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## **Strategically Alliances and Distinction Competitions: Study on Profitability Analysis: A Case of Al-Sahara Libyan Bank & BNP Paribas French Bank**

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**Abstract.** The enterprise who wish to continue in business should adopt the system of cooperation with other organizations engage in the activity, which assist it in achieving its aims and in achieving the objectives of economic institutions collaborating , the Utility is mutual in this case, because the common interest that emphasizes the need for cooperation.

The strategic alliance between economic option that promotes growth and development by allowing pooling capacities and competencies of allied economic organizations, this study and evaluation of its Profitability activities became important so as to ensure its efficiency and effectiveness. Where, the Profitability activity is one of the most important activities, which ensure the significant reason for the importance of evaluation. The research aims to study and analyze the Profitability which be applied at one of the commercial banks that operating in Libya (Sahara Bank), after entering into a strategic alliance with the French bank (BNP PARIBAS ).

The main results of the study followed: a) the lower on the value of profits, the financial position and deposit certificates . b) there is a decline of dealing with the loss of important elements customers for lack of confidence in the foreign partner.

**Keywords:** profitability, strategic alliance, enterprise, competition, commercial Banks.

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## 1. Introduction

The development of Commercial Banks has been occasioned by the economic needs & circumstances of already highly developed and of developing countries and has played a major part in their economies.

Banks have, over the years, provided a range of services and played many different and effective support roles. Undoubtedly their development, evident when examining the achievements of certain Banking Institutions, illustrates this and highlights the growing volume of Banking services. The quality of their services and the new fields into which they are moving are an indication of this.

Indicators include:

- The large and increasing numbers of staff and Branches.
- The varied and increasing sources of money.
- Money being directed increasingly at planning services.

The large increase in principle of excess fluidity by the Banks to secure their Financial position.

By applying and adopting a similar strategy and replicating these structures the Libyan Central Bank set out to develop and also to renew the Libyan Banking sector with the aim of raising the services offered to the level offered in world banking. At the same time it tried to develop the Libyan Financial Services Sector and to revitalise Trading Banks to provide opportunities for opening up the Libyan Banking and Financial Markets to all Libyan and Foreign Investors.

To date the most important change in the Financial and Banking sector in Libya has been the sale, in September 2007, of a majority shareholding in the Al-Sahara Bank, the second largest Libyan Bank, to the International Banking Group BNP Paribas.

**Al-Sahara Bank** / an International Libyan Trading Bank with more than 1,630 staff and with the largest capitalisation of all Libyan Banks (126) Million Libyan

Dinars, of which about 17% are in loans and 22% on deposit at the market rate. Customers hold accounts in Branches and Banks There are 49 Agencies throughout Libya. The number of customers is approximately 300,000, including major Libyan & foreign companies and as well as private sector investors.

**BNP PARIBAS Bank** / Is one of the largest European Banks in the fields of Dealing and International Banking and Financing Services, and is ranked amongst the top five Banks in the World Banking sector according to evaluation by Standard & Poor's. The Bank offers services in more than 85 Countries and has 155,000 staff, 123,000 of whom work in Europe. The Group are actively involved in three major fields -Financing, Banking Investment, Stock and Services management, Banking partitions. (One of the best examples market is in local dealing is the French Market and Italian Market) BNP Paribas enjoys an important position in the United States as well as in Asian and developing Countries.

In this context, the purpose of this study is to investigate What are the advantages and benefits to both, Al-Sahara Bank and BNP Paribas Bank, from this Alliance? By identifying the main financial indicators to evaluate the profitability of the bank.

This paper derives a importance from the important strategic alliances and their role in fostering relationships and opportunities available to the national economy and to open local Markets to World Markets, From here the importance of the study of the strategic Alliances between Al-Sahara Libyan Bank and the French BNP Paribas Bank.

## **2. Literature review**

The literature has identified several problems with research in the strategic alliances does not receive adequate attention so far in Libya. These problems can

be classified into two categories: a) and related aspects, which include the definition of strategic alliance alliances strategic concept and its importance, the axes of the strategic alliance, second financial indicators as tools to assess the profitability of the bank which includes the performance assessment and evaluation of some aspects of the credit bank. This section will review some of the evidence on the effects of these problems on the policy of economic openness and liberalization from Libya at present and to remove restrictions on investment private banks, domestic banks need to keep abreast of developments.

## **2.1 Strategic alliance**

### **2.1.1 The concept of strategic alliance**

Can provide the strategic alliance that option to resort to economic institutions to ensure support additional in the course of its activity, as can no longer economic institutions today rely solely on the endogenous capacity due to increased competition(Hussein, 2008), and acceleration, great in the product life cycle, and increased unity of tradition.

Strategic Alliance expression of unspecified, definitions variety and need to be accurate, and due to the newness of the phenomenon and its impact on the economic situation of the organizations.

### **2.1.2 Definition of the strategic alliance and its importance**

the strategic alliance expression is specific, definitions variety and need to be accurate, and due to the newness of the phenomenon and its impact on the economic situation of the organizations.

He knew the strategic alliance that "the pursuit of two or more towards the formation of mutually complementary relationship" (Ahmed, 2000).

Also known as the "organizational arrangements and policies allow the institution to process and separate companies to be one flesh and participate in the administrative authority in the contracts and in knowledge" (Abdel Hamid, 1999).

And another known as "a joint venture in the form of a partnership between an international company and other establishment in the host country" (Thomas& Marsa, 1990) .

Accordingly Alliance Strategic allows substituting cooperation replaced competition, and this is what allows organizations to exploit their capabilities available to achieve a common goal, and that instead of adopting style competition, which may lead to the exit of one of the institutions of the market, alliance leads to the control of the risks and threats, and allow alliances institutions to participate in the earnings and benefits and gains tangible and intangible.

The term alliance can take several meanings and words, including: cooperation, solidarity, coordination, participation in achieving a specific goal, or goals, teamwork, accompaniment.

