IN SEARCH OF AN ENTREPRENEURIAL CULTURE
A STEP TOWARDS RESHAPING BANKING FOR CHANGING TIMES

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Abstract

In a changing environment any industry has to redefine its operational norms, reshape its practices and revisit its strategies in order to ensure continuity in business. The banking industry is no exception to that phenomenon. The author has chosen the well-known Five-Force Model of Michael Porter to illustrate the present situation and to extend the discussion towards challenges encountered by bankers. In a situation with mounting pressure on reduction of lending rates, relaxation of collateral requirements coupled with further slashing on fees and charges, it is imperative that bankers follow a strong proactive approach to maintain a reasonable return on assets. Within that concept the author has attempted to highlight the importance of identifying the entrepreneurs, rather than the ordinary businessmen. The entrepreneur is a person who can withstand the adversities of volatility in the business environment and take care of own survival. When analysed, it is inferred that the entrepreneurs form a strong culture which has some kind of an influence over the prevailing culture of the host society. Through this article, the author has attempted to convey the message to bankers that, by developing a good understanding of this cultural interaction, a new avenue of thinking would be uncovered to stay alive in changing times.

1. Banker's environment

It is observed that the global banking sector, in recent decades, has alternated between cycles of opening and closing branches, driven largely by shifting perceptions of the tradeoffs between the costs thereof, and their potential for capturing incremental customers and revenues (Kolakowsky, 2011). The wave of consolidation that has spread through the sector in the aftermath of the financial crisis too had prompted many big players to recalculate costs versus benefits on running branches (Sharlene, 2011). The contagious nature of the adverse situation, especially in developed economies, seemed to have gone beyond branch-level and started pushing each bank towards an endurance test to determine the survival of not only the branch network but also the entire institution. Those who failed were left with few alternative; fresh injection of capital or merge with a strong player or complete closure. In general, it is inferred that the sector was undergoing a painful period that it hadn't experienced hitherto. The Sri Lankan scenario too was not that optimistic though it specifically didn't show the symptoms that prevailed in developed economies. Local banks were posed with issues such as thinning interest rate spreads, rising operational costs, deterioration of portfolio quality, increasing competition etc., which could be explained with the help of well-known "Four-force model of Michael Porter" illustrated in Figure 1 below.

2. Porter's Four-Force Model

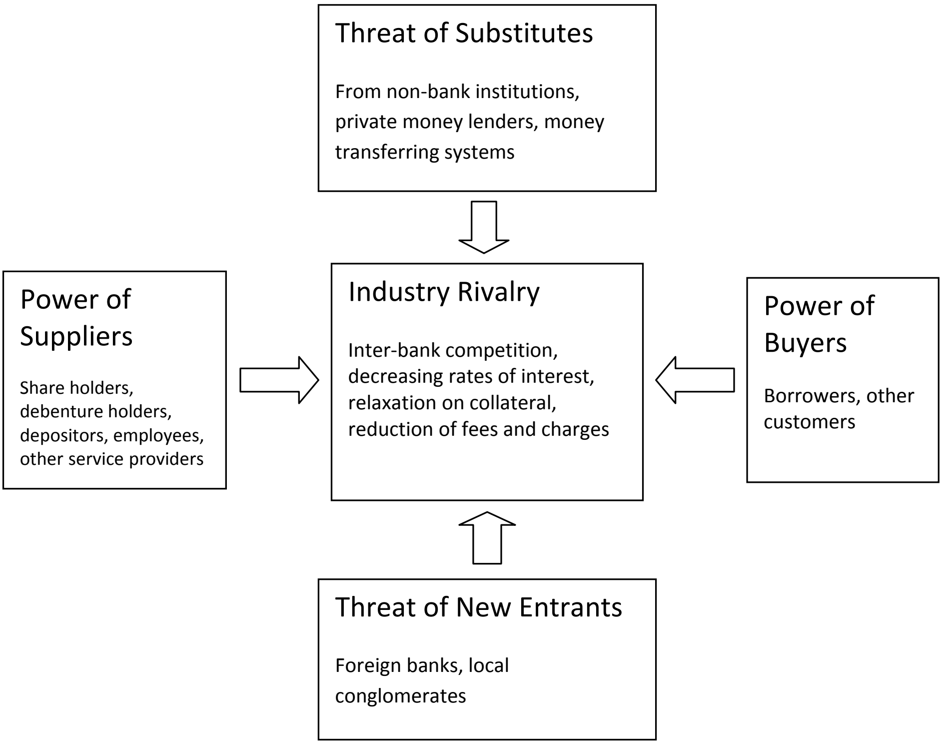

Figure 1 : Applicability of Porter's Five-Force Model on banker's environment

i) Power of suppliers (share holders, debenture holders, depositors, employees, other service providers)

