

CHANGE MANAGEMENT CASE: "THE PRIVATIZATION, RESTRUCTURING, RE-ENGINEERING AND TURN AROUND AT ALLIED BANK LIMITED"

*Aleena Shuja , Aleema Shuja , Faisal Tehseen Shah

Department of Management Sciences, COMSATS Institute of Information Technology, Lahore, Pakistan

*Corresponding Author: aleenashuja67@gmail.com

ABSTRACT: *The banking system of Pakistan has gone through major reforms since independence. According to Privatization Commission of Pakistan; a total of 7 National Commercial Banks had been privatized from 1991 onwards. The study is based on the Allied Bank Limited (ABL) change management journey from Capitalization, Transformation and Restructuring process in the period following 1991-2013 involving radical changes. The change process involves transactions of shift in ownership from state to employee management group and later to Ibrahim Group. The case aims to investigate problems incurred as a result of privatization through ESOP and their resolution. Moreover, the outcomes achieved as a result of transformation of ABL in terms of process improvement, competitiveness, and financial strength.*

Keywords: Change Management, Privatization; Business Process Reengineering (BPR); Transformation; Restructuring; Employee Stock Ownership Plan

INTRODUCTION

Background and Case Analysis

Privatization and capital reforms in banking sector of Pakistan consisted of five stages. The stimulating stage was through 1947 to 1970, nationalization stage was in 1971-77, then the denationalization stage from 1977 to 1983, privatization stage undertook from 1990 to 1996 and post privatization stage involves transformations in 21st century from 2000 onwards. Before 1990s, banks in Pakistan experienced declining performance with low productivity, increased administrative and capital expenses, overstaffing, branch insolvency and mismanagement of funds [1].

There was a gap between banking profitability and economic development affecting the development of financial institutions in Pakistan. Hence, the financial reforms of 1990s were brought to resolve these problems. The case analyses the major restructuring and transformations in ABL. The capitalization and restructuring was proposed to build a transparent system. The Government privatized it to promote efficient participation, enhance economic progress, reduce costs, and process improvements [2]. The study encompasses the patterns involved in transfer of shares from state owned to Allied Management Group, the problems faced by the management and intervention of State Bank. Major technological advancements with superior customer delivery channels along with transparency in transaction processing systems were introduced, enabling ABL to capitalize on market development strategies and evolve as a vibrant and competitive entity further. This is how the Allied Bank covered its change journey from 1991 to 2013 and emerged as one of the leading State of the Art Banks of Pakistan.

Purpose of Study

The study is based on the Allied Bank Limited (ABL) change management process in the period 1991-2013. The case analyzes how these radical changes have shaped the Bank to become one of the top 5 banks of Pakistan. The case aims to explore problems incurred as a result of privatization through (ESOP) that involved the sale of shares of the Bank by its employees, and how these problems were managed. The outcomes achieved a result of reconstruction and change management of bank in terms of cost reduction, quality improvement, process efficiency; financial strength and the lessons learned have been discussed.

Case Design

The study on Allied Bank's change journey to develop into state of the art Bank involves the use of multiple data sources strategy to enhance credibility of the data collected. Possible sources of data collection include documents, annual reports, condensed financial statements, research articles, news archive records, official website and e-newspapers. Moreover, online questions were asked from the current employees working at ABL in relevance to their point of view about capitalization and restructuring, its success and future prospects of the bank. A comprehensive interview with the chairman of Allied Bank was administered to get supportive evidence for authentic and valuable information. A detailed meeting was arranged with Group Head Budget of Monitoring and Financial Reporting and Financial Analyst at Allied Bank Limited, Lahore in order to have comprehensive discussion regarding the case. The research study is a holistic understanding of change phenomena of privatization, restructuring, BPR and technological transformation in the Bank. Information collected from above mentioned sources was in fragmented form; it was then integrated, converged and organized in analysis on change management study.

Research Questions

- 1- How did Privatization at Allied Bank Limited take place?
- 2- What driving forces caused implementation of change process?
- 3- What changes were introduced in Bank (financial, structural and technology)?
- 4- What was the role of IT in Business Process Reengineering in restructuring and Transformation at ABL?
- 5- What were the results and outcomes of transformational changes?

CHANGE DRIVERS

Some triggering forces external to the banking sector had stimulated the government to privatize and restructure the ownership of commercial banks to the private sectors such as global competition, lack of modern technology, rising political intervention, inculcate a culture of efficient resource allocation, augment economic and financial growth, development of new products and services, amplify customer awareness, availability of premium banking and insurance services for the business community, expanding offshore operations and raising government taxes from enhanced profitability in the banking sector. The Bank was privatized

due to existence of some internal factors such as lack of competent expertise, high fiscal losses under government ownership, bureaucratic approach, lack of centralized data processing systems [3, 4]. Some other internal factors include lack of computerized customer service systems, absence of mobile banking [5]. Bank suffered from substantial non performing (NPLs) portfolio, existence of loss making branches, under capitalization of resources, high internal corruption across executive board and departments [6]. Resource wastage, lack of quality financial assets, outdated databases, and hiring based on personal bias were also the major reasons. [7]. ABL thus entered privatization era and major radical transformations took place to alter the ownership structure and information systems in order to increase process efficiency, and introduce innovative and customer centric banking methods [8]. Advanced technology was introduced to enhance the effective customer services experience. Chairman ABL mentioned in his interview that greater intervention by SBP became necessary to counter the political interference, hiring of incompetent employees, and massive losses incurred by the banking sector ultimately leading to the transfer of ownership.

PRIVATIZATION

ABL currently ranks as the 5th largest bank in terms of assets and deposits having 950 branches at end-Dec 2013. It was privatized initially through Employee Stock Ownership Plan (ESOP) in 1991 [9]. The Director, Pakistan Institute of Development Economics, in 2002 provided the evidence that, "In 1991, Government of Pakistan preceded with privatization of two major Banks, ABL and MCB". During 1991^[1], the government granted partial privatization of the Bank through ESOPs, along with concession in employee wages, and purchases of stocks. [10]. Chairman said that privatization of through ESOPs was very successful and overall a good initiative. There were 8000 employees of whom 5000 were issued shares with a total of 51% share ownership in two stages of 26% and 25% respectively.

Purpose of Privatization through ESOPs

The purpose of Privatization through ESOPs was to create support from its employees, to manage the ownership of Bank and to reduce resistance and gain acceptance for corporate reorganization by them. [11]. One of the rationales was aimed at tax advantages for achieving financial and economic development, and for employees to obtain voting rights and decision making power in corporate issues. [12]. Leveraged acquisition (leveraged buyout) of shares took place with plan for the loan to be paid off from Bank's profits in the future. The shares were purchased by employees on credit. This process lacked transparency as employees were emotionally mesmerized by more wage concessions, debt financing for stock purchases and management control [13].

Phase 1 implementation

The purpose of Privatization through ESOPs was to create support from inside Bank's Stakeholders i.e., employees, to assure that ownership of the Bank would be widely

contributed by its employees, not only by domestic investors. One of the major objectives was to reduce confrontation and gain broad appeal for corporate reorganization from employees that could be the source of adverse and huge resistance [14]. It was thought that a component of employee ownership could be beneficial for the privatization process and create a supporting population for the change process (interview, manager ABL). This was done in order to increase employee involvement in the ownership of capital assets, help raise capital for the financial institution, and select and retain eligible employees [15]. The employees of the bank were emotionally energized with charm of increased wage concessions, debt financing for stock purchases and incentive of enhanced management control [16]. Allied Management Group consisted of employees of ABL. Employee Stock Ownership Plan was a debt funded purchase. Employees were granted interest free loans on their salaries as attractive incentive to agree on privatization [17]. The loans were financed by employee salaries and then to be paid off by the Bank's profits to the government). Employees were obliged to buy 26% shares with offering of mortgage and vehicle purchase loans. On September 9, 1991^[2] 26% of its shares were purchased by the Allied Management Group (AMG), headed by the president of the Bank, at the price of Rs 70/- per share offered by the Ministry of Finance. 10% dividend on shares supported purchases for funding. To fulfill the clause agreement, in August, 1993^[3], employees of AMG bought next 25% of equity shares again at Rs. 70 per share. By then, 51% of Bank's shares' ownership was in possession of AMG [18].

Post Privatization Problems

Government faced criticism for demanding Rs. 70 per share from the employees whereas MCB's shares were sold at Rs. 56 per share. After the first phase of privatization, the senior executives abandoned employees from membership of Board. After the first phase of privatization in September, 1991, the senior executives abandoned employees to become members of management Board. Lack of employees' involvement led the employees to exhibit obstinacy and inflexibility thereby becoming resistant and impervious to change [19]. In 1991, a business group willing to acquire Bank's ownership was given Rs 2 billion as export refinance to purchase shares from senior management. Employees were obligated to sell their shares to that group [20]. Under investigation of SBP, senior management and business group were found to be involved in unlawful operations. Consequently, three members of the Board of Directors were fired and declared ineligible to apply for other banking job. This aggravated the Bank's performance and led to internal differences between the executives. In July 1993, after dismissal of government, a lot of management conflicts arose. In 1993 [4], Mr. Khalid Latif was discharged and charged with imprisonment for being involved in corruption. After his removal, his successor experienced similar charges for being accused of Duty free

²26% of shares purchased by AMG at Rs 70/- per share

³AMG bought next 25% of equity shares again at Rs. 70 per share with total share ownership of 51%

⁴Mr. Khalid Latif charged imprisonment for being involved in corruption

¹ Granted partial privatization through ESOPs, with concession in and purchases of stocks

shop scandal. In 1997 [5], the founder of Allied Management Group (AMG) became CEO of ABL. Fraudulent employees remained part of AMG. In 1999, one of the Bank's major defaulters purchased about 35-40% shares from employees. Hence, State Bank restricted the transfer of shares from employees to non-employees' groups. According to the statement of Chairman; ABL central bank has the decision making rights to stop unlawful practices in any bank. Under Section 28 of Banking Companies Ordinance, State Bank fired all the top management executives from the Board and appointed new director of the Bank. After the approval of SECP, the bank kept 109 million shares whereas 325 million new shares were issued. 75% of the shareholders were new to the Bank's ownership.