It is not enough to express the importance of the alliance unless marked strategy, because the process of coalition is not something transient and a desire to work with others, but also represents a coalition holistic view of multiple dimensions allow the institution to realize the awaited targets well aware, and identifies the necessary means to achieve this, the alliance's strategic is real support for allied institutions to continue activity and expansion in the future.

### **2.1.3 Axes strategic alliance**

Strategic Alliance is a relationship of strength or authority relationship or a relationship negotiate, and is based around three main axes (Fred, 1999):

A / project: and is a vision of a common, means the process of the investigation strategy mobilizes its various resources (natural assets, human potential, technological skills, knowledge in the field of marketing ...) in order to achieve common interests in the project.

And the partners associated with each other regarding joint activities and independent in their own activities that fall outside the alliance relationship. Process and ensure control of the agreed activities SAI placed for this purpose, and the decision is made jointly on results and mutual benefits in the project.

B / relationship: it is what creates among dealers in both ends of the Alliance of special relations (physical and human) is based on communication and exchange of information in order to discuss common goals of medium-and long-term benefit replica on all parties to the coalition.

C / Contract: The institutions that aim to create a coalition binding contracts taking into account the legal aspect, which represents a whole bunch of treaties and conventions to which gain legal force, which helps the continuity of the alliance to the long-term.

## **2.2 Financial ratios as tools to assess bank Profitability**

The importance of evaluating all aspects of banking Profitability is to ensure the continued growth and success of the banks and employ the financial ratios and financial analysis tools in the assessment of different types of activities, and it is able to identify the strengths and weaknesses in how to perform these activities as follows:

a. Performance Assessment: Performance assessment can be defined as to ensure efficient use of available resources, and to verify implementation of planned targets (Abu-Alfutuh, 1995) and can be defined also as (a study and analysis of the strengths and weaknesses in the delivery of activities, both at the

level of the individual or organization or any of its parts (Abdel Salam, 1995), there is no doubt that the Bank needs to assess its performance in various activities to ensure efficiency and success.

b. Appraisal for some aspects of Profitability bank: Using financial ratios to identify strengths and weaknesses in the area of banking Profitability, and there are several financial ratios to assess various aspects of bank Profitability.

Financial ratios can be define as (monetary relationship between two variables, one extending and another denominator, it shows the share of units place the numerator (Abu- Alfutuh, 1994), can be define as the relationship between the two, and this relationship has no value, as compared to the other ratios, agreed, so called for the agreed reference, or industry to which it belongs (Walid, 1994).

### **3. Methodology**

In this paper, a part of the research will focus on the percentages that related to the aspects of profitability, In order to analyze in a more systematic way, this section uses some tools to identify the factors that may significantly contribute to explaining differences in performance of the Sahara bank in Libya.

#### **3.1 Analysis tools**

The next subsection explains in detail the methodology employed. In this paper the researcher can be able to introduce a percentage related to profitability:

##### **3.1.1 Profitability ratios**

Commercial Bank seeks to maximize the wealth of the owners, and this is linked to its ability to make profits, it is evident that reflected the good employment positively on profitability ratios, and progressive trends of financial ratios

banking investments efficiency means employed by his bank, one of the most important ratios this group:.

1. The rate of return on equity to ( Al-dessouki, 1994) =  $\text{Net profit before tax} / \text{equity} \times 100$
2. The rate of return on deposits (Mounir, 1996) =  $\text{Net profit before tax} / \text{deposit three types} \times 100$
3. The rate of return on funds available =  $\text{Net profit before tax} / \text{three type of deposit} + \text{Shareholders' equity} \times 100$
4. Proportion of profitable lending (Al-dessouki, 1994) =  $\text{Interest received from loans} / \text{total bank revenues as a whole} \times 100$
5. The percentage of loans in the total interest received (Al-dessouki, 1994) =  $\text{Loans} / \text{total interest received} \times 100$

This percentage represents how the contribution of interest rate received from loans to total income for the Bank.

## **4. Results and discussion**

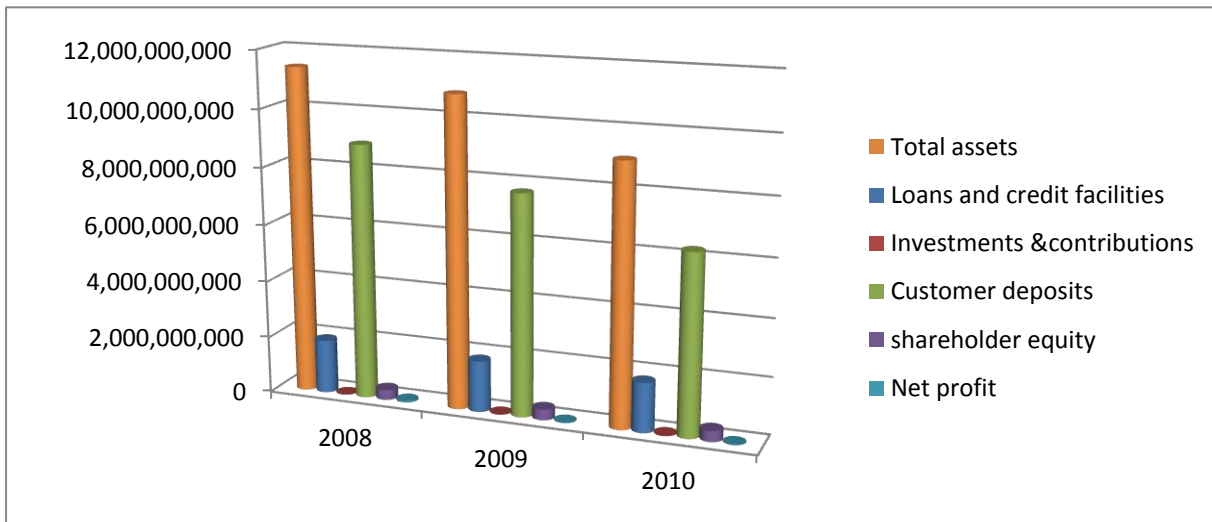
### **4.1 Empirical results**

#### **4.1.1 Analysis of the financial position of the Bank**

Sahara Bank achieved at the end of the year 2010, net operating profit before net of provisions amounted to 23.0 million Libyan dinars, compared with a net operating profit amounted to 65.7 million Libyan dinars for the past year 2009.



