**THE RISE OF THE PHOENIX**

***SUCCESS FACTORS FOR RISING IN TRYING TIMES IN THE FINANCIAL SECTOR***

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***ABSTRACT***

*Confucius’ wish for his enemies to live in interesting times would have been to him a source of the greatest conflict had he foreseen the living contradiction of the glorious and the fearful that constitutes the times we live in. Business and in particular the financial services sector are at the centre of history’s stage in a time of unprecedented opportunity and turbulence.*

*These competing gales are transforming the financial services sector with unmatched acceleration as is manifest in the tide of globalization, the extremity of modern technological dynamism, the increasingly sophisticated consumer, the rising demand for corporate social responsibility and other forces of change.*

*This paper highlights the way forward for the financial sector, highlighting critical areas for focus as firms recognize that mediocrity cannot survive in these times. Financial firms must be acutely aware of the key success factors for flourishing in this decade.*

**INTRODUCTION**

The phoenix is the symbol of rising from the ashes of downturn and tragedy in life. Such tragedy, which manifested in recent times in the form of the meltdown of global commerce, challenged the authenticity of the way in which banks and other financial service providers do business. Now, with the system disposed towards restoration and further development, firms can no longer take success for granted but must keenly identify the paths to a destiny of longevity and the fulfilment of their visions in the future.

In an ideal sense, a firm becomes desirous of certain achievements in the long term: profitability and wealth, greatness, power and the capacity to leave behind a legend of success under its various management teams.

The systemic break-down of 2008 challenged every country and person in the global economy, creating many casualties, much despair and chaos as people reeled from lost businesses, lost jobs, extensive declines in material substance and ownership and a financial system they no longer felt they could trust as in former times. This crisis need not be viewed with pessimism but with the understanding that the true strength of firms is being tested and that the truly great firm will be the one that prevails despite the external battering and turbulence of the environment. As such, as recovery progresses, extant and new firms in the sector will need to focus on key criteria so as to rise to ultimate and legendary success - growing in power, wealth and profitability as distinguished players in the long term amidst diverse threats and challenges.

There are specific criteria to which firms must give due focus and diligence in this new decade so as to restore their former glories and the respect that the sector enjoyed in past times. Critical criteria for reflection and action to power success include *kaizen,* innovation and knowledge management, a more effective commitment to Marketing, developing business in the emerging markets, stakeholder management, corporate governance, efficacy and prudence in the context of risk. The manner in which a firm treats with these strategic criteria will distinguish successful players from mediocre and lagging companies in the future. The way forward will depend on the chemistry developed among these criteria.

**KAIZEN**

Long-term success in a global marketplace will only be achieved by firms that make the highest levels of progress their sustenance. With each business continually threatened by both known and unknown competition which can attack from any place in the world, at any angle, at any time and with any intensity, this one world now has one language of success: the strong will survive. Rapid and exponential *kaizen* is the food of the strong.

Kaizen is a system of continuous improvement in all areas of a business’ operations and should be championed at the top and effectively sold at all levels of the organization. This should be cultivated as a critical vehicle for promoting efficacy, quality, custom and profitability in the company. Kaizen is very inclusive and its sustainability requires that employees have deep insight into its philosophy (Doolen et. al, 2003) making the link between their work and the broader organizational objectives (Groesbeck, 2001).

Kaizen is typically associated with a manufacturing environment but research has shown that service type organizations can enjoy multiple and dramatic positive effects when this philosophy is applied to existing systems (Martin & Osterling, 2007). These authors noted that in 2-5 days, kaizen teams working in service environments regularly improve throughput time, quality and capacity in high percentages. In this respect, financial firms stand to improve their efficiency, effectiveness and profitability by fully engaging the kaizen model in their operations.

**INNOVATION AND KNOWLEDGE MANAGEMENT**

Beyond continuous improvement local financial firms can no longer consider pure analyzer or defender strategies as an option. They must all take on elements of the prospector, being innovative, proactive and flexible. This must not, however, be pursued at the expense of sound ethics and risk management. Furthermore, they must exercise the greatest diligence in benchmarking themselves against the top financial firms in the world – even on their way forward and upward. Only such firms will be the knights of business invited to history’s round table at the end of our human experience.

