A Case Study of National Bank of Pakistan: From 2007 To 2016. (Some Managerial and Financial Aspects)

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Abstract

National Bank of Pakistan is one of the largest commercial banks in the country. This case study is a general review of the managerial and financial aspects of the bank. The leadership structure and board size are considered as a variable of management side and pre-tax profit and earnings per share are used as financial variables. Some figures extracted from the annual reports are provided as the evidence of what happened in the respective year. From year 2007 to 2016 leadership structure of national bank of Pakistan change from dual leadership structure to non-dual and again to dual. Also in the past decade the bank hits its financial height in 2016 but it also touches the bottom in 2013. This review concluded that the developing country like Pakistan needs to have a strong judicial and regulatory authority. Also the non-dual leadership structure can be more profitable and board size should be at least average if not large.

Keywords: management; leadership structure; national bank

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BACKGROUND OF NBP:

Pakistan's leading commercial bank NBP was established in November 1949 under the National Bank of Pakistan Ordinance 1949. The main purpose of establishment of National Bank of Pakistan was to manage and deal with the economic crises happening in the newly born country. Its first branches were in Karachi and Lahore, and now Karachi branch is headquarter of the bank. Its importance in the economic growth of the country can be seen through the fact that it works on the behalf of State Bank of Pakistan in the areas where they have no branch of their own. The nature of the Bank is different from other commercial banks of the country due to its different and unique functions.

Currently, the extensive branch network of National Bank of Pakistan is spread in 20 different countries, having 21 foreign branches and 1448 domestic branches. Also has a joint venture with United Bank Limited, in UK as untied National Bank Limited (UNBL), and 2 international (Kazakhstan, Tajikistan) and 6 national subsidiaries operating. These international branches and subsidiaries have presence in Far East, Middle East, South Asia, Central Asia, Europe and North America.

National Bank of Pakistan is a government owned organization. It is listed in Pakistan Stock Exchange (formally known as Karachi stock exchange), IPO of bank were first issued in 2001, when government sold 10 % shares to general public. Again in 2002, 10% stake was sold to general public. Till the end of September 2016, 75.6 % was retained directly or indirectly by the Government of Pakistan.

Pakistan being a developing country has some issues in its financial markets. As the characteristics of financial markets differ in developed and developing financial markets on the basis of different social, economic and regulatory conditions. Emerging financial markets of developing countries have weak judicial and regulatory authorities, shareholding is concentrated, market is little inefficient in providing information to the investors on time, market transparency is questionable. Pyramidal and cross-shareholding, illiquid capital

markets and ineffective regulatory authority are also features of these markets (Rashid & Islam, 2008; Allen and Gale, 2001)

FUNCTIONS OF NBP:

National bank of Pakistan is a commercial bank providing the following services to make it easy of their customers:

They have Modarba management, broking, leasing, foreign exchange remittance, exchange transactions, asset management, and investment advisory facilities.

Now as Islamic banking is a new side of this field, NBP provides Islamic banking facilities and trustee services to show they are in accordance with the current era of advancement.

Value of the firm is affected by so many factors. Here only few factors are discussed leadership and board size in management perspective and pre-tax profit and EPS in financial perspective.

Performance of NBP from 2007-2016:

NBP	Board Size	Leadership Structure	Pre-tax Profit	Earnings per share
2007	8	Dual	6.6 % inc	11.6 % inc
2008	7	Dual	18.9 % dec	18.9 % dec
2009	5	Dual	3 % dec	18 % inc
2010	4	Dual	15 % inc	No change
2011	4	Dual	7 % inc	0.3 % inc
2012	6	Dual	17.8 % dec	14.9 % dec
2013	9	Non-dual	66.8 % dec	63.1 % dec
2014	8	Non-dual	214.2 % inc	172.5 % inc
2015	8	Non-dual	50.9 % inc	27.9 % inc
2016	8	Dual	11.7 % inc	18.3 % inc

*Percentages not given in the annual reports are calculated approximately.