In Oct. 2000[6], again new CEO of the Bank was appointed [21]. In 2001[7], Privatization Commission of Pakistan attempted to keep leftover 49% shares with the Government, but was unsuccessful due to existence of hidden accounts representing unlawful transactions. On August 3, 2001, the SBP removed the Chairman and three Directors from the Board of ABL for working against the Bank's interests. In 2001, PC received 10 Expressions of Interest (EoIs) to withdraw remaining 49% ABL's shares, but PC officials were unwilling to disclose the names and details of the interested parties as they wanted to include two more parties from America and Jordan. According to sources, MCB, Union Bank and Mahtab Group and other parties had submitted EoIs for the bidding of remaining ABL shares. ABN Amro Bank and KASB Bank made a consortium and acted as financial advisors to the PC regarding disinvestment of the ABL [22].

ABL was excluded from the list of privatization and remaining 49% shares were transferred to SBP in April 2003[8]. In February 2004[9] 6 eligible parties had bid for the 49% shares of ABL. In February 2004[11], Askari Commercial Bank and Kuwait Bank independently negotiated with the SBP to purchase 51 % shares of ABL. These banks were required by SBP to add equity of Rs7 billion into ABL in order to recover its losses. Acquisition of 51% shares of Allied Bank by a private entity had been taken away from the PC and their privatization authority was transferred to SBP under Section 47 of Banking and Companies Ordinance SBP. Privatization was not a successful transaction and resulted in mismanaged processes and concluded at failure and disappointment, therefore government then became keen in avoiding the sales of shares to incapable private entity [23]. The Bank had bulk of "benami" accounts where property and assets were purchased on the name of some fictitious person other than one who financed them, due to which PC claimed about its inability to withdraw the share ownership of the Bank.

SBP invited bids from financial institutions to submit their proposals till 17th July, 2003[10] with evidence supported by Dow Jones Newswires. Potential investors had to invest capital to increase equity and gain major stake in acquisition of ABL [24]. Chairman stated that one of the eligible bidders was the Ibrahim Group. In November 2004[11], World Bank offered the deal to Government in financing three banks named ABL, HBL and UBL to restructure them in terms of Privatization. World Bank arranged credit amount from \$100 to \$300 million for Government to bear financial restructuring cost of these bank including ABL [24]. World Bank estimated a cost of PKR 20 billion for restructuring strategy for these banks. Rightsizing resulted in closure of over 900 non-profitable branches of major domestic banks including ABL. From 1998 total branches of banks were reduced from 8,049 to 7,150 in 2003[10, 26].

Acquisition by Ibrahim Group

1997 was the year when Government of Pakistan went on board to initiate reorganization and restructuring of three banks i.e., NBP, HBL and UBL. The financial sector renovation plan was part of Asian Development Bank-funded program. The private sector management body was given the responsibility of starting rightsizing of branches and human resources and clearing out loans. The State Bank of Pakistan chiefly meant to reorganize and reform Allied Bank Limited before selling to any private investor group. Eventually in August 2004, the recapitalization and restructuring of Bank was done by transferring the ownership of the Bank to a consortium consisting of Ibrahim Leasing Limited and Ibrahim Group.

On 23rd July, 2004[12], Ibrahim Leasing as part of Ibrahim Industrial Group offered PKR 14.2 billion (\$1=PKR58.32) to purchase 75.3% of the ownership of the Bank. As at June 2004, NPLs were 41% of total lending and advances and it had negative equity of PKR 5 billion. By then the managing director of the Ibrahim Group declared that mission of the new management was to renew and renovate the Bank. Consequently Bank's ownership was transferred to Ibrahim Leasing consortium of Ibrahim Leasing Group (Dow Jones Newswires, 2004). The Associate Manager Banking Services also supported the facts by providing confirmation that "privatization of Bank had proved to be very successful. Bank was privatized in 2004 for 14 billion PKR and announced 10 billion PKR profit in FY 2012". Chairman in his interview also provided the evidence that after privatization voluntary retirement scheme was introduced. A Cascading formula was applied and no employee was retired. Within a period of 6 months, bank hired top 60 executives purely on merit.

Introduction to Ibrahim Group

After independence and separation from India, the founder of Ibrahim Group, Late Haji Sheikh Mohammad Ibrahim, after being settled in Faisalabad initiated cloth trading business

⁵Founder of AMG Mr. Rashid Chaudhary appointed CEO

⁶Mr. Khalid Sherwani was appointed as CEO of bank

⁷PC to sell leftover 49% shares to Government

⁸Bank excluded from the list of privatization, remaining 49% shares transferred to SBP

⁹6 eligible parties bid for the 49% shares

¹⁰Proposals to be submitted to SBP by other financial institutions for shares' sale

¹¹World Bank offered Government to finance in ABL, HBL and UBL to restructure them in terms of Privatization

¹²Ibrahim Leasing, offered PKR 14.2 billion (\$1=PKR58.32) to purchase 75.3% of the ownership

with the name “Ibrahim Agencies”. By the time now the business has a huge diversification of businesses. Late Sheikh Mukhtar Ahmad expanded the group of companies through vertical integration and got a firm place in industrial sector. The diversification also included the initiation of Ibrahim Modaraba along with a leasing company named Ibrahim Leasing Limited. As the Government of Pakistan announced to acquire MCB shares, Ibrahim Group got success in bidding. As a result Mr. Sheikh Mukhtar Ahmad became BOD member for 14 years. In 2004, Ibrahim group successfully acquired more than 75% shares. Currently, Ibrahim group owns 80.35% shares of the Bank, whereas, SBP holds 10.07% shares on behalf of the government. The group has been successful in bringing the position among top 5 banks of Pakistan [27].

RESTRUCTURING AT ALLIED BANK LIMITED

The study on restructuring of the Bank focuses on structural, systemic and technological changes undertaken to improve the profitability and financial performance of the Bank and to enhance its competitive position in banking industry. A Branch Manager shared his insights by stating that “workplace environment at Bank is in transformation process. Different theme branches like women branches, youth branches and village theme branches” were also successfully commenced. “Standardization of branch facilities, services and staff is a major source of competitive advantage to create differentiation”, as believed by the Chairman. According to him, there are 8 Board members of which 3 are the family members. SBP conducts fit and proper test for each director based on specifications. Any past criminal record disqualified any suspicious person from the shareholding. Based on SBP prudential, only 25% of family members can own shares of the Bank. The senior management consists of top 25 people that work in a collaborative team and are highly qualified, credible and trustworthy. Processes are highly transparent without any governmental interference so that banking operations do not get affected from any illegal means. Bank follows SBP rule that there can only be one direct nominee of the Bank to check meetings, one every month based on a strategic agenda. State Bank had formerly changed 5 governors of the Bank in reign of People’s Party of Pakistan. Central Bank has also implied rule that one government member can become the member of the Bank to supervise banking processes. More over the Bank currently (2014) employs 13% females while this will rise up to 15% by 2015. ABL will be launching its first Islamic Banking Branch in June, 2014, that will operate under Islamic Banking Group in order to provide best financial services to customers on foundation of Shariah compliant principles [28].

Rightsizing and Reorganization

The privatization of the Bank involves employee downsizing due to overstaffing and job security issues. Many senior managers were terminated due to unlawful acts against the bank’s credibility [29]. As a result of creating more competitive, specialized and skilled jobs, innovative and modern branches were opened to increase the bank’s productivity and profitability by the end of 1999 [30]. Recruitment of a team of highly skilled, qualified and motivated employees was a part of Bank’s strategy to meet long term goals and sustain competitive advantage in each aspect of financial management. Tough and high standards were set for selection of capable and competent candidates. They were then trained and developed using modern technology and innovative ideas and up to date learning facilities. Management of the Bank ensured their commitment and zeal towards the strategic goals of success. The worked in best performance oriented culture under inspirational leadership. Their performance was evaluated regularly based on performance review criteria. All professionals were exceptionally experienced so that they were also able to consistently meet and respond the continuously changing requirements of the economy and technology. Since the first phase of privatization of Bank had taken place in 1991; the number of its branches and employees had decreased from 1996 to 2004 i.e., from 902 to 735 branches and from 8,998 to 6,768 employees respectively. A complete trend can be observed in Table 1 and Figure 1 & 2 given below. This was due to its undergoing certain traumatic occurrences in performance. The Bank had to face various challenges as result of lump sum financial failures and its position had consistently deteriorated under the ownership of Allied Management Group.

In 2004, after the second phased capitalization of share ownership by Ibrahim Group, the Bank achieved its sound and healthy position in terms of growth and diversity in product & service portfolio. In 2004, the Bank was segmented into 11 major Groups, each having a focused approach on every different operation of banking system. “Corporate and Investment Banking Group” was responsible to serve corporate customers with their custom-made services through credit maintenance, finances, investments and new ventures. “Commercial and Retail Banking Group” was in charge to target the market and serve them according to their personalized needs by expanding commercial assets and achieving efficiency in deposit mobilization.

