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COVID-19 PANDEMIC, PROFITABILITY, AND ADAPTABILITY: EMPIRICAL EVIDENCE FROM THE SOUTH ASIAN ECONOMY

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Abstract *This paper has tried to assess the impact of the COVID-19 pandemic on profitability and how organisations can adapt to the pandemic to lessen its impact, based on a South Asian economy, Bangladesh. To determine the impact, profitability measures (both book- and market-based) of 30 listed banks are compared between pre-COVID and COVID lockdown periods. An in-depth interview is conducted to understand the effects and adaptation process. It is found that COVID-19 has a significant negative impact on profitability, evidenced by the decrease in average NIM, ROE, ROA, and share price by 151%, 67%, 71%, and 7.42%, respectively. All (100%) of the interviewees have mentioned that the pandemic hurts profitability. The underlying reasons for the decrease in profitability are – economic downturn, interest rate ceiling, less investment opportunity, liquidity crisis, high medical expenditure, and fewer savings. To adapt to the pandemic, banks are integrating market, technology, knowledge, and management system adaptability.*

Keywords: *COVID-19 Pandemic, Profitability, Adaptability, Banking Sector, South Asian Economy*

JEL Classification: F62, G01, G21, N25

INTRODUCTION

On December 31, 2019, COVID-19 was first reported in Wuhan, China, and quickly spread to all other parts of the world (WHO, 2020). After that, most of the countries imposed a lockdown that impacted technology adaptation (Mandel & Veetil, 2020), teaching, financial markets, tourism (Shenoy et al., 2020), production, employment, and livelihood (Hidayat, Farooq & Alim, 2020). Major macroeconomic variables such as unemployment rate, interest rate, debt crisis, consumer spending, and so on, were greatly shocked by the pandemic (Blanchard et al., 2020; Buheji et al., 2020). Consumers have limited their buying activity from non-essential items to daily necessities, thereby reducing consumer spending (Coibion et al., 2020). Regarding the debt crisis, Arellano et al. (2020) have found that although lockdown policies are effective for a sound health system, their economic cost is too high. Due to the synergistic effect of COVID-19, it is termed a syndemic rather than a pandemic (Irons, 2020).

There are some positive aspects of COVID-19 as well. Paital et al. (2020) have found that carbon pollution has decreased during the lockdown period and Shehzad et al. (2020) have discovered that nitrogen dioxide has decreased significantly because of the lockdown in India and neighbouring countries. As a result, air pollution is minimised and the quality of air has improved (Saadat et al., 2020).

In Bangladesh, the first case was detected on 08 March 2020 and the first lockdown was effective from March 26 to 30 May 2020 (WHO Bangladesh, 2020). So, the impact of the pandemic started in Bangladesh in the second quarter of 2020. All education institutions are still closed; public transportation, production, and services were halted for a long period. Many employees were fired from different organisations. All these incidents indicate a significant impact of the coronavirus pandemic on the economy. As a result, profitability in different sectors of every economy is affected greatly. The banking sector in Bangladesh also faces profitability changes due to COVID-19.

In Bangladesh, the most important element of the financial system is the banking system. Banks are business types where deposits are considered liabilities and debt securities are considered assets (Fama, 1980). Banks are the main players in the channelling of funds from lenders to borrowers in Bangladesh, so their intermediary role must provide society with greater welfare, possibly at a lower cost (Sufian &

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Habibullah, 2009a). Banks are responsible for bridging the division between savers and creditors, and for conducting all duties relevant to the profitable and healthy channelling of funds. In offering financial intermediation and economic acceleration, the banking sector also plays a significant economic role by turning deposits into profitable assets. By the volume of funds available for investment, while improving the efficiency of services offered to consumers, a successful financial structure increases the profitability of banks (Saona, 2011).