Financial institutions act as intermediaries between lenders and borrowers, thus the share holders, debenture holders and depositors primarily fall into this group. In a broader perspective, it cannot disregard the employees, who supply the knowledge and skill to perform its role effectively. Furthermore, the present complex nature of activities has made it imperative to outsource personnel for the functions in which they do not possess expertise. Hence, the

Information Technology partners, security services, outsourced marketing personnel, recruitment agencies and service providers too are treated as suppliers.

Local banks in general follow an investor-friendly dividend policy. The capital gains on trading of banking sector stocks have historically shown a favourable picture. Public perception over the growth in banking sector does not depict an adverse image. The best proof for these assumptions was the successful issuing of debentures in the recent past by banks together with price-stability of banks' shares. Hence the effect of power exerted by share and debenture holders could be rated "low". However, the depositors' reaction to changing environment showed a different picture where migration from bank-related savings to nonbank-related investments was prevalent owing to gradual reduction of interest rates. Human Resource managers of many banks expressed concerns over dearth of competent employees to meet present-day challenges as the non-bank sector remuneration packages have overshadowed what banks were offering. Same principle could be applied to a greater extent on outsourced personnel. Finally it could be concluded that the power of suppliers is "moderate" under prevailing circumstances.

ii) Power of buyers (borrowers)

Buyers of a bank represent the community which buys financial products. Primarily they borrow money by way of loans of any nature and they usually outnumber the others who buy fee-based products. Presently their demand for relaxed terms and conditions has become a serious concern. Their loyalty has become passive and short lived as evidenced by the shifting of institutions for slight variations of interest rates, requirement for collateral and fees levied on services. Furthermore, some borrowers have developed the habit of not repaying the dues promptly and requesting less justifiable restructurings, knowing that their portfolios are vital to the bank. Hence the power of buyers can be rated "high".

iii) Threat of substitutes

According to currently applicable regulatory requirements, there are strands of top down imperatives for protocols and compliances to ensure strict adherence by bankers when new products are introduced to the market. Although this has deterred the bankers' tendency to do innovations, the non-bank institutions seemed to be less concerned over such regulatory norms. As a result some form of substitutes to banking products and services originated by such institutions could be seen. Apart from those, private money lending operations, age-old cross border money transferring systems and hidden payment modes within legitimate transactions seemed to be going on unabated. Accordingly it is reckoned that the threat of substitutes is "not high" in the short run but may become "moderate" in the long run.

iv) Threat of new entrants

Prevailing state policies and regulatory requirements stand as barriers for the new entrants to a greater extent. Nevertheless one should not misinterpret that the barriers are unconquerable. Policies may be changed if it brings much more benefits to a larger community. Chances are remote for new entrants who are totally new to this industry. Instead one can anticipate the entry of powerful foreign entities or high-net worth local conglomerates who can afford to recruit experienced staff with more attractive packages. Established foreign banks always have the foundations in good regulatory grounds thus do not get discouraged over tougher regulations. They only assess whether the opportunities outweigh threats of moving into a new territory. In spite of all above facts, the threat of new entrants can be estimated as "low".

v) Industry rivalry

Presently the interbank competition has become severe characterised by numerous retaliatory approaches among fellow bankers in order to display upward trends in Assets and Income. Hence this aspect is rated "high". Competitive environments are incubators for innovations where value additions, bundled services, differentiated products and a host of added benefits creep into customers' premises. However, there are many bad outcomes of competition when it surpasses ethical boundaries. Recently announced state policies indicated greater encouragement for consolidation of local banking industry. Consolidation is accepted as a strategy to neutralise unhealthy competition, reduce transactional costs and to offer the benefit of synergy to end users.