2007:

Leadership structure is an important factor that affects the value of the firm. CEO of board is a vital part of company's board of directors. CEO is responsible for all board related decisions as well as this position is a bridge between top management and board. CEO creates investor friendly provisions for existing shareholders as well as to attract some other major shareholders. (Rashid & Islam, 2008). Morse et al., (2010) showed a positive significant relationship between CEO duality and firm performance.

In 2007, leadership structure of NBP was dual with Syed Ali Raza being the chairman and president of board of directors. There were seven other board members in addition to the chairman/president, which is optimal board size. Board of a firm having eight members is an average board size in the developing country like Pakistan (Zaheer, 2013). The board of directors can play an important role in improving corporate governance and the value of a firm (Hanrahan, Ramsay and Stapledon, 2001).

2007 was a good year for NBP as it was the year of highest profit in its history till this year. 6.6% increase in pre-tax profits, 11.6 % increase in earnings per share (NBP 2007, p. 26) was recorded in the annual statement to 2007. Also the ROE was amongst the highest in the Asian Banking industry. This was a great year for NBP in financial as well as management's perspective.

2008:

Leadership structure remained same as Syed Ali Raza was the person holding two important positions. Board size decreased from eight members to seven members with the resignation of Azam Faruque. Seven members in a board is still an optimal board size for a country like Pakistan.

Financially it was not a very good year for NBP as the pre-tax profit and earnings per share decreased by 18.9 %. (NBP 2008, p. 18). Pre-tax profit decreased with the decrease in earnings per share decreased in 2008. But this decreased was mostly due to the high inflation of this year, as recorded in financial statement of 2008.

*All figures extracted from the annual report of the respective year.

2009:

The leadership structure remained same as it was last year. But the board size kept on decreasing as number of members decreased to five. Smaller board is not favorable as explained by the agency perspective especially in a developing country like Pakistan where the judiciary and regulatory is weak and chances of frauds are more in such economies. The smaller boards have less level of vision and skills which can enable the CEO to dominate the board and make irrational decision harming the shareholders' value.

Also, CEO duality lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his own interest at the cost of the shareholders (White and Ingrassia, 1992).

2009 was the 60th year of operation of National Bank of Pakistan. Despite having a challenging year the earning per share increased by 18%. The pre-tax profit decreased by 3 % in this year of extreme terrorism and the negative impact of international economic meltdown started in 2008.

2010:

The president/chairman of the board of director was changed and the new person for this position was Qamar Hussain. The size of board was further decreased to only three other members excluding the chairman/president. Having this small board in a developing country like Pakistan is not so wise for a large commercial bank like NBP. A larger board has a range of expertise to make better decisions for a firm as the CEO cannot dominate a bigger board because the collective strength of its members is higher and can resist the irrational decisions of a CEO as suggested by Pfeffer (1972) and Zahra and Pearce (1989).

Year 2010 was a very important year for NBP because they crossed One Trillion Rupee' mark and became the first financial institution in the country to do so. Pre-tax profits increased by 15 % whereas the earnings per share remained same (NBP 2010, p. 21)

*All figures extracted from the annual report of the respective year.

2011:

The leadership structure of NBP was dual in this year too. After Syed Ali Raza staying the president of the bank for more than ten and a half years, Qamar Hussain was the new person handling the important position as the acting president/chairman of the bank. Syed Ali Raza's tenure was a very beneficial for the bank as it hits the maximum profit in his years of service. Board size was small with only three other directors in it. Three person board is a very small size which is highly risky in a developing country like Pakistan. Pre-tax profit increased by 7% this year, and earnings per share improved slightly from 10.44 in 2010 to 10.47 in 2011 with only 0.3 % increase. (NBP 2011, p. 31)

2012:

The leadership structure remained same but the person holding the important position was changed. New president/chairman was Dr. Asif A. Brohi replacing Qamar Hussain, the acting president appointed in January 2011. Number of members of the board increased to five members excluding the president/chairman. With this increase in board members, the size of board of directors was again on the track of being an optimal size of board in the entity of developing country. Pre-tax profit decreased 17.8 % with the 14.9 % decrease in earnings per in 2012.

The leadership structure in National Bank of Pakistan remained dual from 2007 to 2012. Fama and Jensen (1983) argue that CEO duality in a firm favors the underperforming CEO as it is difficult for the board to remove them. The argument is confirmed by Goyal and Park (2002) who suggest that a person holding both the top positions is contrary to corporate governance principles and affects the value of a firm in a negative manner as the board cannot discipline the CEO.