Various studies have been conducted to examine the changes in profitability or determinants of profitability for the banking sector based on different scenarios. However, the COVID-19 situation is new. This study will try to assess the changes in profitability due to COVID-19 based on the banking sector in Bangladesh and how the banks are trying to adapt to the situation. This study has taken the banking sector as the sample because of two reasons. First, the banking sector in Bangladesh is the most dominating industry in the economy; so, the result of this sector will reflect the picture of the whole economy. Secondly, it is predicted that fraudulent financial reporting might be practiced in the banking sector in Bangladesh, evidenced by the financial scam, heists, bribery, and so on in the industry (Karim & Hossain, 2021). Therefore, more research should be focused on this industry. Moreover, no study is conducted to assess the impact of COVID-19 on profitability based on empirical data. This study will focus on this research gap and will show the avenue for future research.

LITERATURE REVIEW

Literature on Profitability

Various research has examined the performance of banks to distinguish the factors that are responsible for interbank differences in profitability; the banking sector profitability is less stable in developing countries (Sufian & Habibullah, 2009a). These studies fall into several categories in general. The link between bank earnings and various aspects of bank operating performance has been a major focus of one group. The relationship between bank earnings performance and balance sheet structure has been the focus of a second set of studies. The impact of some regulatory, macroeconomic, or structural factors on overall bank performance has been examined by another body of literature (Beck & Rahman, 2006).

Several studies are conducted to understand the determinants of profitability in the banking sector. Some of them are country-specific and others are based on a cross-country perspective. Examples of country-specific studies: Growe, DeBruine, Lee and Tudon, 2014; Berger and Bouwman, 2013 (the USA), Saeed, 2014; Kosmidou et al., 2008 (the UK), Williams, 2003 (Australia), Tan and Floros, 2012; Heffernan and Fu, 2010 (China), Alshatti, 2016 (Jordan), Dietrich and Wanzenried, 2011 (Switzerland), Liu and Wilson, 2010 (Japan), Khan, 2022; Sharma and Dey, 2022; Agarwal and Singh, 2022; Abebe, 2020 (India), Ali et al., 2011 (Pakistan), Islam and Rana, 2019 (Bangladesh), and so on. A panel of country-based studies is also conducted from different region's perspectives, such as based on developing and underdeveloped countries (Al-Harbi, 2019), the perspectives of Vietnam, Malaysia and Thailand (Dao & Nguyen, 2020) and European banking perspectives (Menicucci & Paolucci, 2016).

According to Dao and Nguyen (2020), bank profitability determinants can be divided between internal (bank-specific) and external (macroeconomic) factors. Internal determinants of bank profitability are those variables that are affected by management decisions, policy priorities of banks, organisational goals, strategies, and so on. Previous studies have focused on variables such as size, capital ratio, risks, deposits loans, and so on, as the internal determinants (Menicucci & Paolucci, 2016). The external determinants are the industry and macroeconomic variables that affect the performance of the banks, such as GDP growth, economic growth, interest rate, inflation, market capitalisation, and so on (Menicucci & Paolucci, 2016).

Literature shows mixed results regarding the determinants (both bank-specific and external factors) of bank profitability. From the internal factors, a significant positive association is found with bank size (Ahmad et al., 2016; Menicucci & Paolucci, 2016; Al-Jafari & Alchami, 2014), capital adequacy ratio (Menicucci & Paolucci, 2016; Islam & Rana, 2019; Ahmad et al., 2016), asset quality (Islam & Rana, 2019), leverage (Alshatti, 2016), and management efficiency (Al-Jafari & Alchami, 2014; Vu & Nahm, 2013). A negative relationship is found with liquidity risk, financial risk, and credit risk (Al-Jafari & Alchami, 2014). However, Dao and Nguyen (2020) have found a negative relationship between bank size (in Vietnam and Thailand) and capital strength, but a positive relationship with credit risk. From the external determinants, GDP growth rate and bank concentration have a positive association with profitability, and inflation and unemployment rate have a negative association (Dao & Nguyen, 2020; Ahmad et al., 2016).

The literature on the determinants of profitability is so rich that it cannot be incorporated into a few pages. Moreover, profitability varies from economy to economy, conventional vs. Islamic banks, local vs. foreign banks, and other types of banks. Agency problem, and thereby profitability, varies among traditional, non-traditional, and diversified banks

(Westman, 2011); profitability determinants of conventional and Islamic banks are different in all explanatory variables (Yanikkaya et al., 2018); foreign banks operating in the host country are more profitable than that of domestic banks (Chen & Liao, 2011); state-owned banks have a low level of profitability and a high level of costs in comparison to private banks in developed countries, whereas for foreign-owned banks, the findings are just the opposite (Micco, Panizza & Yañez, 2007).

