a prerequisite for corporate transformation and arises from organizational learning defined as the capability to improve by anticipating and coping with change (Blumenthal & Haspeslagh, 1994). Organizational learning can create new value through cospecialization wherein the benefit from an asset comes from its use in combination with others to differentiate products or reduce costs (Teece 2007). Intangible assets are most important but has to be bundled with complementary physical assets to create competitive advantage. Managers must cope with anxieties and uncertainties among stakeholders while building a learning organization. However, there is need for research on the process through which organizational learning informs the decisions and actions for asset redeployment.

2.4 Conceptual Themes

Sensing, seizing and transforming are the three capabilities necessary to develop and leverage business models for profitability (Teece 2007). A business model is comprised of two elements: managerial cognition and material aspects including resources (Tikkanen et al. 2005). During business model transformation, there is interplay and balance between managerial cognitions and the material aspects (Aspara et al 2011). In turnaround situations, managerial cognitions sense warning signs of decline and trigger action to stem asset erosion. Then mental models generate capacity to rebuild tangible and intangible assets. Finally, organizational learning occurs to redeploy assets for profit recovery propelled by appropriate employee incentives and strong relationships within the business ecosystem. Teece (2007: p.1324) stated that development of dynamic capabilities “can also be facilitated if the enterprise and/or the entrepreneur explicitly or implicitly employ some kind of analytical framework, as this can highlight what is important.”

Table 1 shows the major themes, from the literature review, in a framework for case study of turnaround processes. For banks, sensing threat of decline is important to sustain confidence and avert anxious customer moves to quickly safeguard funds. Seizing opportunity to rebuild assets, through appropriate mental models, puts the bank in a position to meet or exceed capital adequacy and other regulatory requirements as well as provide resources for technological change and competitive actions. Organizational learning facilitates transformation of VRIN resources for profit recovery by recombining or acquiring assets to build competitive advantage and cope with volatile consumer preferences. There needs to be a change of leadership if top management demonstrates weak sensing, seizing and transforming capabilities (Teece 2007).

Lawrence

Table 1: Themes for developing dynamic capabilities in turnaround situations

Dynamic Capabilities	Managerial Cognition	Resource Management	Attributes
Sensing threat	Detect signs of decline	Stem asset erosion	Decrease in profit level Declaration of decline
Seizing opportunity	Develop mental models	Rebuild assets	Change of leadership Increase in Equity ratio
Transforming for renewal	Organizational learning for recovery	Redeploy assets	Strategic and operational changes Increase in profit level

Past studies of corporate turnaround paid scant attention to tacit organizational elements and intangibles during the process of profit recovery from decline. This research gap in the literature constrains understanding of turnaround decision-making and, by extension, development of turnaround theory. The aim of this study is to contribute towards closing this gap by exploring the interplay between managerial cognitions and resource management during the turnaround cycle, from the perspective of the three clusters of activities that make up dynamic capabilities. Table 1 provides a useful framework for analysis of firm turnaround with sufficient flexibility and parsimony to suit any context.

3. Methodology

3.1 Research Design

Similar to prior studies investigating the turnaround process of service organizations, the research design is a longitudinal, historical case study with in-depth exploration of concepts and themes over the entire turnaround cycle (Lawton et al 2011; Aspara et al 2011). This qualitative study of a single setting provides description of managerial cognitions in the turnaround decision-making process and how to create, deploy and modify resources during interaction between the firm and its environment (Easterby-Smith, et al 2008). Longitudinal case studies reveal important information about the way content, process and context might relate to each other over time (Panditt 2000). While the case method is susceptible to researcher bias and the findings cannot be generalized to the population of interest, this approach is particularly useful for understanding details of a process and the way decision-making unfolds (Eisenhardt 1989).