*All figures extracted from the annual report of the respective year.

2013:

As a single person holding both positions was not so favorable in the developing country like Pakistan, NBP after experiencing some frauds relating to this change the leadership structure. As argued by many supports of non-duality, supervision level is minimal with only one person as the head especially in developing countries. Angela (2011) argued in the favor on non-dual structure as two different persons working for two different positions is very favorable for firms. The leadership structure changed from dual structure to non-dual structure. Muneer Kamal was the new chairman of the board while the president of the same board was Syed Ahmed Iqbal Ashraf. In the annual report 2013 of NBP this huge decrease was due to the provision charge of PRs. 20.4 billion.

The board of directors in the developing market are unlikely to improve the value of a firm, as the weak judiciary and regulatory authority in this market enables the directors to be involved in biased decision-making that serves the interests of the majority shareholders and the politicians providing a disadvantage to the firm (Asian Development Bank, 1997). The new conceptual framework is based on agency theory and suggests a negative relationship between the value of a firm and CEO duality as the board cannot control the CEO who is also the leader or Chairman of the board. (Rashid and Islam, 2013).

But it can also be due to the corruption case of PRs. 18 billion. Although the ex-president of the bank left the bank in January 2011. But some blogs reported that they did corruption from 2003 to 2012. As argued by the NAB prosecutors audit report of 2012 showed some irregularities. This not-so-good year for NBP financially. Pre-tax

profits substantially decreased from 21.4 billion to 7.1 billion with 66.8 % change and earnings per share was low than ever 2.59. (NBP 2013, p. 8)

2014:

The leadership structure of NBP remained same as it was in 2013. Non-dual leadership structure was going so in favor of the bank as explained by literature that developing countries should have non-dual leadership structure as it will have more check and balance. Being a good year financially for NBP the pre-tax profits of the bank increased to 22 billion in 2014 to 7 billion in 2013 with 214.2 % change while the Earnings per share also increased 172.5 % from Rs. 7.06 in 2014 against Rs. 2.59 last year (NBP 2014, p. 48).

*All figures extracted from the annual report of the respective year.

2015:

Leadership structure remained dual with eight members in the board. Financial performance of NBP was remarkable in this year. The pre-tax profit increased from 22 billion in 2014 to 33.2 billion in 2015. This was a huge success for NBP after having a year like 2013, as quoted by annual report 2015 "this was a complete turnaround by year 2013." Earnings per share also increased to Rs. 9.03 (NBP 2015, p. 73)

2016:

The leadership structure changed from non-dual to dual again with new president/chairman Masood Karim Shaikh. The board size remained eight. NBP is on the highest in the financial state with the 11.7 % increase in pre-tax profit of 37.1 billion. Earnings per share increased 18.3 % to 10.69 in this year (NBP 2016, p. 73). Year 2015 and 2016 are years of huge success in terms of financial state as well as the managerial aspect of the NBP.

*All figures extracted from the annual report of the respective year.

CONCLUSION:

From year 2007 to 2016, NBP's performance fluctuated as it hits bottom in year 2013 and reached at the top in 2016, by earning the maximum in the banks history. As in developing country like Pakistan, small board size deteriorates firm's performance as happened in the case of NBP. The size of the board was as small with only three members in the entire board, which is an easy way of the chairman/president to dominate such small number. Also this small case study showed the weak regulatory and judicial authority of a developing country Pakistan, not handling the corruption case well. Even though the audit report of 2009 showed irregularities no action was taken against it due to the political background of the people involved in this corruption case, which made the bank hit the bottom in year 2013.

Financial market of Pakistan needs to be more market efficient, liquid and transparent to make firms more successful. Also the judiciary and the regulatory authorities needs to be more powerful and free from any influence of politics to make fair decisions.

Firms in the developing country like Pakistan needs to have dual leadership structure to have a person to keep a proper check and balance on the activates of the firm, and if not larger at least an average size board is needed to made decisions favorable to firms conditions and not in the favor of one or two individuals.

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