3. Banker's challenge

Many bankers expressed that there exists a cold war among banks to grab larger slices from a constant-sized pie of customers which is aptly explained by above-mentioned "Four-Force Model". Their frozen brains, by those forces, have no time for an appropriate thawing so that they are compelled to take quick decisions on viability of customers' proposals without recourse to well-proven scientific evaluation techniques used hitherto. This may work towards generation of short term results but only the gut feeling supports its chance of succeeding in the long run. Offering a rate which does not fall in line with bank's asset and liability equation, just for the purpose of undercutting a rival to grab a borrower, will tighten their own necks if the net interest income is insufficient to earn profits after meeting operational expenses. The banker's obligation is to work with the understanding that they are lending other's money and they are responsible for delivering the expected return. The purpose of taking collateral is to treat it as a fallback strategy under unforeseen adversities. If the criteria on collateral are relaxed, the lender should have a clear proof of ability to nullify such adversities. It is observed that those who are driven mainly by growth-related objectives are oblivious to future problems associated with risk they take on above-mentioned courses of action. Taking such a grave risk by the banker is not warranted at the expense of depositors and shareholders. Hence the major challenge encountered by the banker is to find out a strategy to negate the adverse effects of the *Four Forces* and ensure the continuity of upward trend in net asset growth, net income growth together with winning the confidence of all stakeholders.

4. How to face challenges

In a situation where the power of buyers and rivalry is high, the banker has to invent a promising way to meet that challenge without going against basic objectives, namely, the growth of asset cum liability portfolio and profit after tax together with keeping Non Performing Asset

Ratio at bay. Any attempt such as, further reductions of lending rates, relaxing on mandatory requirements, offering concessions on processing and related charges may have two obvious outcomes. On one hand, it would reduce the profit margins; leave less provision to cover bank's overheads and more pressure on follow up of recoveries. This would reflect a "Lend at any cost" scenario. The benefit will only be a temporary praise from top management over increased portfolio figures. On the other hand this type of a liberal approach may open gates to subprime borrowers. The western world has learnt enough lessons on lending to subprime customers and any kind of a repetition will be disastrous. That doesn't mean a total refusal but lending with precaution. Hence it has become imperative to invent a way of spotting viable proposals quickly. This will be an exercise characterised by an improvement of currently used evaluation techniques and balancing the risk with collateral. However, this is more "reactive" in nature but the changing times demand more proactive strategies to meet the challenge successfully.

In a proactive approach, the key success factor would be the identification of *the person* behind any successful business entity. It has been observed that certain type of people always perform better than others in business under any circumstances. While the majority laments on uncontrollable external forces such as increase in exchange rates, rising cost of production, diminishing demand in overseas markets, etc., this type of people ignores the obstacles at feet and keeps eyes on goals above heads toiling to conquer the desert and reaching the greenery. Before the power of their buyers and sellers become high, they proactively arrange multiple sources or look for forward and backward integrations. If the substitutes and new entrants try to invade the market they ensure product and delivery superiority through careful deployment of tangible and intangible variables. Before the markets become competitive, they sense it and become creative in developing new products and markets. When the economy becomes sluggish, they become innovative and ensure stability. This is the cluster of businessmen who cannot be tempted to borrow more when interest rates dip or due to persuasion of bank's marketing personnel. Nevertheless they are not fully immune to bad decisions and risks. They sense opportunities when others don't and take calculated risks in implementing plans. They do not get dejected when plans fail but believe that today's dead flower carries the seed of next day's bloom and raise head once again. Who are they? They belong to the group *"Entrepreneurs"*. They all fall in to one culture, which is named, *"Entrepreneurial culture"*. In this paper the author wishes to give a small enlightenment on how to identify this entrepreneurial culture in order to reshape banking for changing times.

5. Who are entrepreneurs?

The term "Entrepreneur" is derived from the French verb "Entreprendre" which means "to undertake" (Cunningham & Lischeron, 1991). Those who undertook the risk of starting and running a new enterprise were named Entrepreneurs. Apart from that in early 16th century, the French military leaders too were called Entrepreneurs believably due to their innovative approaches and the risks associated with the war-related expeditions they undertook (Charantimath 2006). The role of Entrepreneur has been viewed by Adam Smith as a risk bearer and a source of capital. View of another economist Frank Knight was that the Entrepreneur is a manager of uncertainty. If perfect knowledge prevailed, as in models of perfect competition, uncertainty would not exist. Because of the inexactness of the organizations and imperfections of the markets, one has to decide what to do and how to do. The Entrepreneur earns profit by undertaking this responsibility creating an economic change in his surroundings (Sandberg, 1986).