Table 1. Number of Branches and Employees from 1996 to 2004

December 31	1996	1997	1998	1999	2000	2001	2002	2003	2004
No. of Branches	902	929	929	929	929	856	814	752	735
No. of Employees	8,998	8,114	8,314	8,026	7,212	8,082	6,946	6,859	6,768

Source: Allied Bank-Annual Report, 2005

“Treasury Group” handled interbank transactions to manage governmental security funds and investment. “Risk Management Group” worked on risk measurement, monitoring and control policies at operational and market level. “Audit and Inspection Group” was accountable for dealing with any mismanagement and disorderliness in financial system through an integrated internal control system. “Special Asset Management Group” paid attention towards lessening Banks’ non-performing loans with lending and borrowing reasonably settled on time. “Finance and Corporate Affairs Group” had a strategic role in boosting Bank’s performance and economic worth in banking industry. “Operations Group” ensured a secured functioning of branch, treasury and engineering centers towards achieving organizational goals. “Information Technology Group” was responsible for maintaining automation and internet based operations while continuously adopting modern technological trends at international level. “Human Resource Group” was dedicated for recruitment, selection, training & development, performance management, rewards and retention of employees. “Compliance and Control Group” administrated the rules and legislation for managing lawful and prudential regulations [31].

Human Resource Group is one of the divisions of the Bank. It was established to build up and execute processes and programs that added value to Bank’s human capital. This helped in the welfare of employees. Employee empowerment resulted in their greater development and maintenance while becoming a better foundation leading to customer and shareholder satisfaction. Major objectives of this group were work force planning, managing finances, funds & budgets, corrective action policies, training and development and performance appraisal management. During 2005, the management took first to revise all the previous policies. Employees were significantly motivated by improving the pay and compensation ranges. Experienced and knowledgeable employees were recruited for all hierarchical levels of organizational structure. Employees were made able to keep up with the new trend by regular on and off job training programs. Human Resource Group managed to build a team of outstanding and practiced expertise that in 2005 resulted in synergistic outcomes of sustainability and higher levels of efficiency. The corporate catchphrase of ABL in 2005 was acknowledged as “**Aap Kay Saath Saath**”. This demonstrated the importance of the demands and requirements of the customers to the Bank. The Bank’s viability in the business was only because of the customers. Management believed that there should be an open interface with the customers and they should be kept up to date with all new services and products. The employees were always there to assist customers through any problem and provide them required knowledge. During 2006, Bank’s focus was to rectify the existing policies for new training programs of employees. Team development was one of the major challenges for the management. After the second phase of capitalization of Bank had taken place in 2004; the number of

its branches and employees had increased from 2005 to 2008 i.e., from 741 to 766 branches and from 6,909 to 8,325 employees respectively. A complete trend can be observed in Table 2 and Figure 1 & 2 [32].

In 2011[13], 31 new branches of bank were established and 418 branches were upgraded supported by state-of-the-art technology platforms. Four “All Females” Branches and first “Youth Branch” were launched in Pakistan in 2012[14] for motivating growing young population to step forward. In 2011, the Bank had around 9,496 employees, and 837 branches. The corporate slogan of ABL in 2013 has been recognized as “**Aap Kay Dil Mein Hamara Account**”. This shows an honor for the Bank to serve its valuable customers for their wellbeing and satisfaction and to make them feel secure and intimately important to the management. Till the year 2013, management focused on supporting employees to become multi-skilled in every discipline. Therefore, an important induction program involving the selection and training of Management Trainee Engineers (MTEs) was introduced in which employees along with their already got engineering qualification were taught Masters in Business Administration (MBA). These employees have high intellectual skills in addition to the academic qualifications. Moreover industry expert were out sourced to provide current industry and market based knowledge. Succession planning scheme was introduced at all hierarchical ranks. People from within the organization are vertically promoted on merit. Human Resource Group was made accountable for all processes relevant to employees done electronically using modern software. As part of Bank’s strategic objective, it adopted a Human Capital Management System (HCMS) that works on Human Resource Information System (HRIS) to maximize process efficiency. A new “Anti-Harassment Policy” was introduced to protect the morals and character of all employees at equal level. Principles of equality are followed in all aspects of performance and merits. Management Trainee Officers (MTOs) Program was designed based on tough eligibility criteria for employees to learn and work on predetermined job path and their performance is keenly observed for first 3 years on job (ABL Annual Report-2013). New IT expertise was hired for the training of employees in Management Trainee Information Technology (MTIT) Program.

Employee training and development was considered to be major concern for which heavy investment initiative took place on annual basis. Bank ran 3 major full time and visiting management development centers from Islamabad, Lahore and Karachi for both out house on external selection and in house instructional courses on financial & human skill management, and banking. Overseas training programs were also conducted to meet excellent standards at international level. An up to date e-learning portal was made available 24 hours a day on Internet for accessing e-books & information blogs and virtually attending training. Management infused a healthy culture based on “Team Work” as key foundation of

¹³31 new branches of bank established and 418 branches upgraded by technology platforms

¹⁴Launched four “All Females” Branches and first “Youth Branch” in Pakistan

Table 2. Number of Branches and Employees from 2005 to 2008

December 31	2005	2006	2007	2008
Number of Branches	741	742	757	766
Number of Employees	6,909	7,139	8,181	8,325

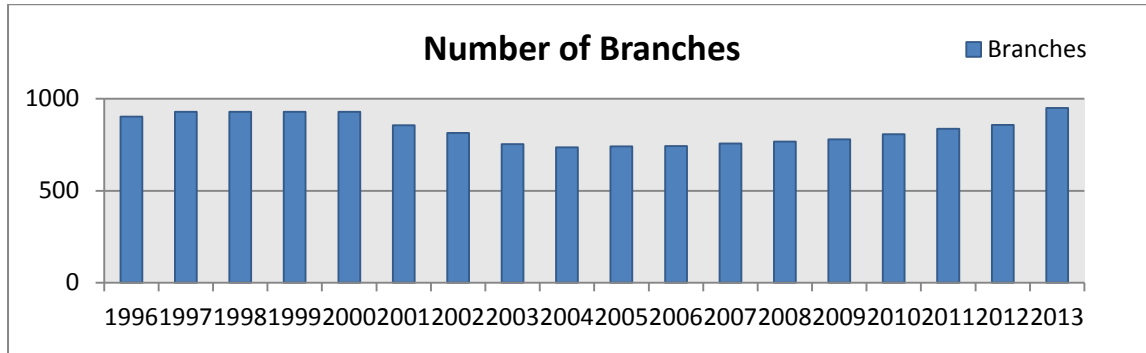
Source: Allied Bank-Annual Report, 2008

Table 3. Number of Branches and Employees (Permanent & Total) from 2009 to 2013

December 31	2009	2010	2011	2012	2013
Number of Branches	779	806	837	875	950
Number of Employees (Permanent)	8,713	8,947	9,496	9,291	9,675
Number of Employees (Total)	11,690	12,588	13,029	9,932	10,213
Number of ATMs	530	574	601	618	794

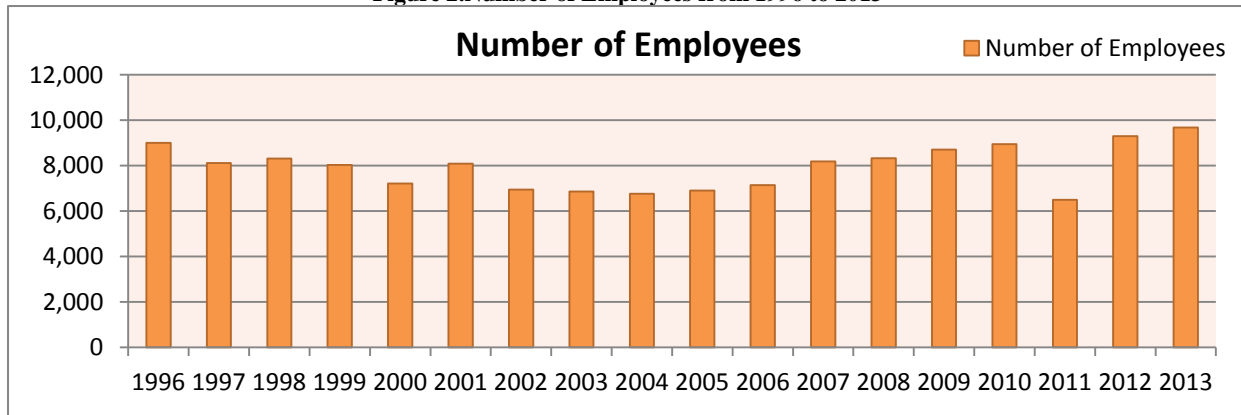
Source: Allied Bank-Annual Report, 2013

Figure 1. Number of Branches from 1996 to 2013



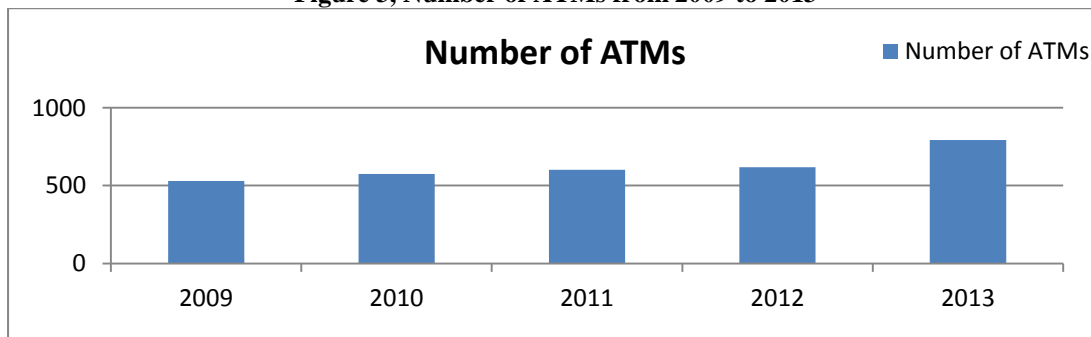
Source: Allied Bank-Annual Report, 2005-2008-2013

Figure 2. Number of Employees from 1996 to 2013



Source: Allied Bank-Annual Report, 2005-2008-2013

Figure 3, Number of ATMs from 2009 to 2013



Source: Allied Bank-Annual Report, 2013

synergistic performance. This synergy-based culture required each employee to work together in team. Bank's hierarchical structure was altered based on international standards in which the Group were segmented into divisions and further

subdivided into departmental units. Lower most level of organizational structure that manages departmental and geographical workload was refined. Employment positions and designations were relocated to increase each function's

productivity. HRG worked on strategic path to achieve long term vision on international standards for which employment policies and procedures were kept on improving time to time to meet future demands. ABL strived to achieve success with each day beginning with a new zeal and zest, the number of its branches and employees had increased from 2009 to 2013 i.e., from 766 to 950 branches and from 8,325 to 9,675 employees respectively. This increase is a clear evidence of Bank's success and accomplishments. A complete trend can be observed in Table 3 and Figure 1, 2 and 3 given below [33] A Bank Manager, in her statement provided close relevance to the successful restructuring process that "High team collaboration led to high commitment and customer services. Staff maintains credible relations with customers. Training and development sessions are frequently carried out for continuous learning". In the similar context the Chairman (2011) also stated that "Employees work with high involvement and commitment to ensure 24 x 7 quality services to the customers in all branches of Bank". The BoDs of Allied Bank appointed Mr. Tariq Mahmood as the new CEO in June 2013 [15] after completion of term of outgoing CEO Mr. Khalid A. Sherwani [34].