Literature on COVID-19

As COVID-19 is a novel phenomenon for the whole world, literature on the impact of COVID-19 is still being developed. However, the Global Financial Crisis of 2008 can be linked as they are similar. The outcomes of the 2008-09 crisis are contagious and have similarities with the COVID-19 pandemic that has distressed the financial and economic system significantly (Bachman, 2020). The COVID-19 pandemic might behave like a financial bubble that should be treated in a similar manner (Shiller, 2020).

A large volume of literature has underlined the potential implications of COVID-19 for banks based on developed countries (World Economic Forum, 2020). Due to the sudden lockdown because of the pandemic, production stopped, demand for daily necessities shrunk, and public transportation and movement were restricted locally and internationally (Barua, 2020a). The COVID-19 pandemic has created a complex consequence that is a great threat to the stability of the banking system (FSB, 2020). Barua and Barua (2020) have noted that COVID-19 has worsened the non-performing loan (NPL) situations in developing economies. They have estimated that the firm value, capital, and profitability of the banks will fall, and larger banks will be highly impacted by the pandemic. According to Karim and Saba (2021), the stock return of most sectors in Bangladesh has been affected by COVID-19, where the banking sector has suffered the most.

Due to macroeconomic shocks of the pandemic, borrowers (both companies and individuals) will face severe challenges to repay the loan, thereby increasing the loan default risk (Vidovic & Tamminaina, 2020). Borrowers relying on international trade and small businesses will be highly affected in this case (Dua et al., 2020). Moreover, in the case of a secured loan, the value of the collateral may decline, resulting in higher default and credit risks (Baret et al., 2020). Additionally, depositors may withdraw money from their bank accounts to support livelihood and health expenditures (Baret et al., 2020). Due to the COVID situation, opportunities to earn will be very limited, which might make the depositor bound to spend from their savings. As a result, banks will face a liquidity crisis and the lending capability of banks will be lower (Cheney et al., 2020). Karim, Shetu and Razia (2021) have found that COVID-19 has deteriorated the liquidity and financial health of companies based in the South Asian economy.

Due to the economic downturn locally and globally, the demand for loans and advances will slump, as investment opportunities will be lower; as a result, financing for short- and long-term investment projects will decline (Ryan et al., 2020). The intensity of the problem will arise when the lending capacity of the banks will be limited due to a liquidity crisis (Cheney et al., 2020). Furthermore, interest and non-interest income sources are more likely to drop due to concentrated international trade and business, foreign exchange, and so on. Interest incomes can fall further if banks reduce the interest rate, waive fees, increase limits on the credit card, and so on, to retain clients during the pandemic (Ryan et al., 2020).

The existing literature on the implications of COVID-19 is based on projection and estimation, and there is a gap in the empirical data-based study. This study has tried to fill up this gap based on the empirical data of the banks listed on the Dhaka Stock Exchange (DSE), Bangladesh.

THEORETICAL FRAMEWORK

From the above literature review, it can be concluded that a bank's profitability is determined by both internal and external factors. COVID-19 is a unique situation, and it will fall under the external factor category. From the literature, we can propose that COVID-19 is a new type of external variable which will harm profitability. If the proposition is true, it will be a big concern for the companies to adapt to the pandemic. COVID-19 has emphasised the significance of adaptability to the neo-normal situation (Clarke, 2020). So, we can relate the organisational adaptability theory in this context. The relationship between organisation and environment is addressed by the adaptation theory and it tries to make a fit between the external environment and internal structure of the organisation through intentional decision making (Podsakoff, MacKenzie & Podsakoff, 2016). Adaptability is related to the capacity or ability of the organisation (Martin, 2017) and there are different dimensions of capability, e.g., capability to predict problems, capability to bring necessary changes and find new ways of solving problems, capability to cope with the changes rapidly, and capability to adjust to the crisis (Angle & Perry, 1981).

