# Assignment on Business Management

**Task 1**

In June 2021, the Hong Kong Monetary Authority (HKMA) unveiled its Fintech 2025 Strategy for the understanding that the future of banking is based on technology. It is the aim of our Bank to take advantage of technology in order to cut transaction costs in every phase of the provision of financial services, allowing us to service a more diverse range of customers. It is also our aim to develop another new sub-brand which focuses on virtual banking instead of our traditional banking business.

We have developed the TOWS Matrix regarding the fintech position in our Bank:

Opportunities

Firstly, with the outbreak of covid, people would like to seek for a "stay at home solution" for their banking needs rather than heading to the branches. Arrangements through remote channels, such as mobile applications or digital platforms, have provided new and additional choices to prospective customers. Aided by eKYC solutions, enhanced by supervised machine learning, remote access can allow customers to get banking services 24 hours a day and in as little as a few minutes without physically visiting bank branches or being subject to their opening hour restrictions.

Secondly, it is the need for the integration of technology, finance and services in one platform and in real time staying at home. Technological solutions to perform identity authentication and matching, such as biometric solutions (for example, facial recognition and liveness detection) are being used for opening and transacting through bank accounts. These can deliver enhanced customer due diligence processes as well as improved customer experiences, while at the same time removing the barrier of access to banking services resulting from the requirement for a customer to visit a bank branch to verify their identity, which may be time consuming, difficult or inconvenient to arrange.

Also, Hong Kong has a high level of education population and near universal mobile penetration and bank account ownership.

Over time, innovations have transformed many business models in different industries. The banking industry is no exception and technological innovation holds the promise of alleviating the underdevelopment of financial activity within the financial system. Technological developments over the past two decades have made the increased use and analysis of ever-expanding data resources much cheaper and more efficient. The consumer's digital footprint has led to an explosion in the availability of high quality unstructured data (texts, images, videos) which has outpaced the structured data (names, addresses, date of birth) that was traditionally used in banking.

Threats

The most significant is the growing variety of new entrants to the banking industry; several virtual banks have come into the market since 2018.

Also, the financial regulators need to ensure that regulatory oversight delivers on the benefits of digital finance without compromising traditional regulatory goals such as financial stability, adequate competition, consumer protection and market integrity.

Lastly, there is a pressing need for a system of data governance that allows consumers to exercise control over their data through the granting and withholding of consent to the use and transfer of their data.

Strength

First of all, the Bank has the scale to undertake large investments into digital.

Also, it has the legacy IT systems and customer demographic. As many new virtual banks are still accumulating customer data, their business models are constantly needing to be recalibrated and improved. In the meantime, our bank has already got the legacy portfolio, which has made our business models become more accurate and predictive.

Weakness

Most of the virtual banks offer an enhanced digital experience that encompasses the

consumer’ s lifestyle, including social media and consumption; these are services that are typically not yet available at traditional banks. This approach is seen as crucial for creating a digital ecosystem that builds up the user base over social networks and helps create a large volume of data points for analysis.

With the TOWS Analysis, we can establish our strategic business plan for setting a sub-brand on virtual banking.

Once a strategic business plan is set, each department needs to create operational plans to work with the strategic plan with the Bank. A strategic plan outlines the company’ s long-term vision which is to develop a concrete Fintech division and how all departments should work together to achieve it. The following is the operational plan which outlines what each department will focus on for the near future.

Marketing

The new digital brand must clearly differentiate its brand and value proposition from the parent operations’ . Digital-only banks will likely be targeting a younger, more digitally savvy customer.

And social media marketing should be the focus. In order to communicate such distinct selling points more cost-effectively, banks must cultivate word-of-mouth recommendations and feedback through social media. This entails going after customers in a much more targeted way than banks are used to, both with an understanding of how to maximize value according to geographic distinctions and specific customer niches (for example, buying ads on Facebook).

Finance

Compared with our traditional banking business, there should be a sizable reduction in operating costs, including a dramatic reduction in the number of staff needed for client interfacing as well as risk assessment and mitigation. This cost reduction – and the ability to operate with a low revenue-to-user ratio – is crucial to reaching underserved customers and enlarging our customer base.