New product development was one of the prime priorities of the Bank due to its fundamental significance in customer service. For this the Bank introduced its products in three different forms of banking named as Personal, Business and Islamic Banking. "Personal Banking" offers Everyday Accounts for day to day savings and transactions; Lifestyle Banking to provide a comfortable experience for customers, Savings and Term Deposits for efficient fund management; Debit and Credit Cards to make financial transactions; Domestic Remittances to make convenient the delivery of funds; Bancassurance that offers savings and security facilities and Electronic Banking to give automated 24 hours online banking services. "Business Banking" involves Corporate and Investment Banking for integrated financial services for business clients; Transaction and Business Accounts for everyday transactions; Home Remittances to Pakistan by having relations with leading money transfer companies for distribution of remittances in Pakistan; Savings and term Deposits for corporate funds management; Cash Management Solutions for complex liquidity management service needs; Trade Services to minimize risk in export related products and knowledge; SME Financing for startup of new ventures and Agriculture Financing to invest in purchase of fixed Assets to work in farms. "Islamic Banking" has offered Islamic Banking Deposits that run deposit accounts on principles of Shariah; Islamic Investment Certificates for profit & loss distribution in a Shariah Compliant mode; Profit rates on the terms of Islamic Banking; Profit Weightages compliance with Islamic provisions and Frequently Asked Questions that simplify the ambiguities of customers making Shariah based transactions [35].

BUSINESS PROCESS REENGINEERING: CHANGE MANAGEMENT MODEL

As described by Michael Hammer and James Champy, BPR is the fundamental reorganization and redesigning of an organization and its processes in order to make radical improvement and advancement in its performance, technology, cost, quality and management. All the tasks that perform each operation are revamped and newly restored by examining and redoing the complete process. A series of course of action is established to rebuild each process and operation with modern transformation. Reengineering of processes takes place as a phased approach. BPR at ABL was doable and important because of pressures of external competition already evidently outperforming the Bank; prevalence of a lot of conflicts in management; need for tremendously frequent meetings in form of teams. Need for informal and comfortable communication among employees and deployment of incremental and continuous approach based development [36].

Davenports 5 Step Approach to Business Process Reengineering Model

In 1992, Davenport and introduced and prescribed a 5-step approach to BPR model. This BPR model can be harmonized with BPR taken place at ABL. The process has been discussed below in 5 steps incorporating transformational and radical changes:

Development of Business Vision and Process based Objectives

Business Process Reengineering process is triggered and driven by corporate vision that entails future outlook of the company in terms of specific objectives of the business. These objectives may include cost reduction, product and service quality improvement, operational efficiency, enhanced profitability and sustained competitive gains. ABL's vision was "To become a dynamic, leading and efficient bank providing integrated solutions in order to be the first choice bank for the customers". BPR process at the Bank was motivated by the above future visualization and dream.

Identification of Business Process to Revamp and Transform

A complete process that needs to be redesigned and refurbished is recognized by using a "High Impact" radical move that focuses and contemplates on the primarily important processes that need to be worked out. The operations that oppose the business vision are also central to be chosen first for redesign. An "Exhaustive Approach" can also be used that simultaneously identifies all business processes and prioritizes the most urgently needed of them. According to the study, high impact scheme was implemented with most important process of privatization through ESOPs to be executed first.

Identification and Assessment of Current Processes

Previously existing processes are reexamined to learn from mistakes done before so that a baseline and bases for future developments and improvements can be provided. Internal and external drivers of change and transformation for ABL were all the current problems and mistakes that were needed to be rethought for future advancements.

Identification of Information Technology (IT) Strengths

¹⁵On 17th June, Mr. Tariq Mahmood appointed CEO

This step involves the understanding and learning of Information Technology based competencies and strong points that can influence and support technological advancement through BPR in the organization. ABL's major technological needs were automation of core banking operations that could act as the levers for BRP implementation.

Proposition and Establishment of a New Process Prototype

The first actual design of the process of BPR is prepared and it is known as "Prototype" that needs consecutive developments and iterations. The metaphor imagery of this model is aligned with BPR process so that improved and quick results can be achieved. This minimizes risk and losses while increases perfection and customer satisfaction. All the technological changes and innovation went through this phase at the Bank in its BPR process.

The BPR model of Davenport also involves the inclusion of changes in hierarchical and governance structure that can match and support the new developments in the organization with better management and expertise and communization and regulatory systems. The restructuring and reorganization at the Bank incorporated this phase in their BPR methodology.

TECHNOLOGICAL CHANGES AND INNOVATION

Major technological changes were brought as a result of deployment of Business Process Reengineering (BPR). A change management model of BPR has been proposed that consists of 6 important phases. This BPR change model has been implemented in different international financial institutions starting right from future visualization and concluding at evaluation and process assessment. Followed by the changing trends from branch oriented delivery channels to customer oriented communication channels, ABL invested massive amount in introducing multichannel Retail Banking system. In 2005, ABL was strategically fragmented into several divisions in order to be more specific and focused towards each of the different aspects of banking system. Information Technology (IT) Group is one of these central groups dedicated to provide innovative and prompt technological banking solutions for the clients. Highly qualified and talented experts were hired to work on meeting the banking automated provisions. IT Group is responsible for mechanization of all branches with modern technology and computerization of all the business processes and operations to enhance process efficiency and speed up the flow of well-timed and exact information. It introduced a variety of technological services such as debit & credit and inter-branch online transactions, ATM network, customer care services and internet based banking operations with their continuity ensured 24x7 round the clock[37].

After second phase of privatization, the Bank reached 700 branches with the leading online internet based network to provide service to customers in each locality of the country. Online branch networking enabled the Bank to support cash deposit, encashment of cheque, funds transfer and management for the customers in 200 cities. Inter-branch online networks were upgraded in order to increase the efficiency in number of transactions in minimum time. A new site on Development and Disaster Recovery (DDR) was made operational in 2006. The Bank had consisted of 100 ATM

systems during 2005 extended to 39 cities. It also got association of "1-Link" ATM control so that customer could access this service to more than 500 locations. By the end of 2005, ABL was the only bank with highest number of ATMs among all other financial institutions [38].

Allied Direct Internet Banking correlated as "Banking at your fingerprints" was launched in January 2006 that ensured ease in financial management anywhere, anytime. Internet of the Bank was renewed with application of Share Point Portals. MS-Exchange emails were also made functional in 90 major branches, whereas, Linux emails operated in all the branches. This helped improve the efficiency in terms of greater speed & minimum cost and effectiveness in terms of high profitability. During 2006, the Bank had installed self-serving booths as means of assisting customers residing in off-site locality in order to take advantage of multi-channel delivery systems. All the banking value chain, systems and operations are Internet based due to intangible computerized services. The clients could then personally contact with each other easily over the value added and superior quality web based network. The exploitation of Internet based technology enabled Bank to become more innovative to bring distant clients closer to each other. Along with deciding on with dealers of software systems on Core Banking, management took optimistic initiatives to improving the quality of databases and information system management. Bank's official website was refurbished and redone over to portray an innovative appearance of the Bank. In 2006, an Enterprise Resource Planning ERP based integrated software called Oracle Financials had become completely operational and equipped to facilitate management in strategic decision making and boost the reporting of Management Information Systems MIS to Board of Directors. This is responsible for supporting MIS to increase cost efficiency and maintain business transparency. During this year all the branches were replaced with centralized, completely efficient and ultra-modern banking software. Other landmarks in technological advancements include mechanization of profit accumulation in PLS saving accounts; execution of Oracle supported Human Resource Management System; automation of communication processes related to payee's demand draft issuance on an online set-up; functionalizing devices with MICR code line confirmation and support printers and developing new methods processing batch transactions using internet. By the end of 2006, there were 300 ATMs. The ATMs were made able to be used for funds transfer facility; VISA Debit Cards transaction; payment service of for utility bills and control rooms and offices were equipped with attendance system based on RFID technology [39].

ABL had an agreement with Multi-net Pakistan that would enable the institution to improve and upgrade network optical connectivity within and among all branches in the country. Through this agreement Multi-net provided end-to-end fiber optic contact supported by Ethernet services of internet providers (Mahmood, 2011). Previously transaction processing system was based on Uni-Bank Core Banking software operating system. The bank consisted of 272 branches operating on Temenos (T-24) till 2011 and had reached beyond 383 Uni-bank branches to the new T-24 system by the end of 2012. All other branches were also

converted to use new T-24 transaction processing system. The purpose of T-24 operating system has been to smooth the operations of all branches and upgrade their technological and information system infrastructure [40].