3.2 Subject of Study and Research Setting

NCB, one of Jamaica's largest financial institutions, began operations in 1837 as a Jamaican branch of the Colonial Bank of London. By 1925, the bank had eleven branches across the island and Barclays Bank of London acquired Colonial bank. In 1977, the Government of

Lawrence

Jamaica acquired Barclays Bank of Jamaica and changed its name to National Commercial Bank. In 1981, NCB launched Jamaica's first credit card and the institution became listed on the Jamaica Stock Exchange in 1986. NCB merged with Mutual Security Bank Jamaica in 1996. In the late 1990s, NCB incurred severe losses, was rescued by the Government of Jamaica and sold afterwards to AIC Canada. NCB provided a range of financial services through its network of branches and automated transaction machines island-wide. These services included chequing and savings accounts, credit card facilities, personal and commercial loans, insurance, and wealth management; supported by Internet banking, along with telephone banking and a toll-free 24/7 Customer Care Centre.

NCB is appropriate for filling the conceptual categories shown in Table 1 because this bank went through a dramatic period of profit decline and recovery, from 1994 to 2003, involving bank transformation in a developing country shocked by liberalization of trade and foreign exchange controls. NCB's turnaround was highly publicized in the media and afterwards during a special inquiry arranged by the Government of Jamaica to review the operations of its Financial Sector Adjustment Company (FINSAC) established to rehabilitate and divest local distressed financial institutions including NCB. Table 2 summarizes NCB's corporate transformation and turnaround experience.

Table 2: Corporate transformation and turnaround at NCB

Before change	Diversified conglomerate
After change	Provider of financial services
Change type	Radical transformation
Reason	Bad debts and losses
Stimulus	Government intervention
Duration	Ten years (1994-2003)
Change level	Corporate, business and functional
Content	Retrenchment and Refocusing
Magnitude	Reduced scope of products and cutback of physical infrastructure
Impact	Sustained recovery from decline

3.3 Data Collection

Data collection occurred over four months and spanned the years 1985 to 2011 to cover the time period before, during and after NCB's profit decline and recovery. NCB's turnaround cycle was captured visually by arranging the data in four time zones: pre-decline when profitability was increasing (Zone A), decline when profitability decreased resulting in company losses (Zone B), recovery when profitability was restored to steady state (Zone C) and post-recovery when profitability remained in steady state or increased for over three years (Zone D). Data sources included interviews of company personnel, annual reports, releases posted on the website of the Jamaica Stock Exchange, articles published in local newspapers, trade journals such as LatinFinance and the Banker, and economic and social data from the Planning Institute of Jamaica and the Bank of Jamaica. Aspara et al (2011) adopted a similar approach to triangulate data for increased validity and reliability. Interviews consisted of open-ended questions to obtain responses pertaining to concepts and themes from review of

Lawrence

literature (Table 1). Secondary data is typical in longitudinal studies of turnaround to make comparisons across several years (Lawton et al 2011). Table 3 summarizes the data types, sources, collection methods and documents used in the study.

3.4 Measures and Data Analysis

Company financial ratios and the information contained in annual reports are useful for understanding the corporate turnaround process (Pearce 2007). The study disaggregated the DuPont formula, or strategic profit model, into two measures, return on assets (ROA) and the equity ratio, for tracking the turnaround cycle pictorially. ROA was measured as net profit after taxes divided by total assets to indicate profitability (Schoenberg et al. 2013). The equity ratio, measured as total shareholders' equity divided by total assets, reflects capital adequacy which is a significant determinant of a bank's ability to survive and grow market share (Berger & Bouwman 2013). The themes shown in Table 1 guided the description of NCB's turnaround experience and extraction of information on how key attributes evolved. Similar to Aspara et al. (2011), managerial cognitions and resource management were noted from interviews and decisions and actions evident from company reports, stock market releases, articles in newspapers and published proceedings of the FINSAC inquiry by the Government of Jamaica.

The study compared evidence of managerial cognitions and resource management with management thought in the strategy literature to identify similarities and contradictions. Managerial cognitions arose from comments made by NCB Directors or Managers in company reports, during the interviews and quotations published in newspapers. Insights on resource management came from decisions and actions declared during the interviews, reported in company documents, or derived from analysis of financial data. Similarities strengthen internal validity and contradictions can evolve new frame-breaking management thought to enrich theory (Eisenhardt 1989). A chain of evidence supported construct validity and multiple sources of information to detect convergent lines for internal validity. Of note, this is the first study of corporate turnaround to describe managerial cognitions and resource management during each zone of the turnaround cycle.