 Progress is fast and powerful; lucrative yet deceptive to those who do not understand its distaste for mediocrity. Young Choi (2009) refers to globalization as a double-edged sword - benign or destructive depending on the strategies a nation (or institution) adopts and the responses it takes to challenges as they develop. As such, agility in the long-term requires that firms take steps to become as adaptable and resilient as possible, using times of quiet for innovative learning and development in order to be prepared for sudden threats or opportunities.

Silverstone (2011) reporting on leading research at Harvard Business school, captured the research direction of faculty member, Teresa Amabile, in relation to developments in information technology. Amabile noted that innovation and rapid technological change has altered human societies. In her view, companies will need to focus more on human psychology as the means of staying a step ahead of the unpredictable and unprecedented change to be expected in this decade. Focusing on human motivations and other aspects of human behaviour will allow the firm to be more responsive to developments and evolutions in information, technologies and customer needs.

Innovation is becoming ever more intense and knowledge is rapidly evolving. These two elements of business have become primary sources of competitive advantage and must be managed accordingly. Tomorrow’s winners have to be focused on these elements as this is the only way to survive. You simply cannot succeed any other way.

This year, Forbes’ list of the most innovative companies were not those that spent the most on innovation. Many of them actually spent well below the average on R&D. The secret of these companies is their ability to understand the *potential relevance of emerging technologies* and distinguish themselves based on world-class consumer insight skills and minimizing time taken to get what consumers need to them.

Additional implications of the rapidly evolving technological culture are the improvements in quality of life for both internal and external customers and the opportunity for firms to make a greater commitment to transparent interactions with their diverse publics through a variety of social media including Facebook, Twitter and the like (Cohen, 2011).

**A MORE EFFECTIVE COMMITMENT TO MARKETING**

Markets will increasingly take centre stage as consumers are now more involved, more knowledgeable and more aware of financial product characteristics and provider choice as they are empowered through information and technology. Consumers are comfortable with new technologies such as Internet investment sites, online trading and online message boards devoted to investment information. Recent research carried out by YouGov for *Marketing Week* points to on-line banking as the number one feature desired by consumers from their financial services providers. Competitive interest rates were second followed by security in third place (*Marketing Week,* August 6, 2009). Consumers desire more self-service options, educational resources and increasing functionality. Market trends support the extension of high-touch technologies and high-level decision analytics for mass markets (Margulius, 2006). Also it is now possible, through the use of “aggregators” on the Internet, to examine the offerings of many providers on one site. The culture of the day also encourages consumers to continually make new demands.

 Institutions are responding to changing consumer preferences by seeking to establish and maintain long-term relationships with customers. As part of this process, Neckopulos (2009) notes the importance of recognizing where customers are in their life cycles and developing relationships with them with a view of helping them and their beneficiaries to create wealth. Banks must use this and other approaches to become increasingly consumer-centric. A growing institution must augment its service offerings in a profitable manner, build relationships with households and increase its customer base (Hollar, 2009).

Given the rapid technological innovation in the system, financial institutions must continually best themselves. The vision is to continuously delight the customer with low-cost, high-quality, hassle-free-products through customer-friendly and feature-rich channels that are consistent across delivery methods. Firms also are encouraged to take advantage of opportunities presented by TIDCO and other institutions to become more involved in global expos to build relationships beyond the region.

**DEVELOPING BUSINESS IN THE EMERGING MARKETS**

The commitment to Marketing should build greater capacity for international business in a globalized world. Globalization was not too long ago an exciting new phenomenon heralded with great anticipation and buzz in almost every field of endeavour. It is, however, no longer a novelty as it defines life as known today. With financial globalization a nation opens up its financial system to international capital flows and financial firms (Mishkin, 2006). Against this background firms are now developing businesses in the emerging markets (Silverthorne, 2011). For example, in 2010 deal making in emerging markets contributed to a 16% increase in global mergers and acquisitions. Overall, deals in the emerging markets rose in value by 42.9% moving from $351.8 billion in 2009 to $502.6 billion in December of 2010 (Saigol and Thomas, 2010). These figures illuminate the reality that the emerging industrial world has become a lucrative target for global investors and exporters.