During December 2012, a dual communication infrastructure in collaboration with communication media was implemented to enhance connectivity of branches across the country. Core Banking T-24 software had contributed to ensure system security and maintaining customers' credibility with protection against money laundering activities by implementing a state of the art Anti Money Laundering solution, a separate system on top of T-24 to meet the terms of internal and external financial regulatory requirements. Automation of processes and work flow led to increase in strength of internal systems and increased banking efficiency by implementing application monitoring mechanism and network monitoring system. This has helped to increase the ability of the employees to provide superior customer services (Shah et al., 2012). Allied Bank's Asset Management Company (AMC) is ISO/IEC 27001:2005 certified and its technological operations are controlled by Information Security Management System (ISMS) for banking electronic applications related to maintenance and management of server, routers, firewalls, networks, electronic communication and web access. Corporate Governance ratings had assigned a positive outlook to banking operations and AMC currently maintains a management quality rating of AM2. AMC performs on the guidelines of Global Investment Performance Standards (GIPS). These are the ethical standards for evaluating performance and returns of the investments in terms of fair and transparent representation. The Bank had highest ATM performance for 42% cash withdrawal and debit transactions. The Bank signed Cash Management Agreement with World-Call Communications Ltd. This synergy will help them to create an extensive banking network of Allied Bank and providing advanced communication systems and technology oriented services (News Archives, ABL Official Site). In 2012[16], the Bank launched Online Shopping system through "Allied Direct – Internet Banking" through an agreement with ShopHive.com, a leading shopping website thus facilitating online shopping for all Internet Banking customers. It introduced Email-2-SMS Service as instrument of customer relationship management. Now customers of all ABL branches are able to contact and communicate through SMS services. The Chief Information Officer (CIO), in an interview said that "Bank has a goal to make huge investment for development of online and in-branch communication for customer services". In 2013[17], the Bank released its first e-Newsletter to highlight innovation in customer services and Bank's successful 70 years celebrations. It integrated IBAN Generator into its website to improve the straight-through processing (STP) and lower the cost of financial transactions. In the same year, the Bank declared its partnership with

Sybase 365 and Abacus Consulting firm that offers mobile banking services to the customers. A technology support agreement for the deployment of mobile banking services with Sybase (SAP Software Company) had been signed to deploy m-commerce solution for financial services for fast and cost efficient services (News Archives, ABL Official Site). A Banking Services Officer also highlighted the contribution of Sybase that "the bank has largest network of ATMs and had 96% up time for the year 2013 as an outcome of successful agreement with Sybase SMS banking solution". Till the year 2013, the Bank had started strategic business with Cisco and IBM to develop excellent data centers are installed with most modern Cisco Unified Communication Systems and IBM RISC servers along with Intrusion Prevention Systems. They manage IT resources while operating in virtual setting and respond to customers immediately so as to maximize efficiency and output. Two resourceful data centers were installed with Level III conformity and have 99.98% uptime. They check, repair and maintain hardware machinery. Deployment of video conferencing displays in 40 control offices helped reduced travelling cost. Electronic operations helped in process homogeneity and efficiency. Communication systems in all 950 above branches were connected to data centers in order to retain maximum up time. Information flow was run through email to SMS and vice versa system. By the end of year the Bank launched Temenos Insight as business intelligence and Islamic banking module in order to become outstandingly advanced in technology and hit the highest position in product and service portfolio [41].

In June, 2013[18], Wateen Telecom, partnered connectivity of "Wide Area Network" (WAN) in branch office of Bank and network infrastructure was upgraded for over 550 branches. The connectivity delivers WiMax and optical fiber connections to the Bank in order to integrate whole data from the branches to Lahore Head Office. The purpose is to centralize whole data from the branches to Lahore Head Office, so that core data remain integrated and unified at Lahore Head Office. As a result networking solutions can be easily sought and superior services to the customers can be provided using secure connections in remote areas [42].

During 2013[19], the Bank entered an agreement to implement IRIS to a Multi-Channel Payment Solution for growth strategy provided by TPS partnership to promote payment solutions. IRIS payment application uses a multifaceted technique for transaction processing, debit and prepaid card management. It is benefiting from a lower Total Cost of Ownership (TCO) with increased speed to market. The bank is also using Instant Card Issuance capabilities, Point of Sale (POS) and other payment products. TPS previously aided bank in setting up a transaction switch named "Phoenix" in ATM service support (News Archives, ABL Official Site). The Bank also introduced "Allied Easy Current Account" for service optimization to provide liberty

¹⁶ Launched Online Shopping system through "Allied Direct – Internet Banking"

¹⁷ First released its first e-Newsletter to highlight innovation in customer services and successful 70 years celebrations

¹⁸ Wateen Telecom, partnered connectivity of "Wide Area Network" (WAN) in branch office

¹⁹ IRIS upgraded for Multi-Channel Payment Solution strategy through TPS partnership

from having minimum balance requirement. Pakistan's first entirely Solar Powered branch was also launched in Faisalabad, committed towards healthy environment by reducing its carbon foot print and gaseous emissions in order to meet prevailing energy crisis issues. The Bank initiated "Allied Pay-Anyone through Branch Channel" facility enabling customers to transfer funds without requiring the recipient's bank account. It has helped in promoting bank's relationship with loyal customers. It introduced live chat facilities for visitors of the official website controlled by ABL's Service Quality Team to enable customers to make decisions for maintaining their accounts. "Allied Technologies Service Company" had partnered with Bank in operating Consumer Asset Management System to diversify its products and services with a complete set of lending products (AlliedSystech Client). This is client of Brickcom IP Cameras to provide centralized control solution in partnership with Astaa Technologies (Astaa Technologies Solution Partner) and financial surveillance on ATM transactions through cameras and transfer video to centralized control rooms of bank. The Bank has installed beyond 350 "Brickcom FD-100Ae Fixed Dome" and "OB-100Ae Bullet" centralized control cameras having high resolution sensors at more than its 60 branches. The installation of numerous cameras in different branches has been less expensive, saves time and money due to use of Power over Ethernet transmission option of the FD-100Ae and OB-100Ae. Brickcom IP solution has enabled management to remotely access the video from any control office of the bank through centralized approach in order to save security expenses. Through this platform, Bank is successfully able to manage a large growth customer base by installing more and more Brickcom IP solution based centralized control cameras [43].

OUTCOMES

The first phase of Privatization of Bank was not successful in terms of achievement. Before implementation, when the decision of privatization took place, the employees that opposed the process through ESOPs were given golden shake hands and those who did not want to quit were given vehicle mortgages and executive posts in the bank. Unwilling employees confronted a lot for the privatization through ESOPs due to downsizing and internal dishonesty but then were captivated with future profits and Problems arose due to ill-conceived policy making, strong political influence, and privatization done in haste. Profitability of the Bank had converted to losses at the cost to national treasury, budget deficit had increased, industrialization became slow and economic growth started declining (Aazim, 2002). However, persistent efforts following the second phase of Privatization resulted in achieving operational efficiency in less than a decade and enabled it to achieve excellent performance even during turbulent times. According to Chairman, strategic priorities had been laid by the new BODs in 2005 after recapitalization and reorganization of the Bank. The strategic concerns aimed to come up to the global banking standards. One of the strategic priorities was team building for which a team of highly qualified professionals were hired. New expertise was inducted at management positions that resulted in synergistic achievements by the team. The technology infrastructure was an important strategic plan that involved

the deployment of technology based transaction systems for the customer and staff. All the branches were aimed to be connected online while customers were provided with the facility of internet banking. As far as the organizational structure was concerned, the organic structure and operating model were deployed in line with the internationally accepted global banking standards. Relevant procedures and rules with prudent risk management were implemented. Efficiency and productivity had been very important concern for with the new BODs were committed to achieve maximum cost efficiency and gain the most from optimal use of resources. As result of which loan to deposit ratio improved remarkably from 39% to 74% in 2005 as compared to previous year. Similarly, the NPLs to gross loans ratio decreased from 35% to 11%, whereas, the revenue to cost ratio had risen from 1.6% to 2.3% the same year. In conjunction with the new BODs strategic priorities, one of them was to introduce new products for retail customers and consumers. One of the steps was the launching of new hybrid ATM/Debit card to provide innovative attributes to customers. An essential infrastructure and team were built to initiate and develop innovative products for the customers. Being an essential strategic priority, corporate governance was much emphasized and the new management ensured that all the bank's operations are in compliance with the regulations and best standards. Following the first year of operations in 2005 after being acquired by Ibrahim Group, the new BODs and management of the Bank were successful in performing activities driven through core values of service excellence, integrity, best performance, growth and innovation. By the end of year 2005, it had strong financial standing with biggest online branch system throughout Pakistan, qualified; committed and motivated human resource and facilitative working culture.

The year 2013 had been a very challenging year for Bank due to economic uncertainties and financial pressures. Fortunately the Bank was resilient to those intense economic environments and was able to sustain its long term focus on stable growth, escalation of core values, enhancing investments in human resources, building operational capabilities, reducing costs, gaining service excellence and achieving sustainable development in deposits. By the end of year 2013, the total assets of the Bank went beyond Rs 700bn; this was due to improved products and services for customers. Online branch network, mobile and internet banking, and varying delivery mechanisms including 794 ATMs were influential in delivering quality services to customers. More than 950 branches had been spread geographically over the country; this ensures that customers have easy access to their bank's services and products. The management had been proactive in contributing towards improving operational efficiencies in private business and industrialized sector by providing trainings to industrial borrowers so that they gain opportunities for industrial entrepreneurship. Corporate governance had proved to be an essential element to culture as it promotes and encourages performing operations according to acceptable banking standards. All these cautious activities had helped in reducing the ratio of NPLs and raising the industry coverage ratio. As elaborated by the Chairman, that "the Bank had consistently maintained its growth momentum in times of tough and

fluctuating conditions". The positive results of capitalization were also indicated in a statement given by Relation Manager: "after privatization, Bank's overall performance has improved to a great extent. Currently it is focused on customer service to improve customer banking experience and gain dedicated customer base".