Lawrence

Table 3: Data sources, collection methods and documents for the NCB study

Data Sources	Collection methods	Documents	Data extracted
Company reports	Collected from NCB offices and website	12 Annual Reports	Bank performance, resource usage and managerial decisions and views
The Gleaner and Jamaica Observer newspapers	Collected from archives	48 Articles	Managerial cognitions from FINSAC Inquiry and Media reports on NCB
Planning Institute of Jamaica – Social and Economic surveys	Collected from library	15 Reports from 1974 to 2013	Data on trends in Jamaica’s Financial Services Sector
Jamaica Stock Exchange	Retrieved from website	14 Public releases	Management, financial and stock market data on NCB
Google Scholar	Retrieved from website	2 research articles	Jamaican banking policies and industry context and evolution
Trade Journals on ABI/Inform Global database	Retrieved from website	6 articles	Commentaries on NCB by LatinFinance and Banker magazines
NCB Board Director	Face-to-face interview for 2 hours	One written transcript	Qualitative data on managerial cognitions and decisions
NCB Executives (One current and two former)	One telephone interview for 30 minutes and two face-to-face interviews for 90 minutes each.	Three written transcripts	Qualitative data on managerial cognitions and decisions and resource management

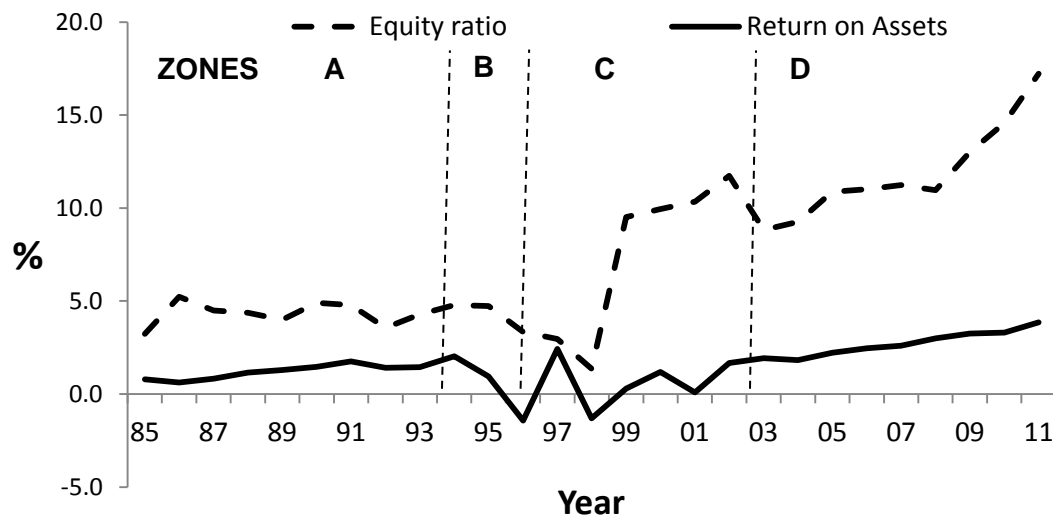
4. Findings

Figure 1 shows NCB’s turnaround cycle, in terms of ROA and equity ratio, for the period 1985-2011. In Zone A (1985-1994), NCB was on a path of profitable growth despite clear signs of financial sector decline from 1991 to 1993. During this pre-decline period, NCB pursued a strategy of corporate growth through merger with Mutual Security Bank, product diversification, branch network expansion and electronic banking using automated business machines. Fueled by high interest rates, NCB’s return on equity (ROE) rose from 25% in 1985 to 42% in

Lawrence

1994. In Zone B (1994-1996), ROE collapsed to negative 43% mostly because of bad debt provisions. This adversity was widespread across the financial services sector which continued to contract by way of mergers. Many of NCB's customers defaulted on loan repayments because of onerous interest rates. By 1998, NCB's equity ratio had fallen well below central bank guidelines to less than 2% despite sale of assets such as the Wyndham Kingston Hotel. In Zone C (1996-2003), the Government of Jamaica intervened to take control of NCB with subsequent profit recovery and sale of the institution to AIC Canada. ROE rose to 22% by 2003. This turnaround involved change of leadership, asset and cost retrenchment, divestment of non-banking business units, and refocusing on core financial services. The sharp increase in Financial Sector GDP growth occurred because of Government initiatives to bailout several failing institutions. NCB continued to increase profitability and build its capital base in the post-recovery period (Zone D), 2003-2011, notwithstanding continued volatility in growth of the sector.