Statement	Years		
	2008	2009	2010
Total assets	11,388,091,613	10,811,227,145	9,044,968,336
Loans and credit facilities	1,902,654,593	1,811,909,195	1,750,596,053
Investments & contributions	18,825,000	18,500,000	28,984,800
Customer deposits	8,910,589,010	7,714,940,139	6,295,097,537
shareholder equity	363,414,893	381,783,893	386,886,726
Net profit	56,277,251	20,582,498	23,017,700

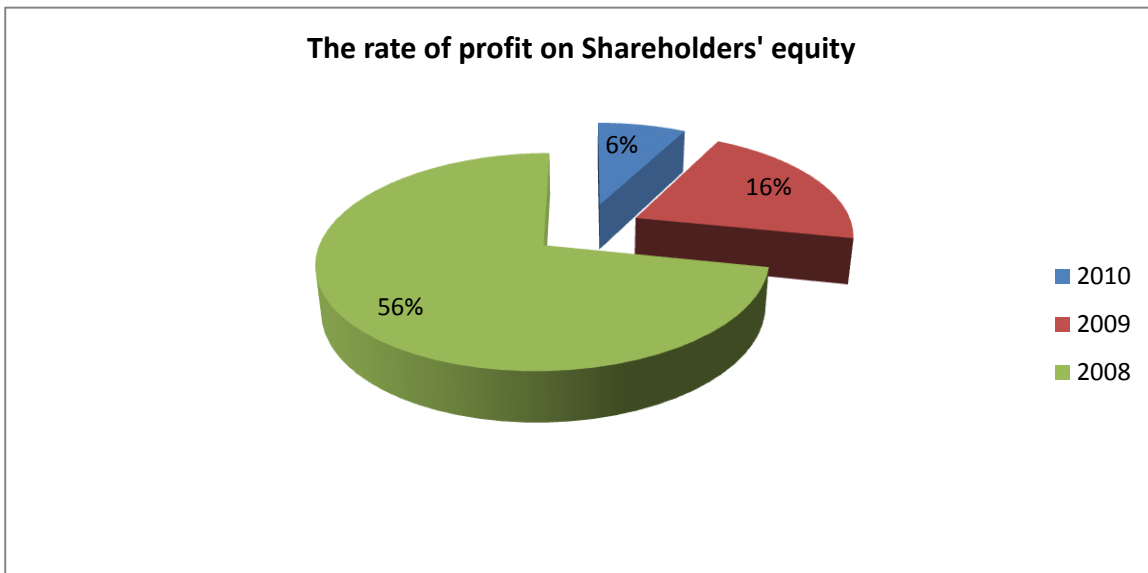
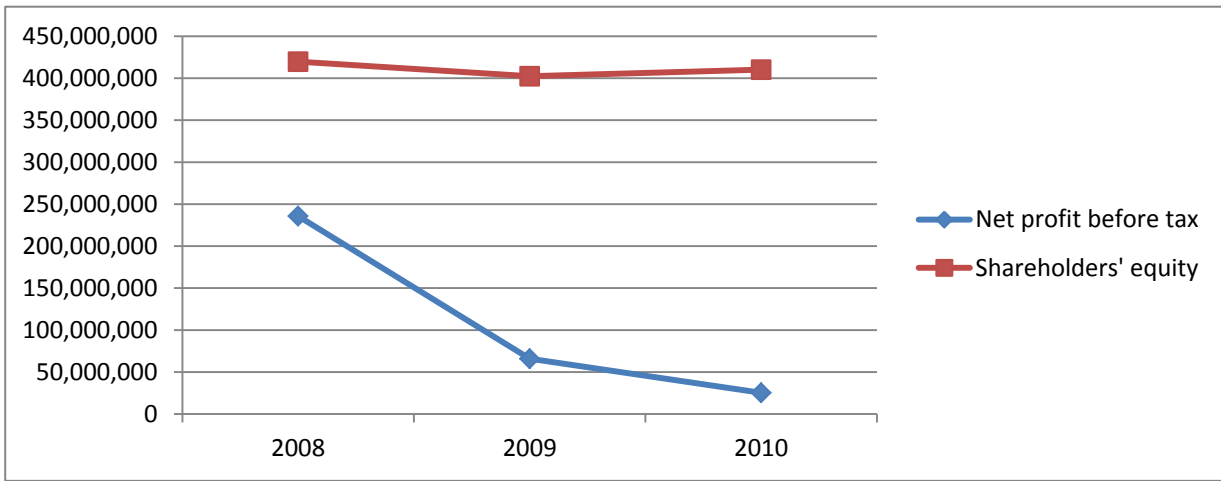


**4.1.2 Profitability ratios:**

- I. The rate of return on equity to ( Al-dessouki, 1994) =  $\frac{\text{Net profit before tax}}{\text{Shareholders' equity}} \times 100$

Figure No. 1 shown The rate of profit on Shareholders' equity.