IMPACT ANALYSIS

The financial strength and profitability of ABL have been elaborated for the year 2005 and 2013. The year 2005 was most significant and noteworthy, as it was the source to judge whether the acquisition by Ibrahim Group was successful or not. Pleasantly, the performance of Bank and financial result for the year 2005 demonstrated overall success and flourishing turnaround. Table 4, Figure 4 and Table 5, Figure 5 show the Bank's financial statement and performance highlights income statement from the year 2005 to 2013. The gross investment had risen from Rs 45,269mn in 2005 to 364,966mn in 2013, whereas, gross advances also increased from Rs 119,866mn (2005) to 285,376mn (2013). In 2005 it had gross total assets of Rs201, 576mn which rose to 754,158mn in 2013. The total customer deposits in 2005 were Rs 161,410mn, which after a remarkable increase reached to 608,412mn in 2013. The bank had tier - 1 - equity of Rs 12,914mn in 2005 which increased up to 53,703mn in 2013 whereas the tier- 2 - equity also exhibited as upwards trend as

Rs 14,550mn (2005) to 66,198mn (2013). The statistics reveal a quiet strong financial position during a period of eight years (Allied Bank-Annual Report, 2005-2013).

The bank proved its commitment to long term success by displaying consistent profitability after restructuring and reorganization. In over 60 years of Bank's operations' history, it made highest after tax profit of Rs 3,033mn in 2005, whereas, the profit before tax was improved to 4,777mn as compared to the previous year. The net interest income was Rs 7,822mn in 2005 and continued to increase for the next years. [44] The operating expenses were Rs 4,272mn with an increasing trend till 2013, but the increase was due to improvements in all operations but not in line with increasing inflation. The growth in profitability overcame the increasing expenses. Moreover, the Bank is committed to raising its revenues and reducing or controlling costs. During the year 2013, it successfully faced economic challenges and competitive environment. At the end of year 2013, the Bank gained after tax profit of Rs 14,643mn from 11,676mn in 2012, while the before tax profit was Rs 14,761mn. The earnings per share had increased from Rs 11.18 in 2012 to Rs. 14.07 in 2013. In 2013 the ROA had raised to 2.1% and ROE from 29.9% in 2013 from 2.03% and 28.4% in 2012, respectively (Allied Bank-Annual Report, 2005-2013).

Table 4, Financial Performance Highlights [45]

Allied Bank Limited: Financial Strength Position

ASSETS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Cash and balances with other banks	12,320	18,035	24,745	30,408	25,751	27,716	31,845	38,159	44,381	45,775	16%
Lending to financial institutions	16,175	5,777	19,050	18,419	15,793	28,123	11,489	1,362	10,721	12,461	(3%)
Investments – Gross	57,657	45,269	47,156	84,151	84,602	96,975	123,855	198,398	269,351	364,966	23%
Advances – Gross	69,949	119,866	151,705	178,524	223,640	249,887	267,776	262,137	288,889	285,376	17%
Operating – Fixed Assets	2,552	4,721	6,445	7,549	11,134	12,447	15,360	18,087	19,871	22,084	27%
Other Assets	7,073	7,908	10,800	11,367	18,399	17,955	17,719	17,964	19,861	23,496	14%
Total Assets – Gross	165,726	201,576	259,901	330,418	379,319	433,103	468,044	536,107	653,075	754,158	18%
Provisions against non-performing loans , advances	(10,464)	(8,659)	(7,672)	(10,117)	(10,668)	(12,543)	(15,431)	(17,704)	(17,805)	(18,375)	6%
Provisions against diminution in value of investments	(336)	(342)	(203)	(192)	(1,956)	(2,186)	(2,682)	(2,704)	(1,948)	(1,587)	19%
Total Assets	154,926	192,575	252,026	320,109	366,695	418,374	449,931	515,699	633,322	734,196	19%
LIABILITIES AND EQUITY	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Customer Deposits	126,392	161,410	206,031	263,972	297,475	328,875	371,284	399,562	514,707	608,412	19%
Interbank borrowings	12,538	9,694	18,410	22,934	27,778	39,819	20,774	49,993	38,916	32,952	11%

Bills payable	2,534	2,449	2,278	3,494	2,952	3,162	4,119	4,015	6,203	4,879	8%
Other Liabilities	3,206	4,472	5,119	7,332	13,636	11,061	12,284	13,296	15,398	17,513	21%
Sub-ordinated Loans	-	-	2,500	2,499	2,498	5,497	5,495	5,493	5,490	4,242	8%
Total Liabilities	144,670	178,025	234,338	300,231	344,339	388,414	413,956	472,359	580,714	667,998	19%
Net assets/liabilities	10,256	14,550	17,688	19,878	22,356	29,960	35,975	43,340	52,608	66,198	23%
Share Capital	4,405	4,489	4,489	5,386	6,464	7,110	7,821	8,603	9,463	10,410	10%
Share Premium	10,640	4,316	4,316	3,419	2,341	1,695	984	202	-	-	(43%)
Reserves	717	1,377	1,817	2,632	3,464	4,888	6,533	8,561	10,906	12,438	37%
Un-appropriated profit/(loss)	(6,314)	2,732	5,608	6,971	8,537	12,198	15,829	20,255	24,250	30,855	37%
Equity – Tier 1	9,448	12,914	16,230	18,408	20,806	25,891	31,167	37,621	44,620	53,703	21%
Surplus on revaluation of assets	808	1,636	1,458	1,470	1,550	4,069	4,808	5,719	7,988	12,495	36%
Equity- Tier 2	10,256	14,550	17,688	19,878	22,356	29,960	35,975	43,340	52,608	66,198	23%

Source: Allied Bank-Annual Report, 2005-2013

Rupees in millions, CAGR: Compound Annual Growth Rate

Table 5, Financial Performance Highlights from Income Statement

Allied Bank Limited: Performance Highlights Income Statement

PROFITABILITY	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Markup/Return/Interest earned	5,245	9,892	17,216	21,201	30,571	41,122	44,993	51,814	49,503	54,222	30%
Markup/Return/Interest expensed	(794)	(2,025)	(6,793)	(10,093)	(17,273)	(22,422)	(22,428)	(26,643)	(31,142)	(32,552)	51%
Net Markup/Interest income	4,451	7,822	10,432	11,108	13,298	18,700	22,565	25,171	18,361	21,670	19%
Fee, Commission, Brokerage and Exchange income	1,520	1,471	1,636	2,258	3,266	3,470	2,910	3,395	3,169	3,711	10%
Capital Gain and Dividend Income	65	196	540	1,585	1,571	2,452	2,511	3,507	10,353	4,645	61%
Other income	155	273	273	78	58	36	251	48	272	1,247	26%
Non-interest income	1,740	1,940	2,449	3,921	4,896	5,958	5,672	6,950	13,794	9,603	21%
Gross income	6,191	9,807	12,872	15,029	18,194	24,658	28,237	32,121	32,155	31,273	20%
Operating expenses	(4,115)	(4,272)	(5,289)	(6,174)	(8,431)	(9,609)	(11,529)	(13,684)	(14,818)	(15,804)	16%
Profit before provisions	2,076	5,543	7,583	8,855	9,763	15,049	16,708	18,437	17,337	15,469	25%
Donations	-	(15)	(9)	(28)	(82)	(97)	(38)	(61)	(104)	(80)	23%
Provisions	(1,594)	(694)	(913)	(2,874)	(3,561)	(4,416)	(4,326)	(3,267)	(1,362)	(628)	(10%)
Profit before taxation	482	4,777	6,661	5,953	6,120	10,536	12,344	15,109	15,871	14,761	46%
Taxation	(290)	(1,744)	(2,264)	(1,877)	(1,964)	(3,414)	(4,118)	(4,969)	(4,195)	(118)	(10%)
Profit after tax	192	3,090	4,397	4,076	4,156	7,122	8,226	10,140	11,676	14,643	62%