Mercedes and Burrel (2021) have focused on managerial adaptability and strategic change in business in the era of COVID-19. Clarke (2020) has suggested that organisations should have a flexible business process to bring necessary

changes to adapt to the pandemic, should make faster decisions by capitalising on adaptive planning, and should create a culture of continuous learning to ensure adaptability. Mandel and Veetil (2020) have highlighted the significance of technology to recover from the pandemic. Janssen and Voort (2020) have emphasised adaptive governance as a response to the COVID-19 crisis. According to Amis and Janz (2020), change management is crucial in response to the pandemic.

An organisation that has adaptive capability can learn at a faster rate than the rate of change in the environment (Staber & Sydow, 2002). Therefore, continuous learning is a crucial point in adaptability that instigates creativity and innovativeness in the organisation to make and adapt to the changes (Angle & Perry, 1981). Continuous learning is also required in market adaptive capability that focuses on understanding the behaviour of the customers and competitors and empowering employees to respond accordingly (Tuominen et al., 2004). Staber and Sydow (2002) have focused on technological adaptive capability, which is related to the capacity to have a technological change to solve problems and improve the performance of the firm. Jesmine (2020) has focused on 'Work from Home (WFH)' as part of technological adaptability due to COVID-19, by utilising tools such as virtual teams, cloud technology, and so on. Finally, organisations need to have a management system adaptive capability that helps shift priorities to respond to changes in the market (Tuominen et al., 2004).

Adaptability is a source of competitive advantage; however, how to achieve adaptive advantage is a big challenge for the organisation (Reeves & Deimler, 2011). Interaction among market adaptability, technological adaptability, and management system adaptability is a must to have the adaptive advantage (Akgün et al., 2012). As COVID-19 is a new crisis, organisations need to predict the future and make changes to adapt to this new situation through the integration of the above constructs.

METHODOLOGY

This study is descriptive or qualitative in nature. This study is based on both primary and secondary data. This study has taken all the 30 listed banks in Bangladesh as the sample. The quarterly reports (Q1 and Q2 of 2019 and 2020) have been used as the source of secondary data. Both book- and market value-based profitability measures are used in this study. Net interest margin (NIM), investment income, return on Equity (ROE), and return on asset (ROA) are the book value-based measures, and the market price of the share is used as the market-based measure. The share price information is collected from the DSE. To assess the effect of the pandemic, profitability measures are compared between the first (pre-COVID) and second quarter (COVID) of 2020. To avoid the seasonality effect, the comparison is expanded to between the second quarter of 2019 and the second quarter of 2020. Percentage changes in profitability measures are calculated and presented through graphs and charts. Additionally, interview findings are analysed to find conclusive results.

Primary data is collected through in-depth interviews with bank officials through a semi-structured questionnaire. The questionnaire is self-administered and designed as per the underlying building blocks of adaptability theory (Tuominen et al., 2004; Staber & Sydow, 2002). One official from each of the 30 banks was interviewed and the duration of the session was 15 to 45 minutes. Due to the pandemic, the interview was conducted over the telephone, and it was recorded. Thematic analysis is used as the analytical tool for this study.

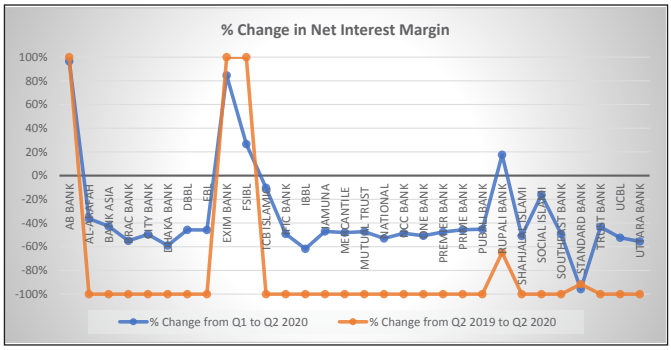
DATA ANALYSIS

Analysis of Annual Reports Data

In this section, percentage changes in profitability and measures are presented to assess the impact of the pandemic on profitability. The comparison is made from Q1 2020 to Q2 2020 as there was no lockdown in Q1. To avoid the impact of seasonality, the comparison is extended to Q2 2019 and Q2 2020. The results are given below.