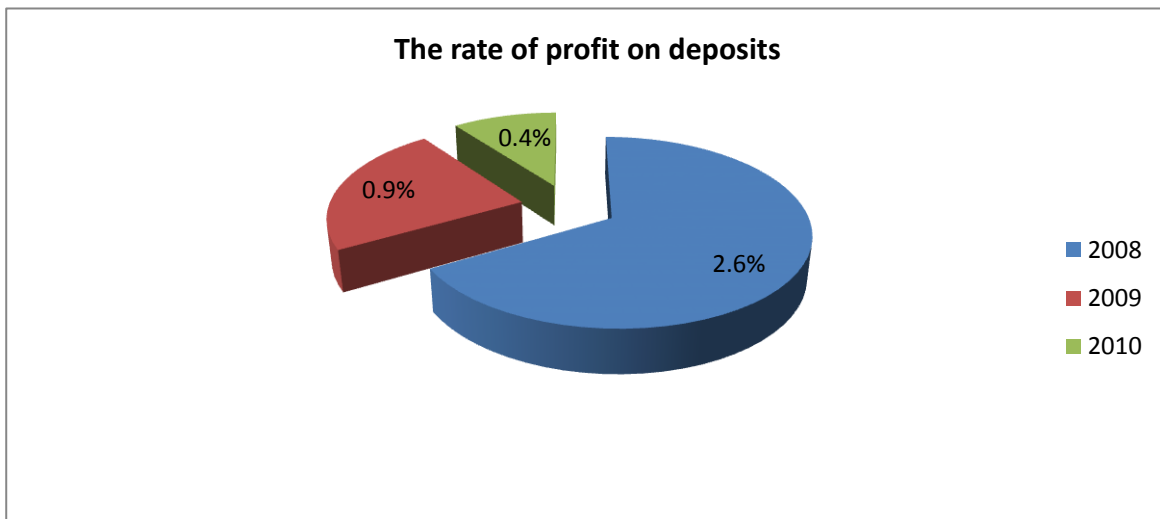
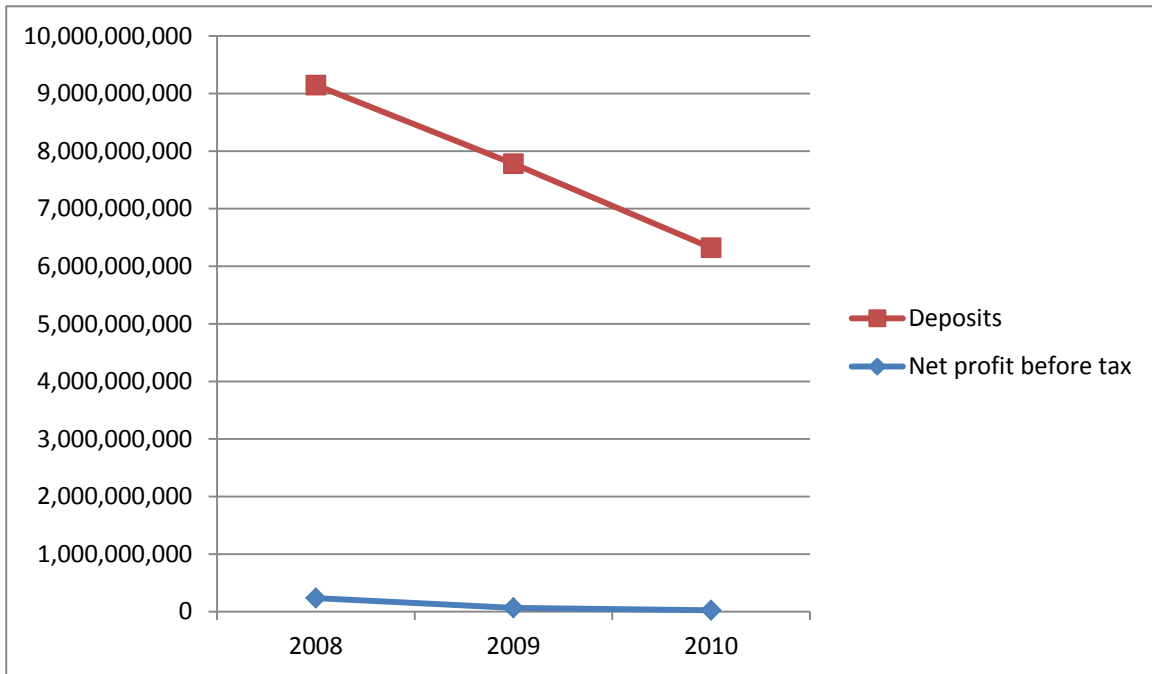
Statement	2008	2009	2010
Net profit before tax	235,742,414	65,791,438	25,272,719
Shareholders' equity	419,809,728	402,482,226	410,164,759
P.C	56%	16%	6%



II. The rate of return on deposits (Mounir, 1996) = Net profit before tax / deposit three types x 100

Figure No. 2 shown The rate of profit on deposits .