HR

The human resources department is responsible for the management of people. The most important is recruitment - the process of finding appropriate people for a given role. This includes advertising a vacancy, selecting candidates for interview, managing contracts of employment, job descriptions. And IT focused staff should be intensively employed for the new business.

IT

It is the most important role and the function is using the existing platform to extract the intensive data for the ever-expanding consumer digital footprint and adapt their offerings, thereby attracting new customers.

Another function is creating and maintaining the customer interface. However, by using nowadays technology, it does not only affect the customer interface. The key operations such as transaction speeds, risk analysis and risk mitigation should also be improved. Digitalisation enables banks to incorporate a range of technologies, including artificial intelligence, blockchain, cloud computing and big data – to reduce cost and scale up operations. The IT department should secure the technology aspect.

Operation

The responsibilities of the operation department should be in association with different departments:

Marketing department: After obtaining the customer demographics from the launched campaign by the marketing department, the operation department can focus on the new product development. Prototypes of new products may be tested by the marketing department with potential customers.

Research and development department: It refers to systematic investigation or innovation; the outcomes of which are new or improved materials, products, devices, processes, or services. Prototypes of new products should be made by the operation department with the data obtained.

IT department: It is for production planning. Both departments will consider the layout of the interface, the optimum method of production and the extent of the technology needed.

**Task 2**

The Ansoff Matrix can be used for strategic management for the Bank.

The Bank was founded in 1933, it has continually innovated to provide best-in-class, customer-centric banking, investment and wealth management services for individuals and businesses. It is widely recognised as the leading domestic bank in Hong Kong, currently serving more than 3.5 million customers.The Bank' s major business activities comprise wealth and personal banking, commercial banking, and global banking and markets. Since its founding, the main focus has been the pursuit of excellence for our customers. In Hong Kong, the Bank has more than 280 service outlets providing customers for quality services.

The following is the Ansoff Matrix for the Bank which can be used for strategic management.

<u>Market Penetration</u>

Market penetration is the strategy to increase sales in existing markets by promoting existing products. The Bank offers its existing customers with various other services it offers to motivate them to try them out. It interacts with each customer and customizes

the offers to develop their interest in the products. Another way to secure dominance in the market is by increasing the number of branches in the existing market. The various services it offers are also revised from time to time to improve their benefits for the customers. It ensures that its customer service is excellent to satisfy current and potential customers. These measures help increase revenues from existing markets.

Market Development

Market development can be in two ways. The first one is to enter new geographic markets and establish outlets. The company has to understand the financial market of the region before investing in it. The Bank has recently established a wholly owned subsidiary which operates a strategic network of outlets in almost 20 major cities in mainland China to serve a growing base of Mainland customers locally and those with cross-boundary banking needs.

The second strategy that the Bank adopts is to offer new products that are aimed at attracting a certain segment of the new market. For example, virtual banking is a new trend which provides a "stay at home solution" for their banking needs rather than heading to the branches. The company aims at gaining more customers from this new market segment.

Product Development

This is the strategy to promote new products in existing markets. The Bank does this by offering new services in its existing markets. These services include banking and financial services at different rates. The setting up of the new virtual banking brand creates a new product. With a lower transaction cost for the digital aspect, the virtual banking shall provide a better pricing for the products.

Diversification

Diversification refers to the act of promoting new products in new markets. The Bank has already horizontally diversified into numerous financial segments to create diversity in the company. For example, there is a securities investment advisory services joint venture and an insurance company. Vertical diversification is not useful in the financial services as the bank is already offering various services that suppliers or investors provide. If the bank wants to further reduce the risk in the single banking industry, it can even undergo conglomerate diversification in which it can enter into unrelated industries such as real estate, automobiles or media.

The Ansoff Matrix helps to define the opportunities through different aspects. The virtual banking segment that we are going to establish can be treated as market development and product development. Virtual banking can attract the new and young generations since they would like to seek for a one stop "stay at home" banking solution instead of the inconvenient traditional banking which they need to fulfill with the restrictive banking hours. In the product development sense, virtual banking is complementary with the traditional banking for the existing clients. As mentioned, the lower transaction cost in digital banking helps provide a better pricing for the banking products which the existing clients can enjoy.