Source: Allied Bank-Annual Report, 2005-2013

Rupees in millions, CAGR: Compound Annual Growth Rate

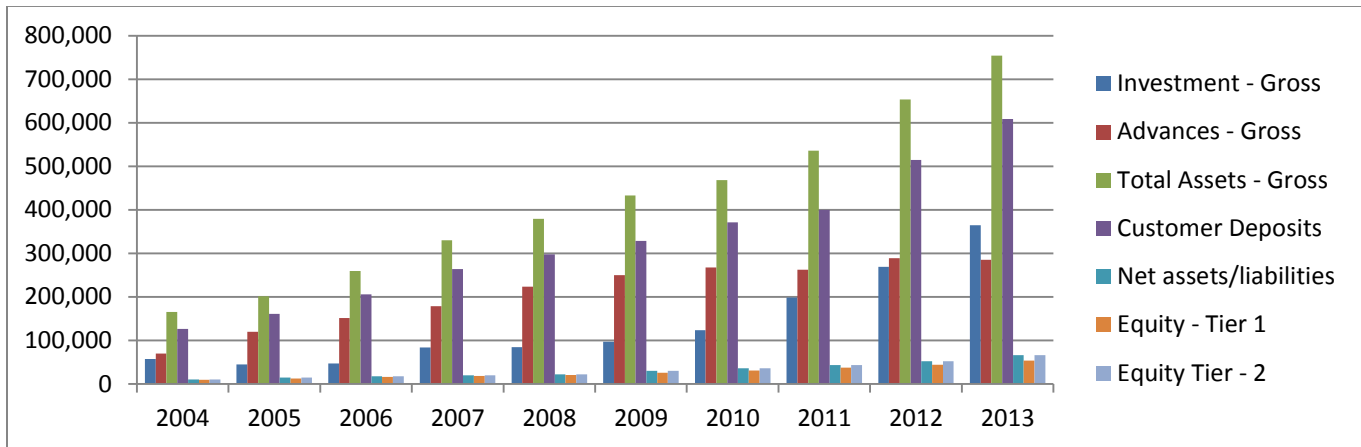


Figure 4, Financial Performance Highlights

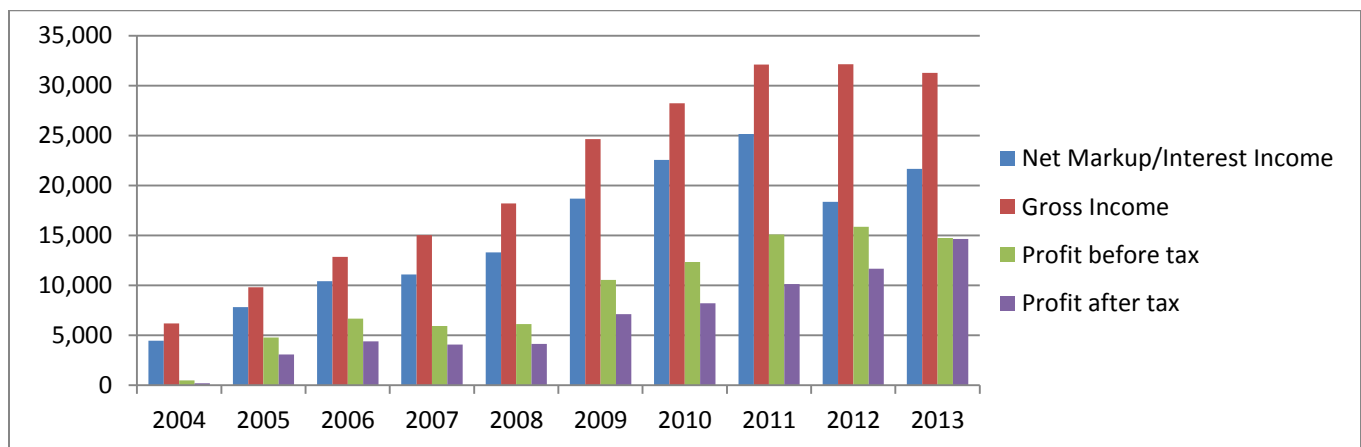


Figure 5, Financial Performance Highlights from Income Statement

AWARDS AND RECOGNITION

Following are that awards received by Allied Bank Limited in achieving milestones and strategic goals timely (ABL Official Website):

- “Bank of the Year in Pakistan – 2011” By The Banker
- “Best Retail Bank in Pakistan – 2011” By The Asian Banker
- “Best Domestic Investment Bank in Pakistan – 2009” By The Asset Magazine Hong Kong
- “Best Equity House in Pakistan – 2008” By The Asset Magazine Hong Kong
- “The Banker” magazine UK, honored ABL with the “The Banker Deal of the Year 2008 – Pakistan” award
- “The Corporate Finance House of the Year, 2007-2008” by the CFA Association of Pakistan, the local body of the CFA Institute, USA.
- “The Corporate Finance House of the Year, 2006-2007” award by the CFA Association of Pakistan, the local body of the CFA Institute, USA.
- “The Corporate Finance House of the Year, 2005-2006” by the CFA Association of Pakistan, the local body of the CFA Institute, USA.

RATINGS

Entity & TFC Ratings

ABL has maintained a long term rating of “AA+” and a short term rating of “A1+” as given by Pakistan Credit Rating Agency Limited (PACRA). The rating of TFC Issue rating worth Rs. 3,000million as issued on August 28, 2009 was retained at “AA”. These ratings represent least chances of credit riskiness due to Bank’s highest commitment for well-timed financial disbursements (Allied Bank-Annual Report, 2013).

Corporate Governance Rating

JCR-VIS Credit Rating Company had promoted Bank’s rating for Corporate Governance from “CGR-8++”to “CGR-9” that is very high standard. This depicts that the Bank maintain a strong framework of authority and control of the Bank (Allied Bank-Annual Report, 2013).

LESSONS LEARNED

Following are lessons that had been learned as a result of privatization of Allied Bank Limited, covering its journey of change management and Business Process Reengineering (BPR) [44].

Trust and Accountability: An environment of trust and accountability needs to be developed between government and the investors on setting bids for privatization. The process of bidding should be publically disclosed

Innovative Initiatives: Innovative technological initiatives should be taken to increase bank's development and efficiency while increasing customer base.

Involvement of External Investors: The transfer of ownership from public to private sector should involve external investors rather than using ESOPs approach which increases chances of internal corruption and mistrust

Merit Based Employee Hiring: Employee hiring should be merit based in order to avoid nepotism, and reserved quota approach and promote transparency in recruitment.**Strategic Planning:** Necessary strategic planning and development of long term goals and objectives is required to achieve organizational development

Involvement of Strategic Investors: Privatization of an organization is a long term process; therefore it must involve strategic investors so that successful implementation can take place with desired results.

Scanning External Environment: Macroeconomic instability such as shocks in petroleum prices, high inflation, budget deficit, high interest rates and increasing exchange rates can affect financial strength and successful privatization can be badly affected.

Government Commitment: Banking reforms should incorporate commitment from government and consensus of all stake holders in order to take legal and institutional measures for implementation and evaluation of change process.

Privatization: A Good Move: Transfer of ownership to external investor leads to product innovation, exposure to talented and skilled workforce, latest technological up gradation, global competition and overall revival and profitability of the organization.

Risk Management: Risk management portfolio and corporate governance should be put into action in order to avoid underperforming and unfavorable performance.

Legitimacy of State Bank of Pakistan: Supervision and prudential regulations of State Bank should be enforced in order to ensure legitimate financial practices in banking operations and maintenance of financial stability based on accountability.

FUTURE OUTLOOK

Prevailing situation of Pakistan is being surrounded by huge economic, social; and political challenges such as high illiteracy, unemployment, energy crisis and security situation have adversely affected the performance of banking industry. Banking transformation had led to an increase in foreign remittances, and agricultural economy. Banking industry can also play an important role in bringing restoration and recovery of the financial and economic down-turn (Annual Report Allied Bank). A Reconciliation Officer working in one of the branches added that "ABL is also looking forward to launch Islamic banking soon in order to provide banking solutions in compliance with Shariah. The goal is to become the customers' first choice technologically advanced bank to cater customers' everyday banking needs 24x7".

Allied Bank has adopted a strategy of offering quality products and services for satisfying the customers' requirements. Changes are continuous in innovative products and automated services for achieving cost efficiency. The bank is continuously striving to increase its profitability by

enhancing asset quality through effective credit and deposit management while achieving higher performance standards. Continuous improvements and institutionalization of beneficial change is core strategy of ABL

In view of the Chairman, in order to deal with major configurationally variations in economy, inflexible fiscal actions are needed to be taken so that economy will be brought back on way. For the strengthening of economic environment, vocational training institutions must be established and country infrastructure and transportation system must be improved. The bank is proactive in adapting to the changing market conditions and standing to position itself for future growth and development by continuously improving quality of products and services. Launching of Islamic banking operations, having high potential for growth, will prove to be landmark in grabbing the attention of a large customer base.

CONCLUSION

It can be concluded that experience of initial ten years of privatization history had been a issue of trials and wisdom. Moreover, the second phase of privatization of Allied Bank had proved to be fruitful not only for the organization but for the workforce as well thereby achieving greater levels of efficiency and effectiveness. Research studies show that the performance, returns and profitability of the Bank have improved as a result of privatization and restructuring. Before privatization, it had different competitive environment. After being privatized, the Bank had enhanced deposits, pre-tax profit, investments and assets. The shift from public to private ownership led to increased levels of competition among the financial institutions and economic development of country. Employment rate and the income progressed gradually even after shift of ownership and restructuring. The Bank exhibited a slow rate of progress all over the first phase of privatization due to the reason that SBP initially took steps to fix and stabilize the Bank in terms of management. For this purpose the major aim was to conduct timely annual meetings where monitoring issues were resolved. One of the major reasons of slow improvement was privatization through ESOPs, as it caused problems. Certain stakeholders did not show honest efforts as a result of which the Bank could not achieve the desired targets. After such issues the regulators decided to transfer the ownership of the Bank to Ibrahim group of companies.

ABL showed remarkable growth after 2004, as major technological changes and expansion of branch network occurred in that period. Restructuring and business process reengineering had improved Bank's efficiency and productivity thereby satisfying customers' needs and wants. The numbers of NPLs have outstandingly reduced as a consequence of which bank's competitive position; operations and financial strength have increased. The Bank is now regarded as being among top 5 banks of Pakistan and is considered as one of state of the art banks of country. The Chairman (2011), concluded the success of one of the leading financial institutions that: "Bank is persistently heading towards strategic growth, being less exposed in high risk sectors in order to improve corporate governance and business processes so as to enhance efficiency and

effectiveness". Regardless of the unstable conditions, it has successfully managed to stand for future development by retaining customer loyalty. On time service delivery to all domains of customer contact is Bank's strategic goal. Customer services are focused to be continually upgraded in order to enhance customers' service utility. The Bank is committed to serve a diverse range of customers in all segments of the economy. The aim of Bank is to achieve sustainable growth with increased income flow in order to build ability to progress in dynamic and unexpected future events".