Joseph Schumpeter conceptualized Entrepreneur as an innovator. His analysis started with a general equilibrium, where all markets are perfectly competitive with known customer-preferences and given producer-technologies. The Entrepreneur, as explained by Schumpeter, breaks this equilibrium by introducing new combinations of the means of production and capital. This situation brings profits to Entrepreneur but after sometimes the environment becomes "normal" where many new players would follow suit, share portions from the same pie, resulting equilibrium once again. At this moment the Entrepreneur gets activated again, shatters the newly formed equilibrium and creates a situation which brings profits to him within a different set of variables. Schumpeter further elaborated that such a process would continue one after another episode owing to the Entrepreneur's inner state of mind which energizes him to savour the joy of creating and fulfilling something by harnessing his own ingenuity (Sandberg, 1986).

In addition to above, the scholars in the new millennium have attempted to forward their interpretations with reference to research initiated under their supervision. Zhao and Seibert (2006) defined an Entrepreneur as "someone who is the founder, owner and manager of a small business and whose principal purpose is growth". This statement holds the premise that all Entrepreneurs always start as small business owners, run the enterprises and achieve growth through managerial knowledge and skills. Eckhardt and Shane (2003) defined "Entrepreneurship" as the discovery, evolution and exploitation of future goods and services by creating or identification of new ends and means previously undetected or unutilized by market participants. Stephen Spinelli Jr had summarized Entrepreneurship as a way of thinking, reasoning and acting that is opportunity-obsessed, holistic in approach and leadership balanced (Cited by Brandstatter, 2011).

In addition to what is stated above, there are hundreds of interpretations on entrepreneurship given by various scholars. Hence the statement of Sandberg can still be accepted that the *"definition of the term Entrepreneur and Entrepreneurship still remains vague and elusive despite the numerous attempts made by academics and philosophers"*.

6. How to identify Entrepreneurs

Many researchers simply assumed that entrepreneurs had different personalities, and others who investigated these hypotheses empirically generated equivocal results. Accordingly they considered certain "personality traits" to identify entrepreneurs (Llewellyn & Wilson, 2003). Creativity, risk taking propensity, achievement motivation, self efficacy and locus of control can be considered as most prominent traits.

Researchers use standard questionnaires to assess the presence of above traits. However, careful observation on past activities of customers may give the banker an eye opener on identifying entrepreneurs around him without recourse to such meticulous assessments. Creativity of a customer can be assessed based on his ability in development of new products and services, or solving the critical issues in his area of business in innovative ways. Similarly the risk taking propensity of a customer can be identified according to the way he looks at uncertainty specially when exploiting opportunities. As explained earlier the entrepreneur takes calculated risks where he sees alternative avenues to follow if trial attempts fail. In the same manner, an assessment can be made on his belief in his own ability (self efficacy), his appetite towards achievement of desired results (achievement motivation) and how he practices discipline within the territory (locus of control) provided the banker continuously makes unbiased observations and remains vigilant.

7. Cultural perspective

As per findings of Morrison (2000), the key to initiating the process of entrepreneurship lies within the individual members of society, and the degree to which a spirit of entrepreneurship exists. In this regard, culture and societal factors play a significant role.

The culture is defined as a set of historically evolved learned values, attitudes and meanings shared by the members of a given community that influence the material and non material way of life. Members of the community learn these shared characteristics through different stages of the socialisation processes of their lives in institutions, such as family, religion, formal education and society as a whole (Tayeb, 1988).

Hofstede (1991) provided a framework of five dimensions, stated below, to analyse cultural specificities (cited by Morrison, 2000).

i) Power distance

Certain communities consider inequality among people in a population of a country as normal

ii) Individualism

This explains the degree to which people in a country opt to behave as individuals rather than with a sense of belonging to a group

iii) Masculinity

There are *masculine* values such as assertiveness, competitiveness, steadfastness etc., as against *feminine* values such as caring, warm relationships, accommodativeness, etc. This dimension deals with the community's preference over above two value types.

iv) Uncertainty avoidance

This deals with the degree to which people in a country prefer structured over unstructured situations

v) **Long-term orientation**
This implies a stress on virtuous living in this world, with thrift and persistence as key virtues.

Although Hofstede's concept covers a particular country, many researchers suggest that these dimensions be used as a guidance to understand cultural specificities at micro levels, on a group or a community.

8. Entrepreneurial culture

a) Subculture formation

Within a main culture several subcultures may coexist. Presence of people engaged in different crafts in a village is an example. The host society's behavioural pattern and beliefs represent a typical village culture while the families engaged in pottery or carpentry may live a slightly different lifestyle. Similarly, the entrepreneurs in a particular community may form a subculture and nurture the values and traits inherent to them.