In order to define the size of an opportunity, both the primary and secondary research can be used. Primary research tools are used to gather information specifically for the research project in hand, which is the setting up of the virtual banking brand for the Bank. Secondary research sources include information that has previously been gathered for some other purposes instead of the current project.

Primary research includes collecting information specifically for the research in hand. Some of the main primary research tools include:

Interviews

Interviews were conducted with a range of people across different age groups. The purpose of the interview is to explore or discover what features of digital banking would be attractive to the customers. It was also an opportunity to assess any potential obstacles or barriers to switching to digital banking, motivations to switch to digital, levels of trust generated by the Bank with digital banking, and ideas on what a virtual bank should look like.

Surveys

Customer satisfaction surveys identify key drivers which impact loyalty to a financial institution. This survey also aims at measuring satisfaction with the channel, efficiency of the channel and satisfaction from the technical support. The surveys should be completed every 6 months, 12 months, or 18 months. These continual benchmarks help

the Bank understand how the customers' satisfaction has moved over time and changes can be made based on the results.

Secondary research sources include information that has previously been gathered for some purpose other than a current research project. These secondary sources could include previous research reports, newspaper, magazine and journal content, and government and NGO statistics.

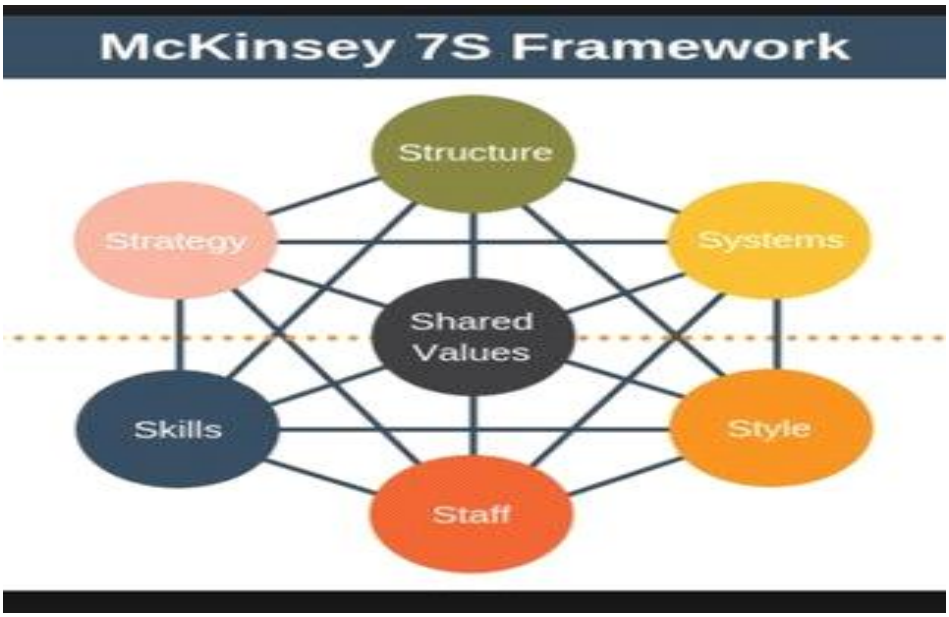
Previous research reports

Since eight virtual banks have been granted licenses by the Hong Kong Monetary Authority (HKMA), there has been much interest in the potential impact these newcomers will have on the established banking markets, but there is very little publicly available market intelligence on the customer's perspective towards digital banking. Therefore, PwC conducted an extensive quantitative research and interviewed banking customers from Hong Kong, Singapore and Malaysia – the three most active markets for digital banking – and the survey reveals that the number of pain points or frustrations a customer has with the traditional banks presents a correlation with his/her willingness to open a digital bank account.

Government Statistics

Early in 2017, the Hong Kong Monetary Authority (HKMA) has already put forth the importance of digital transformation in the financial sector and launched a number of initiatives under the title of "New Era of Smart Banking." Along with the vision of the HKMA, there are different kinds of statistics done on the virtual banking industry in Hong Kong.