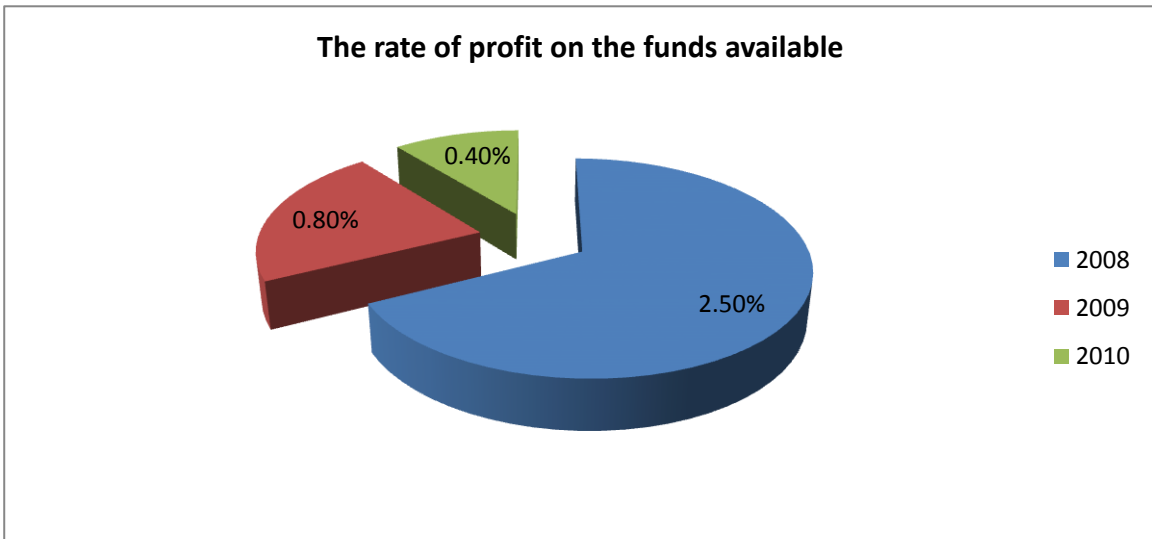
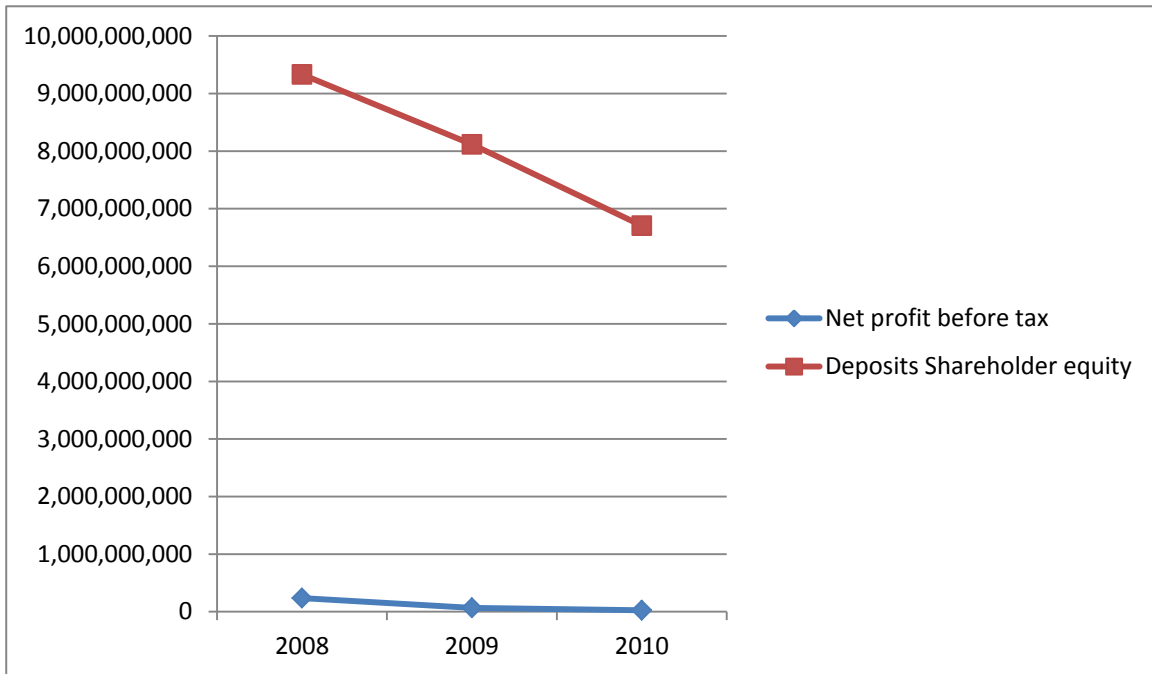
Statement	2008	2009	2010
Net profit before tax	235,742,414	65,791,438	25,272,719
Deposits	8,910,589,010	7,714,940,139	6,295,097,537
P.C	2.6%	0.9%	0.4%



III. The rate of return on funds available =  $\frac{\text{Net profit before tax}}{\text{three type of deposit} + \text{Shareholders' equity}} \times 100$

Figure No. 3 shown The rate of profit on the funds available.