Figure 1: NCB's turnaround cycle



Sources: NCB annual reports

Management failed to respond to the early warning signs of decline when there was time to act before asset erosion became severe. During the period of decline (Zone B), interest rates charged by the bank on non-performing loans were as high as 90%. The Jamaican economy slipped into recession with real growth of Gross Domestic Product falling from 1.4% in 1993 to negative 2.4% in 1997. NCB's bad debts rose sharply to 21% of total assets forcing management to seek assistance from the Government. Rather than admit imprudent handling of company resources, NCB's leaders blamed the Government's policy of high interest rates and lamented that NCB was unable to make workable deals with delinquent customers because "we were not given the level of cooperation [from the Government] in terms of our requests" (Foster 2011). Yet, FINSAC did intervene by buying the bad debt portfolio and injecting capital, using funds from sale of long-term registered stock in the domestic market, in exchange for 76% ownership of NCB.

The Government believed that NCB was too big to fail and FINSAC took control of NCB's Board of Directors, strategy and operations in 1996 (Zone C). The bank sold non-core assets

Lawrence

and moved to collect accounts receivable even by way of putting some of its debtors into receivership. New management organized NCB into five units, to stem the decline, with progress monitored closely by a new Board of Directors. The pre-workout unit managed the current portfolio of performing loans to minimize delinquencies. A workout unit was responsible for recovering non-performing loans including litigation where necessary. The banking services unit focused on revenue enhancement, increasing savings, and cost reduction. An operations unit was responsible for reduction in staff costs and containment of capital expenditures. Treasury focused on increasing yields on NCB's liquid assets and surplus funds. Management automated NCB's operations to improve the accuracy of transactions processing. Although eventually beneficial, the actions taken to stem organizational decline were disruptive and created anxieties and uncertainties among stakeholders. In the 1997 to 1998 period, NCB closed nine bank branches with staff layoffs. The cost to income ratio decreased from 75% to 45%.

In 1998, NCB hired consultants, McKinsey and Company, to develop a turnaround plan for the bank. This led to changes in the business model, organizational structure and roles of the leadership team. In November 2000, under supervision by FINSAC, new interim leadership and a scheme of arrangement, NCB Group shares were exchanged for shares in the new entity reorganized as a bank only. The interim Chairman declared that "the intention is, however, to return the company to full private sector ownership." FINSAC refocused NCB on financial services by selling several non-core businesses including the Wyndham Hotel, Caribbean Home Insurance Company, and Jamaica Orange Company. However, NCB's profit recovery was non-monotonic during the process of rebuilding its assets (Figure 1).

In March 2002, AIC Canada acquired FINSAC's stake in NCB and immediately set about to modify NCB's resources and institutionalize the organizational transformation. The entire branch network received upgraded technology in record time. NCB had a new Board of Directors and executive management with some members hired from overseas. This leadership used fast organizational learning to restore public confidence in the institution, employee morale and competitiveness and the core technology platform. NCB launched several new products in the local market while developing a performance-based organizational culture with ongoing human resource training. According to the Board Chairman in NCB's 2002 annual report, "in order to face the many and changing eventualities in a dynamic marketplace, our team must be a group of creative, energetic and hands-on people who have high expectations of themselves." NCB also introduced an employee incentive scheme applicable at all levels of the organization. Importantly, all of NCB's earnings were reinvested in the bank, over the next five years, for organic growth. The new CEO declared in the NCB 2002 annual report: "We also intend to make NCB the kind of place where excellent people find it comfortable to work, prosper and remain, and mediocre performers find it most uncomfortable to stay."