Entrepreneurial culture is simply an expression of an attitude presence among a group of people towards business and commerce. Under certain environments people get the feeling that they are tempted or facilitated to become entrepreneurs. In contrast there exist some institutions which may hinder or discourage entry to entrepreneurship. In other words, one can infer that the influence of a culture of a society together with characteristics of that society such as innate personality traits may result in initiation and development of an entrepreneurial subculture. Any subculture when nurtured over time may evolve into a major culture which encompasses a relatively larger society. According to Morrison, (2000), this developed culture can be described as one in which a positive social attitude towards personal enterprise is prevalent, enabling and supporting entrepreneurial activity.

b) Features of an entrepreneurial culture

Each entrepreneur brings his own unique set of personal motivations and characteristics to interact with their specific host society and business environment, which is then translated into entrepreneurial activities and behaviour. As cited by Morrison (2000), these characteristics can be summarised as follows:

* Their level of intelligence and analytical skills show ability to understand and manage risks
* They are in some respect deviants from social norms
* To differing degrees they exhibit strong moral, work and business ethics
* They are committed to life-long learning through both formal and informal mechanisms
* They make extensive use of both formal and informal networks.

c) Reflection on Hofstede's framework

The developed economies displayed low ratings on the first dimension, the Power Distance. However, according to isolated studies on samples in Sri Lanka, the successful entrepreneurs appear to be "high" in this aspect. The host society too accepts higher level of power distance and the sub cultural behaviour didn't differ. No research information is available to check its relationship with entrepreneurial behaviour.

Local entrepreneurs' sample was rated "high" in individualism. The justification is that many local entrepreneurs start the journey with own ideas and plans personal to them. In initial stages they develop some kind of an obsession over destructive behaviour of business associates and other related parties.

With regard to masculinity the sample was rated "high". In contrast, the host society has displayed mixed behavioural patterns probably due to presence of strong sub cultures rich in religious principles and rituals. The deductions of research studies conducted elsewhere accept the positive contribution of masculinity on entrepreneurial behaviour.

The sample showed a clear "low" rating on uncertainty avoidance which fits well into traits of entrepreneurs. The entrepreneurs do not get disturbed by uncertainty; instead they tend to search for opportunities in uncertain situations. However, the host society indicates a "high" to "moderate" in this dimension.

The final dimension, long-term orientation scored a "high" rating among mature entrepreneurs. Although the verbal response of young and middle-age group too was "high" their real life behaviour couldn't support that statement. Past studies revealed that those who score low in initial stages gradually achieve higher ratings depending on value of ethics specific to the business and the person. Entrepreneurial behaviour may exist among both "high" and "low" groups.

9. Implications to bankers

The above findings indicate that entrepreneurs may not necessarily follow the host society's culture. That goes in line with Morrison's, (2000), interpretation; *"they are in some respect deviants from social norms"*. However, they display certain commonalities and therefore fit into a different culture, the *"entrepreneurial culture"*. If the banker can develop an understanding on characteristic features of the entrepreneurial culture and build up an ability to carry out a self-invented spot test, to ascertain whether a potential or an existing customer belongs to the so called entrepreneurial culture, taking the "lend or not" decision will no longer be a tedious task.

Each bank's customer base consists of different types of people. Among them only a small percentage may fit into qualities of *"entrepreneurs"* and the rest can be classified as *"ordinary businessmen"*. As per *Pareto Principle*, the major portion (80%) of bank's profit may be represented by the small group of customers (20%). The entrepreneurs fall into this small group.

Hence the banker's most important task ought to be the identification of the *entrepreneurs* in his territory.

10. Conclusion

Presently the bankers experience a highly tensed environment caused by power of suppliers (share holders, debenture holders, depositors, employees, and other service providers), power of buyers (borrowers), threat of substitutes, threat of new entrants and industry rivalry to varying degrees. The situation has created a need for redefining the operational norms, reshaping the practices and revisiting the strategies of each institution individually and collectively. To quell the mounting pressure on portfolio growth, the bankers seemed to be adopting aggressive strategies characterized by offering highly competitive and extremely low rates of interest, relaxing norms on collateral and paying less attention to accepted credit evaluation techniques. This might give rise to bursting of another "subprime bubble" as experienced by developed economies in the recent past. In this article the author has attempted to highlight the importance identifying the characteristics of entrepreneurs and the features of the entrepreneurial culture which would provide an eye opener to the banker to build up a healthy portfolio of customers without paving the way for bursting of a subprime bubble in Sri Lanka.

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