One important issue that arises with the pursuit of business in these markets is the need for ethical business and Corporate Social Responsibility (CSR) in the context of weaker regulatory systems. Furthermore, despite fractions in the literature, CSR actions generally have a positive influence on consumer preference (Brown and Dacin, 1997; del Mar Garcia de los Salmones et. al, 2005) investors (Orlitzky & Rynes, 2003) and potential employees (Backhaus et. al, 2002).

Another critical requirement for operating in the emerging markets is to develop strong social networks which can promote knowledge building and effective manoeuvre in challenging circumstances. This should not be pursued in isolation but should be part of a broader strategic move of cultivating increasingly effective stakeholder management.

**STAKEHOLDER MANAGEMENT**

Research suggests that the financial industry has not traditionally managed its relationships with customers and other stakeholders in a strategically optimal manner (Garcia and Garraza, 2010). This issue has become more critical as the sector moves forward in the current recovery paradigm and seeks to restore confidence and synergy in the system.

Companies must be systematic and vigilant about identifying critical success factors for stakeholder management (Yang et. al, 2009). Financial service providers will need to become increasingly sensitive and responsive to the evolving needs of the diverse segments of their customer bases, partners, employees and other stakeholders as networking continues to increase in relevance as a success factor in the global market place. As most business now comes on a referral basis, competitive advantage is increasingly becoming a matter of building mutually respectful and beneficial professional relationships within the parameters of both law and ethics. Firms need to build relationship capital by finding innovative and effective ways of expanding through professional friendships and networks. For example, membership in global organizations with linkages to the financial sector may be one such move. Training front-line staff in developing customer relationships is another example given that the local business environment has a stained reputation where it comes to professional customer service.

Overall, organizations and employees must recognize the value and merit of each stakeholder relationship and treat each one with the respect, dignity and service that will ensure enduring relationships and more business. This will become a distinctive strength and a source of competitive advantage as firms eliminate all apathetic tendencies in their relationships and cultivate the highest levels of mutuality and goal congruence in their dealings with diverse entities.

**CORPORATE GOVERNANCE**

Another criterion for future business prosperity is authentic and effective governance. Virtuous governance is not a matter of adherence to the letter of the law in a punitive spirit but in its ideal it should promote the most advanced level of business operations based on a commitment to right dealings with all stakeholders and the environment. For example, proper ethics could have prevented the inappropriate fund management that led to the systemic breakdown. Excessive risk would have been avoided if agents had not acted inordinately, motivated by the vice of greed and promoting investment based on a lack of adherence to prescribed controls for the management of liabilities. On a more positive note, the survival of a number of financial firms after the recent meltdown may reflect the virtue of fortitude. What is needed then is a more comprehensive approach to ethical governance in the system.

Arjoon (2005) presents the thesis of a virtue-ethics approach to Corporate Governance which evinces the progress of thought in this area. This thesis suggests that people should continue to pursue virtue through the habitual practice of doing good which should inform individual and organizational virtue. In the pursuit of virtue, people and entities can cultivate an environment in which external regulation takes a diminished role. According to Bajo et. al (2009) a virtuous corporate ethos is more effective than explicit corporate governance structures in securing regulatory compliance. Research also suggests that legal compliance is promoted by a commitment to developing innate individual and organizational virtue(e.g. Das et. al, 2004; Wilks, 1996 both cited in Bajo et. al, 2009).

In effect, a virtue-ethics approach emphasizes the importance of an innate and consistent responsiveness to the choice to do good instead of evil. It calls upon firms to give a secondary place to documented codes of ethics and other formalities that do not emphasize that morality is a matter of the heart. Virtue must not be seen as a physical representation of knowledge of good expressed by outward symbols but a commitment to authentic goodness in all affairs. As such, virtue encompasses respect for Creator, creation and things and is an invaluable asset for promoting effective governance marked by an authentic respect for honesty in all business dealings, integrity, transparency, kindness, empathy, reciprocity, reparation and essentially all that is good, just and beautiful. Investing in governance is a powerful means of restoring trust and consumer confidence.