To analyze the resources that the Bank can obtain, the McKinsey 7S Framework can be used.




The McKinsey 7S Model refers to a tool that analyzes a company's "organizational design." The goal of the model is to depict how effectiveness can be achieved in an organization through the interactions of seven key elements – Structure, Strategy, Skill, System, Shared Values, Style, and Staff.

The focus of the McKinsey 7S Framework lies in the interconnectedness of the elements that are categorized by "Soft Ss" and "Hard Ss". Placing "Shared Values" as the "center" reflects the crucial nature of the impact of changes in founder values on all other elements.

Structure of the McKinsey 7S Model

Structure, Strategy, and Systems collectively account for the "Hard Ss" elements, whereas the remaining are considered "Soft Ss."

1. Structure

Structure is the way in which a company is organized – chain of command and accountability relationships that form its organizational chart. The Bank has high coordination between different departments. The departments within the Bank often form interdepartmental teams for projects that require multiple expertise. All coordination between different departments is effective and organized. The Bank has a

systematic process for initiating and monitoring coordination between departments to ensure smooth work operations and processes and goal attainment.

2. Strategy

Strategy refers to a well-established business plan that allows the company to formulate a plan of action to achieve a sustainable competitive advantage, reinforced by the company' s mission and values. The strategic direction and the overall business strategy for the Bank are clearly defined and communicated to all the employees and stakeholders. This helps the organization manage performance, guide actions, and devise different tactics that are aligned with the business strategy. Also, the communication also makes operations for the Bank more transparent and aligns the responsibilities and actions of the company.

3. Systems

Systems entail the business and technical infrastructure of the company that establishes workflows and the chain of decision-making. The systems at the Bank are largely departmental in nature which include:

- Human resource management
- Finance
- Marketing
- Operations
- Sales
- Public Relation Management

4. Skills

Skills form the capabilities and competencies of a company that enables its employees to achieve its objectives. All employees are recruited based on their merits and qualifications. The Bank pays particular attention to enhancing the skills and capacities of its employees. It arranges regular training and workshops – internally as well as externally managed- to provide growth and development opportunities for its employees.

5. Style

The attitude of senior employees in a company establishes a code of conduct through their ways of interactions and symbolic decision-making, which forms the management style of its leaders. Through the participative leadership style, the Bank is able to engage and involve its employees in decision-making processes and managerial decisions. It allows the leadership to regularly interact with the employees and different managerial groups to identify any potential conflicts for resolution, as well as for feedback regarding strategic tactics and operations. Through its participative leadership, the Bank is able to enhance employee motivation, and increase organizational commitment and ownership amongst employees.

6. Staff

Staff involves talent management and all human resources related to company decisions, such as training, recruiting, and rewards systems. Employees for different job roles and positions are hired. Based on this, it is seen that the Bank has employees who are skilled as per the requirements of their job roles and positions. All employees are given in house training to familiarize themselves with the company and its values.

7. Shared Values

The mission, objectives, and values form the foundation of every organization and play an important role in aligning all key elements to maintain an effective organizational design. As a homegrown financial institution, the Bank shares the common values of Hong Kong people. Young people are key to our sustainable future. Empowering younger generations and extending our care to the wider society and the environment are evidence of our commitment to the community, people, and the future. In day-to-day activities, we are guided by our brand values: customer-centric, creativity, progressive technology and corporate social responsibility.

**Task 3**

Based on the Portor' s five forces model on the Market Based Theory, Five Forces Analysis assumes that there are five important forces that determine competitive power in a situation. These are:

- Supplier Power

  There are two main suppliers for a bank. The first is the depositors who supply the primary resource of capital, while the second is its employees, also known as the resource of labor. The threat from individual depositors is minimal. However, major corporate customers, HNWIs, and large groups of depositors, tend to be a big threat. The approach from the Bank is to try to attract new clients and to increase the extent to which existing depositors hold funds and access the bank's services. When it comes to the bargaining power of suppliers of labor, individual employees have little bargaining power unless they're major executive employees. The Bank must address its overall bargaining power by offering an attractive salary and benefits package to retain the best employees.