Net Interest Margin (NIM)

Net interest income is calculated simply by subtracting interest expense from the interest income. Fig. 1 shows the percentage change in profitability measured by net interest income.



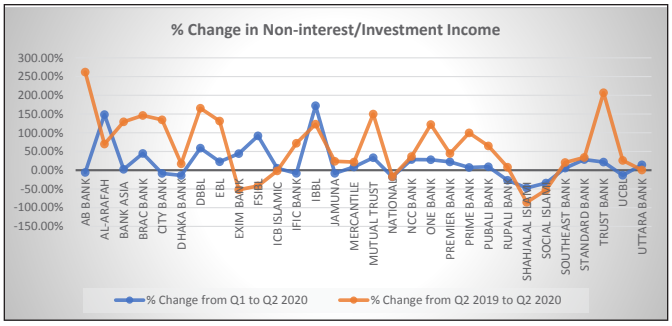
Source: Authors.

Fig. 1: Percentage Changes in Net Interest Income

Almost all the banks' (90% of the banks') interest income has decreased. Except for AB Bank, EXIM Bank, and First Security Islami Bank, all other banks have a significant reduction in interest income. Percentage change from Q2 2019 to 2020 shows more deterioration in comparison to Q1 to Q2 2020, which indicates that despite having no seasonality impact, profit is affected. Average NIM is decreased by 150.78%, which indicates a significant impact of COVID-19 on NIM.

Investment/Non-Interest Income

Investment income is the income from capital budgeting, such as loans and advances, investment in short-term securities, and so on. Fig. 2 shows the percentage change in income from investment.



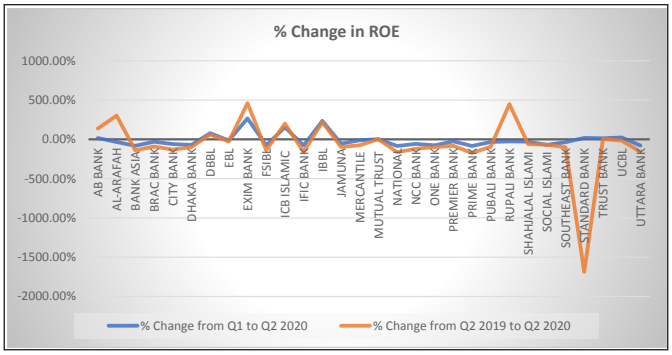
Source: Authors.

Fig. 2: Percentage Change in Non-Interest or Investment Income

Fig. 2 demonstrates a positive impact on investment income that indicates that investment income is unaffected by the pandemic. However, the fact is that the Islamic banks' investment income is affected, which is evidenced by the reduction of income of EXIM Bank, ICB Islamic Bank, First Security Islami Bank, Shahjalal Islami Bank, and Social Islami Bank. The reason is that most of the investments (more than 90%) of the Islamic banks are murabaha (cost-plus contract) in nature; they are invested in trade and commerce, mostly in the ready-made garments (RMG) sector, which was severely interrupted by the COVID-19 pandemic (Hidayat, Farooq & Alim, 2020).

Return on Equity (ROE)

Return on equity (ROE) is a good measure of profitability in the banking sector. Here, ROE is calculated by dividing the net income by shareholder's equity. Fig. 3 shows the changes in ROE between quarters.



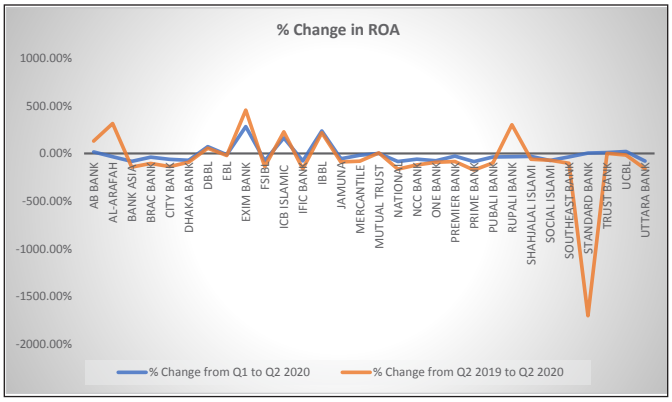
Source: Authors' data set.