The philosophy behind the success of bank is flexibility i.e., the ability to be changed with the changes in external environment. The management recognized the importance of change management and felt the importance of coping with driving forces. The Bank has now effectively created a fit between its operations and customer requirements. It has been found that large scale change i.e., reorganization of Bank involved almost all management levels and subunits. The management managed to bring changes across functional and managerial levels all at once. Hence all functional areas were encouraged to contribute to change process to achieve both vertical and horizontal combination of change efforts. This led to reduced resistance of workforce. In brief the positive benefits of privatization were a consequence of improvements in productivity, optimized investments, efficient pricing, cost reduction and enhanced quality and flexible hiring.

RECOMMENDATIONS

Privatization has been recommended as one of the major sources of economic development and prosperity. A shift towards privately owned entity leads to betterment and quick rewards, efficiency, increased productivity and profitability, enhanced competition, cost reduction. The Bank must have usual coordination with Government of Pakistan and State Bank of Pakistan to encourage reforms in a timely manner so that the Bank's processes meet the requirements of banking policies and regulatory system. This will also help Bank to meet challenges of globalization and changing external environment. The Bank's system should be independent and free from political control. This will assure effective Bank regulation, supervision and scrutiny. It should follow transparent financial reporting systems as a result of which it will to retain higher performance ratings. SBP must play role of financial advisor not a dictator or director.

The top management of should continue to focus on designing best and well incorporated plans to implement organizational change so that challenges of globalization and changes in external competitive environment are met. In banking system especially in regard of ABL, the reorganization and restructuring programs should be planned to further strengthen technological and automatic systems for long term sustainable gains. Effective planning and strategy formulation for BPR will lead to achieve goals of cost reduction and improved quality and efficiency. Sophisticated and novel technological measures must be introduced timely so that customers' requests and demands are met efficiently. Change management is an activity that takes place at each

macro and micro level of an organization, hence, all levels of management must be involved in change process.

Cultural and workforce resistance are major issues in change process. The speedy nature of change in the banking system, driven internal and external factors, had an important effect on banking operations. This enhances the role of human resource to create an alignment between functions of HR department and change process implementation to achieve desired goals. The resistance inherent in change process can be reduced by providing incentives reward desired behaviors and efforts of individuals involved in change process.

REFERENCES

- [1] Ahmad, N. (2005). A study on privatization of Pakistan with reference to banking sector. *Preston University*, Islamabad.
- [2] Shah, A., Jhatial, A., Ghumro, A. & Shah, N. (2012). Privatization of banks in Pakistan: A case study on allied bank. *Interdisciplinary Journal of Contemporary Research in Business*, 4(1).
- [3] Hussain, I. (2004). Policy considerations before bank privatization, country experience. *Presented at the World Bank, International Monetary Fund and Brookings Institution, Conference on "The Role of State-Owned Financial Institutions: Policy and Practice"*.
- [4] Goher, F., & Rehman, W. (2012). A review of privatization policies in Pakistan. *Interdisciplinary Journal of Contemporary Research in Business*, 3(9), Institute of Interdisciplinary Business Research.
- [5] Hussain, I. (2013). Pakistan's economy 1999/2000-2007/2008, an objective appraisal business review Jan-June, 2009-IBA, accessed from: http://www.documents.pk/docs/detail/-pakistan-s-economy-1999-2000--2007-2008-an-objective-appraisal-business-review-jan-june-2009---iba_9181
- [6] Javaid, S., Anwar, J., Zaman, K., &Ghafoor, A. (2011). Determinants of banks profitability in Pakistan: International factor analysis. *Journal of Yasar University*, 6(23).
- [7] Javaid, S., Anwar, J., Zaman, K., &Ghafoor, A. (2011). Determinants of banks profitability in Pakistan: International factor analysis. *Journal of Yasar University*, 6(23).
- [8] Khan, B. (2010). Privatization of banks and its impact on customers: A case study of MCB & ABL. Administration, Gomal University, Dera Ismail Khan N.W.F.P. Pakistan.
- [9] Shah, A. (2012). A comparative study of allied bank of Pakistan and muslim commercial bank of Pakistan in pre and post privatization era. *Interdisciplinary Journal of Contemporary Research in Business*, 4(1).
- [10] Hussain, I. (2004). Policy considerations before bank privatization, country experience. *Presented at the World Bank, International Monetary Fund and Brookings Institution, Conference on "The Role of State-Owned Financial Institutions: Policy and Practice"*.
- [11] Hussain, I. (2004). Policy considerations before bank privatization, country experience. *Presented at the World Bank, International Monetary Fund and Brookings Institution, Conference on "The Role of State-Owned Financial Institutions: Policy and Practice"*.

- [12] Javed. A. (2011) Allied bank signs agreement with Multinet, accessed from: <http://propakistani.pk/2011/04/21/allied-bank-signs-agreement-with-multinet-for-its-nationwide-branch-network/>
- [13] Khan, B. (2010). Privatization of banks and its impact on customers: A case study of MCB & ABL. Administration, Gomal University, Dera Ismail Khan N.W.F.P. Pakistan.
- [14] Hussain, I. (2013). Pakistan's economy 1999/2000-2007/2008, an objective appraisal business review Jan-June, 2009-IBA, accessed from: http://www.documents.pk/docs/detail/-pakistan-s-economy-1999-2000--2007-2008-an-objective-appraisal-business-review-jan-june-2009---iba_9181
- [15] Ahmad. N. (2005). A study on privatization of Pakistan with reference to banking sector. *Preston University, Islamabad*.
- [16] Gul, B., Marwat, K. B., Saeed, M., Hussain, Z., & Ali, H. (2011). Impact of tillage, plant population and mulches on weed management and grain yield of maize. *Pak. J. Bot*, 43(3), 1603-1606.
- [17] Ahmad. N. (2005). A study on privatization of Pakistan with reference to banking sector. *Preston University, Islamabad*.
- [18] Nazir, M. S., & Alam, A. (2010). The impact of financial restructuring on the performance of Pakistani banks: A DEA approach. *IUP Journal of Applied Finance*, 16(1).
- [19] Abbas, K., & Malik, M. H. (2008). Impact of financial liberalization and deregulation on banking sector in Pakistan, *The Pakistan Development Review*, 287-313.
- [20] Khan, S. R., & Aftab, S. (1993). Assessing the impact of financial sector reform on Pakistan's economy. *Sustainable Development Policy Institute*.
- [21] Dawn News (2003). Allied bank may go to professional bidder, 5 July.
- [22] Aazim. M. (2001). Loan defaults down to Rs169 billion: Banks recover Rs2.6bn, *Dawn News*, 11 Nov.
- [23] Forexpk, (2011). Allied bank limited: Analysis of financial statements financial year 2005 - 1Q financial year 2011. *The Category of Kalpoint*, 23 May, accessed from: <http://finance.kalpoint.com/highlights/corporate-news/bank-allied-bank-limited-analysis-of-financial-statements-financial-year-2005-1q-financial-year-2011.html>
- [24] Dawn News (2004). Two banks in run to buy 51pc ABL shares, 12 Feb.
- [25] Mahmood. J. (2004). WB to finance cost of restructuring of 3 banks: Revamping is estimated to have cost Rs 2, *Daily Times*, 8 July.
- [26] Mahmood, J. (2004). ABL sell-off on better terms likely, *Daily Times*, 8 July.
- [27] Allied Bank Privatization. (2013). Takeover of allied bank limited by ibrahim group: A case study.
- [28] Mukhtar, N. (2014). Interview with Chairman Mr Naeem Mukhtar.
- [29] Daily Times (2003). Bids invited for majority stake in Allied bank. *Dow Jones Newswire*, 9 July.
- [30] Allied Bank Media Center. (2013). News archives, accessed from: <https://www.abl.com/media-center/news-room/>
- [31] Allied Bank Limited Annual Reports 2005, 2008 and 2013.
- [32] OB Allied Project Pakistan. (2011). Important statistics about ABL Employees, accessed from: <http://lokoi.blogspot.com/2011/12/ob-allied-project-pakistan.html>
- [33] Aazim. M. (2002). Banks cut deposit rates in July-March, *Dawn News*, 4 May.
- [34] Faraz (2009). An overview of the banking industry of Pakistan. *Pakistan Banking Sector*, accessed from: <http://www.scribd.com/doc/18676156/Pakistan-Banking-Sector>
- [35] Dawn News (2004). A review of banking sector performance, 23 Aug.
- [36] Zigiariis, S. (2000). Business process re-engineering BPR. *Report Produced for the EC Funded Project--INNOREGIO: Dissemination of Innovation and Knowledge Management Techniques*
- [37] Staff Report. (2004). ABL's 75% shares get highest bid of Rs 14.2b, *Daily Times*, 24 July.
- [38] Dawn News (2013). Recently in the same year 2013, government of Pakistan is going to adopt a new style of privatization by selling shares and assets through stock exchange in order to attract private investors, 23 Jan.
- [39] Astaa Technologies (2007). Security & surveillance solutions provider, *Success Stories Allied Bank FLimited*, accessed from: <http://www.astaa.com/index.php?page=solution-partners>
- [40] Khurshid, K. (2010). Annual report 2010, Allied Bank Limited, accessed from: <http://www.scribd.com/doc/56996296/Annual-Report-2010>
- [41] Download Reports (2011), accessed from: <http://www.download-reports.blogspot.com/2011/10/allied-bank-limited-internship-report.html>
- [42] Khalid, U. (2006). The effect of privatization and liberalization on banking sector performance in Pakistan. *SBP Research Bulletin*, 2(2), 403-425.
- [43] Brickcom IP cameras offer Pakistan bank centralized surveillance solution, accessed from: http://www.brickcom.com/solutions/successful-case_detailview.php?id=9
- [44] Business Process Reengineering Knowledge Center, (1992). Davenport's 5 step approach to business http://www.i2manage.com/methods_bpr.html
- [45] Condensed Interim Financial Statements for the nine months ended September 30, 2013, (2013), accessed from: https://www.abl.com/?p=1781&downloadfile=483&cat_id