- Buyer Power

  Different buyers have different extents of powers. For instance, individual consumers in the retail banking marketplace have relatively little bargaining power. That's because the loss of a single account basically has minimal impact on the Bank. However, the bargaining power of large groups of customers is greater because the bank cannot afford to suffer a great deal of depositors loss at the same time. Corporate clients and high-net-worth individuals (HNWI) also have greater bargaining power since the loss of sizable accounts and sources of

revenue can more substantially affect the bank's profitability. The Bank addresses the issue of customer bargaining power primarily by extending attractive sign-up offers to new clients. It also makes efforts to get existing clients to open additional accounts and sign up for additional services, which effectively increases the switching cost for consumers by making it more troublesome for them to transfer their finances to another bank.

- Competitive Rivalry

  Competition within the financial industry is probably the strongest of Porter's model when analyzing the Bank. The Bank faces intense competition from other banks like Standard Chartered Bank and Citibank. The relatively low switching costs from one bank to another intensifies the importance of competition from within the industry, especially in the retail and commercial banking spheres. It doesn't cost much—in most cases, nothing at all—to close an account at one bank and open a new account at another one. New customers can even earn some welcome offers when they open a new account as long as they meet certain eligibility requirements.

- Threat of Substitution

  The threat of substitute products has increased in the banking industry, since companies outside the industry have begun to offer specialized financial services that were traditionally only available from banks. For example, Apple Pay offers a multitude of options to the customers.

- Threat of New Entry

  The threat of new entrants is getting fierce. Before, it wasn't easy for a new bank to enter the market and try to compete on the same level with the existing ones. It is in such a case because new competitors would face a number of significant obstacles, notably the massive amount of capital required, the length of time needed to establish a significant brand identity, and the cumbersome government regulations that apply to the operation of banks. However, competition from the virtual banks emerged in which Hong Kong is set to

witness the launch of its first virtual bank in 2018 following the recent issuance of eight licenses by the Hong Kong Monetary Authority (HKMA). These new players are expected to broaden the selection of banking options, foster innovation and enhance customer experience in the city. The new entrants will be vying to increase their market share and customer base, while the traditional banks will seek to maintain their standing in the market.

The financial summary of the Bank can be used for performance analysis. The following can be used and contributed to further analysis:

- Operating profit
- Earnings per share
- Dividends per share
- Return on average ordinary shareholders' equity
- Post-tax return on average total assets
- Tier 1 Capital Ratio
- Total Capital Ratio

In order to pitch the business plan, there are some essential parts which should be included:

- Executive summary

  The competition from the virtual banks emerged in which Hong Kong is set to witness the launch of its first virtual bank in 2018 following the recent issuance of eight licenses by the Hong Kong Monetary Authority (HKMA). The whole issue imposed fierce competition within our Bank and so it is a must for the Bank to develop a new digital brand in Hong Kong.
- Product and Services

  Based on the TOWS Analysis, we have figured out the threats imposed by the new entrants of the virtual banks, and the opportunities which is the outbreak of the covid which customers urged for "one stop banking services at home". Our solution is the setting up of the new digital banking brand, and we have compared our strengths and weaknesses with the existing virtual banks in the

analysis.

- Market Analysis

  The Ansoff Matrix can be used for strategic management. We use the Ansoff Matrix to analyze the aspects of different areas including market penetration, market development, product development and diversification. The Bank has used different approaches for all four aspects.

- Organization and Management

  Once a strategic business plan is set, each department needs to create operational plans to work with the strategic plan with the bank. A strategic plan outlines the company’ s long-term vision which is to develop a concrete Fintech division and how all departments should work together to achieve it. And the McKinsey 7S Model is used to further analyze the Soft S and Hard S at the Bank.

- Financial Matrix

  The projected sales forecast, profit and loss, cash flow projections, and balance sheet can be used for projections. With the Use of Fund Report, an overview of how the funding will be used in this new business operation should be presented. Lastly, the performance matrix should be included in order to present the performance when launching the new strategy.

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