Fig. 3: Percentage Change in ROE

Fig. 3 shows that except for AB Bank, EXIM Bank, and ICB Islamic Bank, the ROE of all other banks have declined based on either of the comparison parameters. Average profitability measured by ROE declined by 67% (from Q2 2019 to Q2 2020), which indicates a significant negative impact of COVID-19 on the profitability of the banks.

Return on Asset (ROA)

Another crucial measure of profitability in the banking sector is the ROA, which is calculated by dividing the net profit by total assets.



Source: Authors' data file.

Fig. 4: Percentage Change in ROA

Except for AB Bank, ICB Islamic Bank, and EXIM Bank, the ROA-based performance of the remaining banks has deteriorated. Average ROA declined by 70.71% (from Q2 2019 to 2020), which is higher than the measure of ROE. This is also evidence that COVID-19 has impacted the profitability of the banks in Bangladesh.

Share Price

In this section, the share price of all the listed banks is analysed from the start of the lockdown period to the half-yearly ending period.

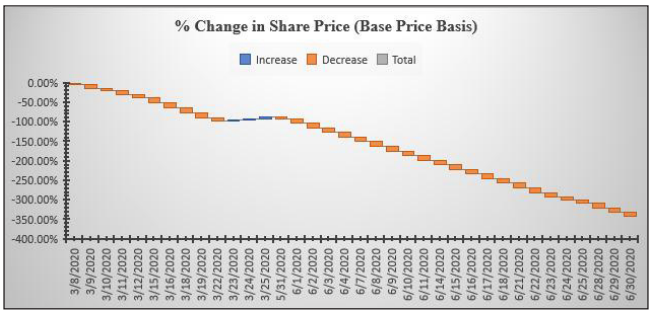


Fig. 5: Percentage Change in Share Price (Base Price Basis)

Fig. 5 represents the impact of COVID-19 on stock price in a better way. Here, the percentage change is calculated based on the base price (last trading price before the lockdown, i.e., 03/07/2020). It indicates that the share price has decreased significantly over the period. On average, the share price has decreased by 7.42% daily within a short period, which is significant.

Analysis of Interview Results

Profile of the Interviewees

Table 1: Demographic Profile of the Interviewees

Demographic Profile	Number of Interviewees	Percentage
Gender		
Male	25	83.33%
Female	5	17.67%
Age		
25-30 years	3	10.00%
31-35 years	4	13.33%
36-40 years	10	33.33%
41-45 years	5	16.67%
Above 45 years	8	26.67%
Organisational Position		
CEO & MD	3	10.00%
Deputy Managing Director	5	16.67%
Head Financial Reporting	5	16.67%
Executive, Accounts, and Finance	14	46.67%
Senior Officer	3	10.00%

Table 1 summarises the demographic profile of the interviewees. A majority of the interviewees are male (83.33%) as they are more accessible. Based on the age group, most of the respondents are above 35 (76.67%), and almost half of the participants are above 40 (43.33%). This study has combined different organisational position holders, including CEO, DMD, accounts officials, and senior officers. Where the CEO and DMD positions represent 26.67% of the participants, accounts officials are the majority (63.33%).

View on Impact of COVID-19 on Profitability

"COVID-19 has negatively affected the whole economy and the banking sector is not out of the economy." – CEO of a bank

All the interviewees have provided the opinion that COVID-19 has negatively impacted the profitability of the banks. The underlying reason is that due to the pandemic, there is a downturn in the whole economy and the baking sector is not out of the wave of the pandemic. Due to the economic downturn, new investment opportunities are limited, and the previous investments could not earn sufficient returns for the businesspeople, as well as indirectly for the bank. The interest rate on loan is reduced significantly (maximum 9%) by the Bangladesh Bank and loan installment is withheld for several months. Moreover, compounding interest is restricted by the regulator on due installments. Although certain expenditures were cut down due to COVID, such as utility bills, entertainment expenses, training, and event management expenses, other expenditures increased due to the pandemic, such as employee health expenses, COVID incentive to employees, technological investment, and so on. On the other hand, customers asked for their deposited money to handle the COVID situation, which posed a liquidity crisis for the banks. Therefore, the profitability of the banks decreased.