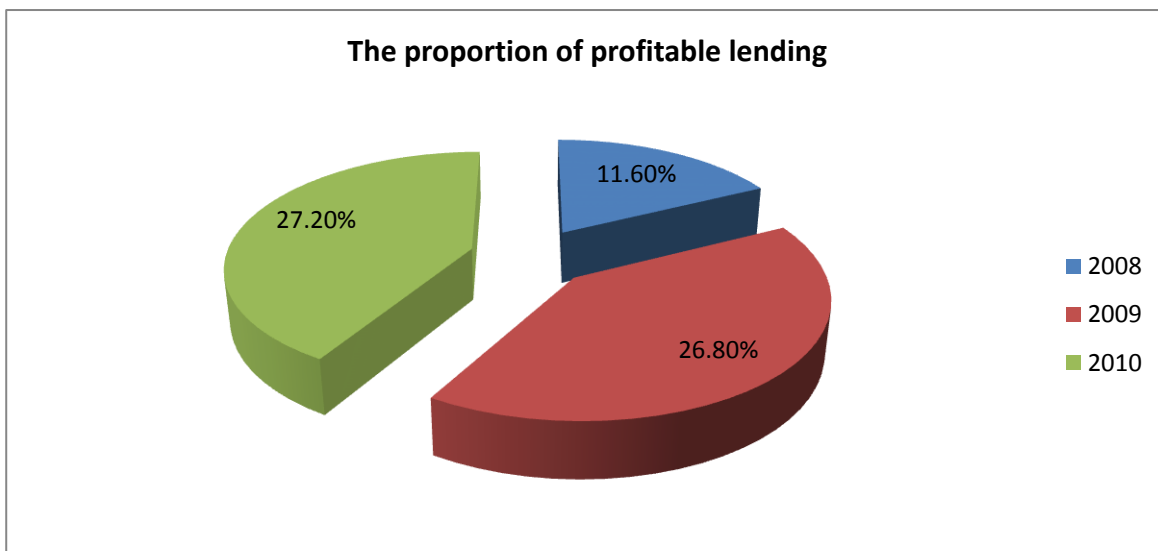
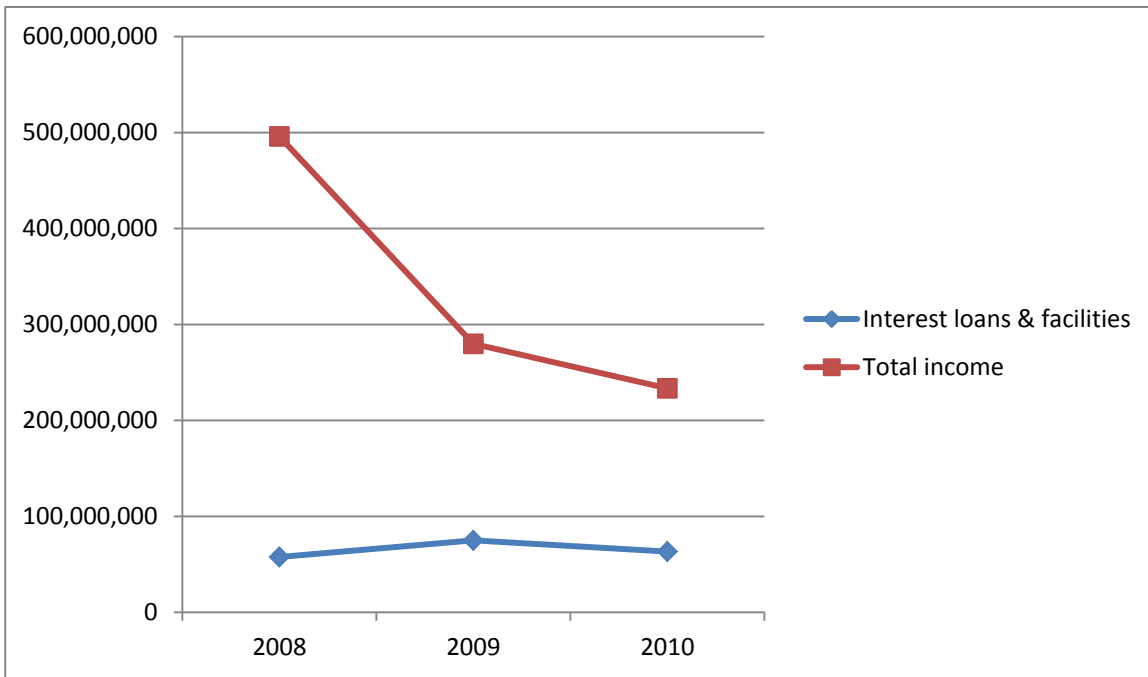
Statement	2008	2009	2010
Net profit before tax	235,742,414	65,791,438	25,272,719
Deposits+ Shareholder equity	9,330,398,738	8,117,422,365	6,705,262,296
P.C	2.5%	0.8%	0.4%



IV. Proportion of profitable lending (Al-dessouki, 1994) = Interest received from loans / total bank revenues as a whole x 100

Figure No. 4 shown The proportion of profitable lending.

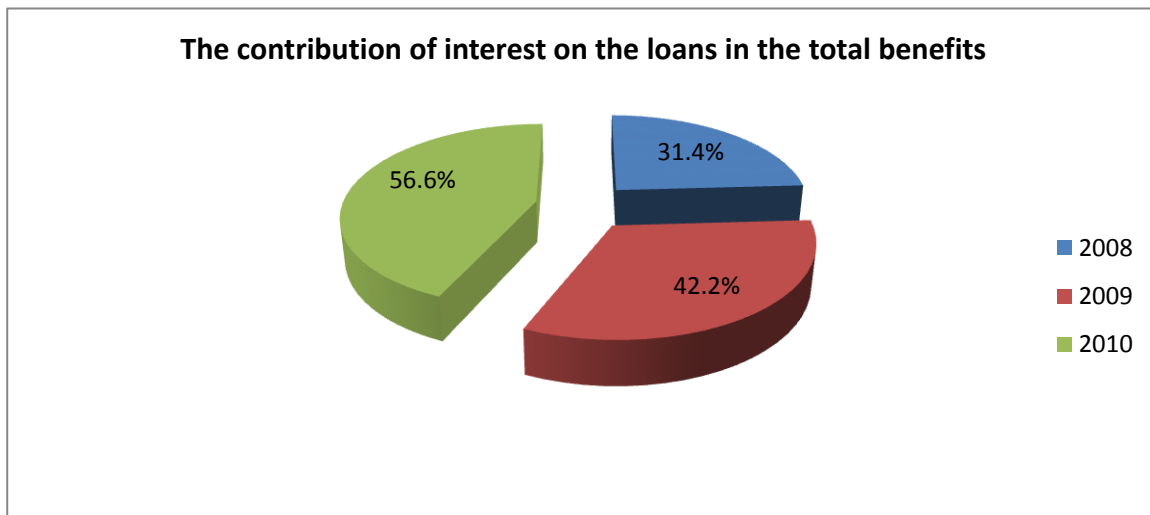
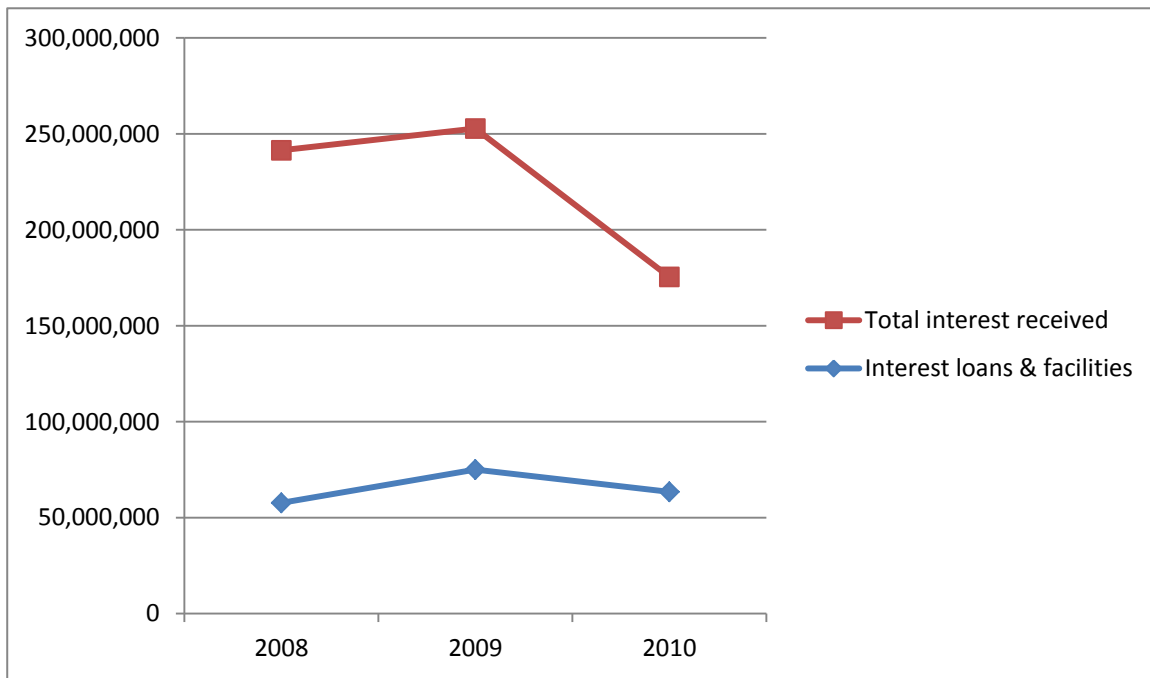
Statement	2008	2009	2010
Interest loans & facilities	57,716,160	75,052,557	63,444,661
Total income	495,990,574	279,834,334	233,542,708
P.C	11.6%	26.8%	27.2%