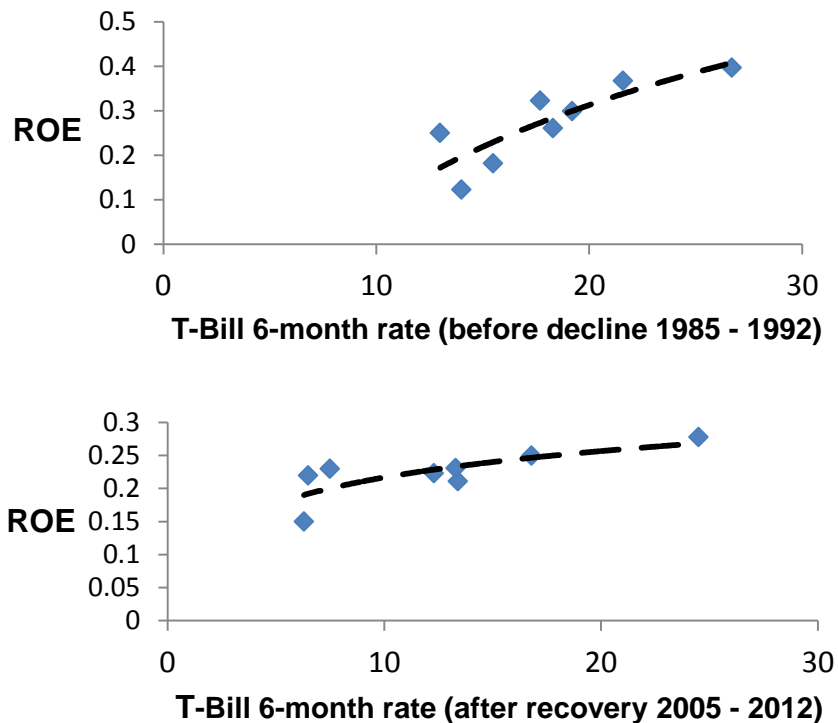
In the post-recovery period (Zone D), NCB broadened its scope of banking services and recorded substantial growth of assets and profit outpacing industry average. The Chairman declared that the bank was successful in boosting employee morale, regaining public confidence, rebuilding reputation and renovating the operating infrastructure. NCB strengthened its governance practices and capital base to world-class standards. The bank continued its growth momentum even through and beyond the global financial crisis of 2007-

Lawrence

2009 (Figure 2). NCB received the award of 2008 Bank of the Year in Jamaica from the Banker magazine and the Group Managing Director commented "Our strong financial performance has been as a result of our strategic focus on innovation, expertise and strength - three pillars which define our approach to product delivery, customer service, and employee development and operating efficiency."

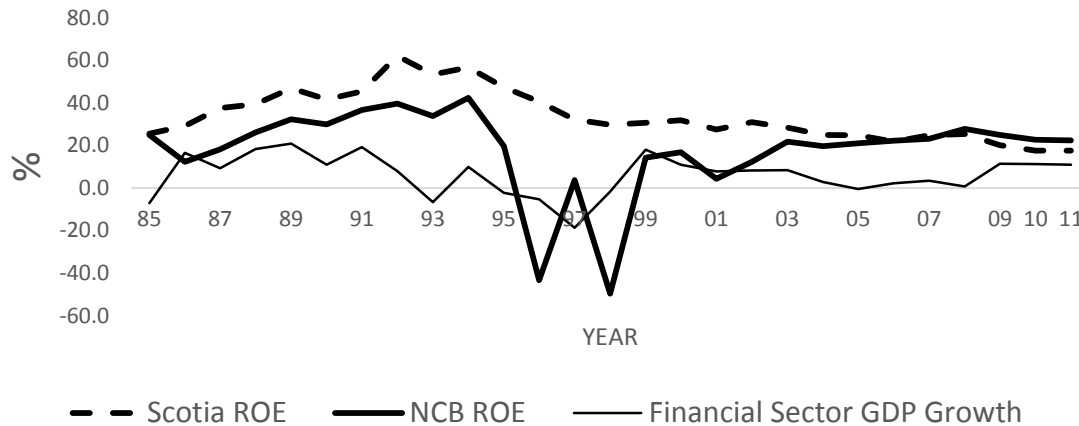
Figure 2 shows that NCB's Return on Equity (ROE) was more sensitive to Treasury bill interest rates in the pre-decline period relative to the post-recovery period. NCB derived substantial income from investments in Government of Jamaica securities. However, interest rates were appreciably lower during the post-recovery period. To survive in a climate of lower interest rates, NCB became less reliant on interest income from Government of Jamaica Securities and instead focused on selling bank products to the general public. Figure 3 shows that NCB recovered from ROE decline and eventually outperformed its main rival Bank of Nova Scotia Jamaica Limited (Scotia). The international experience and know-how of NCB's leadership enabled the institution to survive two radical environmental changes during recovery: substantial decline in interest rate spreads, from the late 1990s onwards, and outperform financial sector GDP growth under conditions of tighter regulatory requirements in the aftermath of the global economic crisis of 2007-2008.