Though the interviewees are in consensus regarding the impact of COVID-19 on profitability, they differ on the extent to which profitability is negatively impacted.

"It is difficult to quantify the impact of COVID-19 on profitability, but the range is between 10% and 30% across different measures." – Head of financial reporting of a bank

As the pandemic has squeezed different companies and performance measures on a varied scale, it is a daunting task to quantify the effects. On average, profitability is decreased by 10% to 50% across banks.

View on Adaptability

COVID-19 has placed lots of challenges in continuing the operation of the banks, in addition to declining profitability.

The major challenges include providing uninterrupted service to the customers despite the pandemic, health and safety issues; smooth functioning of work-from-home by employees; 24/7 Internet banking operation; and adaptability with new technologies, such as the Zoom app, new SAP, and so on. All these issues threatened the banks' continuity and adaptability, and pressurises banks to be innovative as well. However, from the interview, it is found that all the banks are capable of dealing with the pandemic.

"We are trying to adapt with the pandemic through a variety of measures like work from home, and online or Internet banking." – DMD of a bank

Banks have incorporated different mechanisms to handle the COVID situation. They have integrated the market, technology, and management system adaptability in this regard.

Market Adaptability

"A customer can get all the banking services by staying at home in this pandemic." – Senior officer of a bank

As part of market adaptability, banks are providing flexibility to their stakeholders, such as all banking services from home for customers, E-KYC (Electronic Know Your Customer) form fill-up, employees working from home, incentives to employees, withholding loan installment payments, and so on. By following the mandate of the government, banks are offering loans to mitigate the impact of the pandemic. A few banks are going for an aggressive marketing strategy to retain customers or to attract new customers. Certain banks introduced insurance-backed products to deal with the pandemic.

Technological Adaptability

"We are investing heavily on technology as COVID-19 has taught us to do so." – The head of financial reporting of a bank

Technology has played a significant role in adapting to the COVID-19 pandemic. Almost all the banks have transformed their activities from manual to automation systems. Most of the banks have increased their investments in new technology or up-gradation of existing ones as technological adaptation is a must to cope with the pandemic.

"COVID has forced us to work from home (WFH) and this strategy will be continued even when there will be no COVID." – CEO of a bank

Technology has allowed the banks to launch work-from-home (WFH), which will be continued even if COVID-19 is under control. The usage of online/Internet banking and mobile app-based banking services has increased tremendously. Customers can transfer funds through NPSB (National Payment Switch Bangladesh), BEFTN (Bangladesh Electronic Funds Transfer Network), MFS (Mobile Financial Services), and so on, and they can order cheques and receive bank statements while staying at home. To ensure WFH, online banking, and other services, banks have made a substantial investment in technology and security issues after the emergence of the pandemic.

Management System Adaptability

"We have upgraded our ERP software and reporting system to adapt to the pandemic." – CEO of a bank

The management information system of the banks has been upgraded a lot during the pandemic. Although a few departmental activities were done manually before the pandemic, all of them are automated for the time being. A few banks have added new features in the ERP (Enterprise Resource Planning) system of the banks, known as the Core Banking Software (CBS), such as direct payments to the vendor, automated reporting, new KPI, and so on. Moreover, all the systems and gateways are integrated to avoid conflicts among the systems. The use of the Zoom app for meetings and conferences has become a routine phenomenon for banks. Overall, banks have prepared themselves to fully operate through automation, including handling emergencies, after the emergence of the pandemic.