**EFFICACY**

Efficacy encompasses getting the job done in an effective, efficient and economical manner. There is an increasing recognition that the professionalism of an individual or organization should truly be measured in terms of the extent to which it achieves its noble goals. Against this background, financial firms must become more flexible and responsive to the needs for efficacy in handling customer issues, employee concerns and the like. Human resource management need not be about measuring physical presence or mere activity but must embrace the diverse needs and strengths of workers with the sought commonality being achievement of goals and realistic targets – quantitative (e.g. profit, new business) and qualitative – e.g. (brand strength, organizational learning).

 As such, a developing workforce may encourage such practices as working from home, flexible hours, flexible meeting places, variations in dress codes and other means of facilitating a happy employee and an improved flow of work and achievement rather than merely demanding adherence to archaic behavioural codes.

It is also imperative for companies to recognize that efficacy is based on developing systems and policies that fit best with its highest performing assets – tangible or tacit – including its core competencies, culture and brands. It would be tragically counterproductive for a firm to attempt to improve in efficacy in some way through a myopic assimilation of best practices or competitor moves without an accurate assessment of the implications of these for organizational fit and **overall** efficacy (Aguirre, 2002). Information technology and systems management should also be done in the spirit of efficacy with the ability to distinguish between what works and what does not, what is important and what is not. In effect, it challenges the firm to cut through the clutter of inefficient, redundant and obsolete ideals and practices and focus on true achievement.

**A HEALTHY APPROACH TO RISK**

As alluded to above, the systemic break-down was associated with a reckless neglect of prescribed controls for fund and liability management. Critics of market fundamentalism viewed the global financial crisis of 2008 as marking the fall of unbridled capitalism. (Erixon & Sally, 2009). Firms and their agents must learn from this experience such that high returns may be pursued without compromising stakeholder interests in the process. As such, there is need for a careful focus on due diligence, compliance and the ethical treatment of laws and policies designed to protect stakeholder interests in market operations. Firms also need to become more transparent with shareholders in the management of their funds and the implications of critical company decisions involving risk, particularly new endeavours.

Risk is only advisable to the extent that the firm can ensure its survival and its ability to rebound in the event of the worst case scenario. There have clearly been gaps in the corporate ethic as it pertains to risk and contingency planning. It is not enough for an institution to know the theories and policies for prudence in the context of risk but companies must *adhere* to the prescribed controls and policies that are intended to protect the interests of investors and other stakeholders.

To make reference to the local environment, CLICO exposed its investors to excessive risk, failing to ensure the sufficiency of its cash reserves (*The Business Guardian*, February 17, 2011) and the regulatory framework also fell short in ensuring compliance. Subsequently, the Government stepped in to protect the interests of investors and rescued the company. CLICO’s actions were considered to be irresponsible and public chastisement was a consequence. There is time, however, for this company to restore its reputation through a more realistic and responsible treatment of risk. The Government should also take action to minimize the risk of deposit holders by increasing deposit insurance from the current $75,000 to $150,000. Additionally, there should be a focused regional move towards establishing a CARICOM currency which should assist in minimizing systemic risk.

**CONCLUSION**

The financial meltdown revealed the strength of the local financial system and it was against the backdrop of turbulence, challenge and pressure to fail that the local sector showed what it was made of and what it is capable of. The local financial system displayed remarkable buoyancy and resilience despite the gales that blew and beat against it. Now, as the sector moves forward in a mode of renewal and development, it must be sharp in responding to the issues that matter most in these times.

Lying ahead is one of the most unpredictable decades that the world has ever been privy to. The forces for change include the rapid developments in globalization, innovation, information and competitive strategy. The future success of the financial firm will depend on its ability to respond with equipoise and prudence in a landscape that no longer guarantees safe, determinable evolution. In these times, the saying takes on greater relevance and meaning: *the only thing constant is change.* The firm that goes forward and higher will be the one that marks itself for success through vigilance and wise action in uncertain times.

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