V. The percentage of loans in the total interest received (Al-dessouki, 1994) =  
 $\text{Loans} / \text{total interest received} \times 100$

Figure No. 5 shown The rate of profit on the funds available.

Statement	2008	2009	2010
Interest loans & facilities	57,716,160	75,052,557	63,444,661
Total interest received	183,718,696	177,719,231	111,994,538
P.C	31.4%	42.2%	56.6%



Previous analysis of the financial ratios for the profitable can access to the following:

1. The stable trend of the rate of profit on equity and profit rate on deposits and the rate of profit on the money available despite the upward trend of the staffing ratios in the form of credit, and so we can say that credit activity of Sahara Bank is a credit efficiency is low.
2. Stable trend of previous profitability ratios and the upward trend of deposit structure ratios indicate that the bank funds need to hire, and the absence of a good and profitable syndication for the money.
3. Although fundamental change in the composition of credit portfolio of the Bank of deserts, but the rates revenue in general has On the decline Since the entry of the foreign partner, as maintained benefits overdraft on its importance during the past under study and took first place, indicating she Activity credit achieves high profit but is exposed to high risk too, and see it through analyzer risk lending, and comes after the benefits of long-term loans, and increased the percentage of the benefits of social loans, either mortgages and although it occupied a significant percentage in combination credit portfolio, but the benefits were dwarfed size.
4. Accounting system can't be applied in the Sahara Bank of reverence and data accurate accounting information from which to see the net profit from the operation of credit.

## **5. Conclusion and recommendations**

### **5.1 Conclusion**

1. Lower the value of the Libyan Sahara Bank profits in the financial year ended Bank (2009) at a rate of almost two-thirds of the estimated value of profit of 0.600 per share, while she was in the last two years 1.500 dinars.

2. The lower the financial position of the Sahara Bank in the year ending in 2009, with a value of with a value of 10.8 Billion dinars, resulting in a decrease of 577 million dinars, and fell in the year ending in 2010, in the amount of 9 billion dinars, resulting in a reduction of 2.3 billion dinars.
3. The decline in profits of the Bank of 56 million dinars at the end of 2008 to 20.7 million dinars at the end of 2009 to 23.3 million dinars at the end of 2010. Note that bank profits were 50.6 million dinars by the Alliances with the French BNP Paribas Bank.at the end of fiscal year 2007.
4. Calculate financial indicators of 2010 shows us the bank earnings amounted to 233.5 million dinars and expenditure amounted to 210.5 million dinars, i.e. the proportion of expenditure on income to amount to 90.1% each of the 100 dinar obtained income is spent 90.1 dinars, as this is a very bad Index. To earned revenues per employee knowledge bank is 143300 dinars was spends to the employee about 129200 dinars. That is, the earned employee of bank revenue is 14100 dinars, which is low compared with other commercial banks.
5. Certificates of deposit had lower in 2010 by 852 million dinars from the previous year. This shows that there is a decline of dealing with the loss of important elements customers for lack of confidence in the foreign partner.
6. Provisions on loans and credit Increase 105 million dinars in 2010 year over the last year by more than 30%, this shows the shortened obviously collecting the debts of the bank's customers.

## **5.2 Recommendations**

1. Understanding the culture and strategy of each institution.
2. Defining and shaping the vision of each party and delivered to the other parties in an easy and clear so that it can build a shared vision among them.