FINDINGS, RECOMMENDATIONS, AND LIMITATIONS

From the above analysis, there is clear evidence that COVID-19 has negatively impacted both the book and market measures of profitability in the banking sector in Bangladesh. Net interest margin has declined by 151%; ROE and ROA have decreased by 67% and 71%, respectively. Market value-based measure 'share price' has decreased by 7.42% on a daily basis. All these quantified percentages indicate a significant impact of COVID-19 on profitability. The impact of the pandemic on profitability is also evidenced from the interview, where all the participants agreed that COVID-19 has impacted the interest and non-interest income of the banks negatively. Where COVID-19 has impacted every aspect of life, profitability has not escaped from the wave; this impact might continue for the next couple of years as per the forecast of the experts. So, necessary strategic measures should be undertaken by the managers of these companies to lessen the impact on profitability. Adaptability to the market, new technology and innovation, and upgraded management

information systems will make the banks capable of dealing with the pandemic. To make the adaptation sustainable, the following recommendations are suggested:

Flexible Business Process: To cope with the neo-normal state, banks should make the business process flexible, so that necessary changes can be made. If needed the whole value chain should be redesigned to make it flexible; at the same time, teams should be empowered to make the approval process faster.

Adaptive Planning and Decision-Making: To promote adaptability with COVID-19, organisations should focus on short-term planning and should review them regularly as a response to change. The decision-making should be decentralised to make it flexible and faster.

Adaptive Governance: Adaptive governance is concerned with the integration of centralised and decentralised decision-making structures. Both centralised and decentralised decision-making have limitations to fit in with COVID-19; therefore, a balance between the two is recommended to ensure better adaptability.

Continuous Learning and Innovation: As an external factor, COVID-19 can be a source of new opportunities. To utilise these chances, organisations should create a culture that promotes innovation and development through continuous learning. This will enable the team members to have the relevant knowledge and the capacity to quickly respond to the changes.

Change Management: As COVID-19 has incorporated several changes in the organisation, including change in leadership style, strategic management of the changes is inevitable to make the adaptation sustainable.

The regulatory body can assist the companies in adapting to the new situation by relaxing the regulations and providing flexibility in the operation. The government should provide a special incentive to all the sectors highly affected by the pandemic.

The study assumes several practical and scope limitations. First, the study is mostly qualitative, and multivariate analysis was not possible due to the nature of the data. Second, the study is based solely on the banking sector; analysis of other sectors may reveal something new. Third, profitability can be affected by other variables, such as GDP growth, inflation, the inefficiency of the management, and so on, besides the COVID-19 factor. Despite having all these limitations, this study can add new insight to the literature.

CONCLUSION

The banking sector is an essential area of the economic growth of every nation. This study aimed to determine the impact of COVID-19 on profitability and how organisations can adapt to this pandemic. This study is based on the banking sector of a South Asian economy, where 30 listed banks are taken as samples. Both primary and secondary data are combined to find conclusive results. The study has considered quarterly data for 2019 and 2020. By comparing the pre- and post-COVID profitability measures, the study has found that profitability in the banking sector is highly affected by the COVID-19 lockdown. All the profitability measures have declined by a significant percentage. Even the share price decreased significantly during the lockdown periods. Although investment efficiency is not affected much by conventional banks, the opposite is true for Islamic banks. When any pandemic situation occurs in any country, the behaviour of the consumer changes; they want to fulfil their basic needs. These changes have impacted the overall economy of the country. The ultimate effect of this impact is reflected in the profitability measures. Therefore, profitability declined due to the pandemic. To overcome the negativity of the pandemic, managers, regulatory bodies, and the government should formulate policy actions to adapt to the pandemic. The study has recognised several limitations that can be an avenue for further studies.

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APPENDIX 1: INTERVIEW QUESTIONNAIRE

Background Information:

1. Name of the Bank:
2. Position:
3. Gender:
4. Age:

COVID-19 and Profitability:

5. Do you think that COVID-19 has impacted banks' profitability? How much?
6. How has COVID-19 impacted the profitability of your company?

Adaptability:

7. Do you think that there is a need for adaptability with COVID-19 to reduce its impact on profitability?
8. Do you think that your organisation is capable of adapting to the pandemic? How is your organisation trying to adapt to the pandemic?
9. How is your organisation trying to adapt to the market and competitors?
10. How can technology and knowledge-based adaptation help your organisation to have adaptability?
11. How can management system adaptability help your bank ensure adaptability?