Figure 2: Treasury bill rates (T-Bill) and NCB's ROE before decline and after recovery



Lawrence

Figure 3: Scotiabank and NCB ROE relative to Financial Sector GDP Growth



Sources: Company reports and the Planning Institute of Jamaica

NCB purposefully reconfigured and redeployed human and physical resources to stem organizational decline and achieve profit recovery. This case study differs from prior turnaround research by describing the interplay, between managerial cognitions and the way resources are managed, at each stage of the cycle: pre-decline, decline, recovery and post-recovery. NCB's dynamic capabilities hinged critically on know-how to orchestrate bank processes, for competitive advantage, and leveraging relationships with the Government of Jamaica and AIC Canada, its ultimate parent company.

5. Conclusion

The findings support the resource based view of the firm (Wernerfelt 1984). NCB regained competitive advantage and profitable growth by leveraging the know-how of new leadership which was a VRIN intangible asset. As proposed by Grinyer et al (1990), intervention occurred only after management sensed inevitable crisis from rising bad debts. Managerial cognitions created biased perceptions of reality and delayed strategic intervention for turnaround. The Government of Jamaica perceived that NCB was too big to fail and acquired majority ownership of the institution as part of its overall bailout program for the ailing financial services sector. NCB changed its business model, to refocus on commercial banking by rebuilding customer confidence and employee commitment. This change, though beneficial, was disruptive and caused anxieties and uncertainties among NCB's internal and external stakeholders. NCB transformed to a performance-based culture through human resource training and incentives with appropriate infrastructural support including new technology. NCB was able to quickly deploy and routinize new knowledge and organizational learning to cope with environmental dynamics.

The findings fill a gap in turnaround literature pertaining to the role of tacit organizational elements and intangible assets on the turnaround process (Panditt 2000). NCB had to cultivate the mindsets needed for recognizing the source of organizational decline, developing

Lawrence

a new business model and transforming from a loss-making diversified conglomerate into a profitable and focused provider of financial services. Managerial cognitions influenced the management of resources for NCB's transformation and turnaround (Aspara et al 2011). The NCB case study revealed that these cognitions can filter away the early warning signs of decline and cause delayed action or even inaction. Cognitions affected how NCB crafted strategy and executed strategic initiatives to rebuild and redeploy resources for corporate transformation and turnaround. Importantly, external cognitions are also important for building turnaround theory because NCB was unlikely to recover from decline without fresh financial resources from the Government of Jamaica who perceived that the institution was too big to fail.

A limitation of the study is that the findings cannot be generalized because of the focus on single case. However, this was necessary for in-depth understanding of the turnaround process. Notwithstanding this limitation, the findings lead to the proposition that success or failure of bank turnaround depends on the extent to which managerial cognitions create and leverage relevant VRIN resources to transform business models in alignment with environmental dynamics. Future studies can use this proposition to develop research questions for large sample statistical tests.

Turnaround managers need contemplate proactively how their cognitions affect the capacity of the firm to create, extend and modify firm resources for sustainable profit recovery from organizational decline. These capabilities are developed and leveraged for corporate turnaround through effective leadership, relationships with stakeholders, and training and incentives for employees.

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Lawrence

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