3. The formation or the conceptualization of expectations or results could be achieved from behind the formation of the coalition.
4. Have each party a competitive advantage - productive or Technology or marketing.
5. That the contributions of each party balanced.
6. That there is a consensus between the two companies at senior management level each.
7. The creation of a database and information on potential partners and targeted alliance locally, regionally and globally and continuously updated, to be the basis for the plans and decisions of the coalition.
8. Is the basis of dialogue and understanding and dealing equality in relationships that built a major base to achieve a balance between the partners, and adopted a strategy of avoiding conflicts and disputes.
9. Provides a culture of cooperation and shared values and build a strong organization commensurate with the management of the new structure.
10. Must include strategic management partnership agreement clearly the decisions and how to choose between alternatives and address the risks and resolve disputes and lines of authority and lack of transformation from competition to cooperation.
11. The strategic partnership of foreign built on mutual trust and goodwill between the parties must therefore choose a partner carefully must the institutions Libyan bring foreign partners after a study of the effects of this strategy on the results of the institution with respect to the employment of workers and bring technology and the provision of financial resources and reduce costs.
12. Institutions must assess the effects of the decision of the Libyan partnership with foreign institutions before making a decision often seek foreign parties

to achieve their own interests without taking into account the interests of the local party.

"The planning helps to achieve a balance between the goals and interests of the communities of Strategic Influence, also leads to the clarity of vision of the future for all items related activities, and includes preparation in advance and choose between alternatives concerning the goals and strategies, procedures and rules and programs and budgets."

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## APPENDIX

**Balance sheet FY 08-FY 10**

Statement	2008	2009	2010
Cash in treasury	34,956,257	34,615,030	42,537,465
Due from CBL	2,814,275,979	2,897,617,057	1,944,065,209
Due from banks	392,402,810	364,424,598	109,022,189
Cheques in transit	54,707,870	42,639,556	63,041,345
<b>Total liquid assets</b>	<b>3,296,342,916</b>	<b>3,339,296,241</b>	<b>2,158,666,208</b>
Deposits with CBL*	6,352,492,509	5,837,078,350	5,381,748,809
Loans and credit facilities	1,902,654,593	1,811,909,195	1,750,596,053
Other debit balances	76,129,523	77,041,790	103,035,132
Provisions on loans and credit	-302,937,000	-332,870,827	-438,406,706
Investments and	18,825,000	18,500,000	28,984,800
<b>Total circulated assets</b>	<b>11,343,507,541</b>	<b>10,750,954,749</b>	<b>8,984,624,296</b>
Total fixed assets	44,584,072	60,272,396	60,344,040
<b>Total assets</b>	<b>11,388,091,613</b>	<b>10,811,227,145</b>	<b>9,044,968,336</b>
Deposits	8,910,589,010	7,714,940,139	6,295,097,537
Due to banks	35,948,285	7,102,481	3,667,264
LC and LG covers	1,386,364,737	1,482,474,809	1,795,991,263
Other credit balances	384,773,988	1,023,208,401	471,029,728
Allocations	250,605,865	181,019,089	69,017,785
<b>Total circulated liabilities</b>	<b>10,968,281,885</b>	<b>10,408,744,919</b>	<b>8,634,803,577</b>
Capital & reserves	363,414,893	381,783,893	386,886,726
Profits carried forward	117,584	115,835	260,333
Profits of fiscal year	56,277,251	20,582,498	23,017,700
<b>Total profits</b>	<b>56,394,835</b>	<b>20,698,333</b>	<b>23,278,033</b>
<b>Total shareholder equity</b>	<b>419,809,728</b>	<b>402,482,226</b>	<b>410,164,759</b>
<b>Total equity and</b>	<b>11,388,091,613</b>	<b>10,811,227,145</b>	<b>9,044,968,336</b>

**Profit and loss accounts FY 08-FY 10**

<b>Statement</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Interests of debit current accounts	22,729,009	35,688,182	25,155,409
Interests of debit loans and rebate	34,987,151	39,364,375	38,289,252
Interests collected from banks	19,626,526	3,743,224	358,142
Interests of term-deposits	106,376,010	96135360	48,191,735
Miscellaneous interests	0	2,788,090	0
<b>Interest income</b>	<b>183,718,696</b>	<b>177,719,231</b>	<b>111,994,538</b>
Banking services commission	3,346,279	17,013,924	13,461,096
Collection and commission credits	22,345,049	50,495,368	29,641,692
Miscellaneous commissions	16,019,976	5,745,914	35,557,255
Certified & Travelers cheques commission	5,844	28,917	0
<b>Total commission</b>	<b>41,717,148</b>	<b>73,284,123</b>	<b>78,660,043</b>
Gain on FX transactions	48,408,116	12,834,625	4,484,585
Profits from investments	647,300	1,523,151	11,619,544
Other revenues	221,499,314	14,473,204	26,783,998
<b>Total other revenues</b>	<b>270,554,730</b>	<b>28,830,980</b>	<b>42,888,127</b>
<b>Total revenues</b>	<b>495,990,574</b>	<b>279,834,334</b>	<b>233,542,708</b>
Interests on savings deposits	854,632	813,286	801,429
Interests on term-deposits	21,781,637	17,894,664	3,028,351
Interests on banks accounts	950,756	546,257	226,931
<b>Total benefits</b>	<b>23,587,025</b>	<b>19,254,207</b>	<b>4,056,711</b>
Salaries and wages	24,257,739	28,771,710	32,559,434
G&A expenses	40,398,261	48,442,843	46,001,824
<b>Total general expenses</b>	<b>64,656,000</b>	<b>77,214,553</b>	<b>78,561,258</b>
Other losses	621,032	86,469,113	1,120,097
<b>Total other losses</b>	<b>621,032</b>	<b>86,469,113</b>	<b>1,120,097</b>
<b>Total losses</b>	<b>88,864,057</b>	<b>182,937,873</b>	<b>83,738,066</b>
<b>Net profit fiscal year before tax</b>	<b>407,126,517</b>	<b>96,896,461</b>	<b>149,804,642</b>
Tax allocations	179,465,163	45,208,940	2,255,019
Other allocations	171,384,103	31,105,023	124,531,923
<b>Total allocation</b>	<b>350,849,266</b>	<b>76,313,963</b>	<b>126,786,942</b>
<b>Net profit</b>	<b>56,277,251</b>	<b>20,582,498</b>	<b>23,017,700</b>