

The industrial and commercial bank of china

[Finance](#), [Banks](#)



The main aspect which has been taken into account in this report addresses the understanding of various global business strategies and organisation form and structure of the Industrial and Commercial Bank of China (ICBC) locally and globally to earn its competitive advantage.

The relevant theories were taken into consideration and the in-depth analysis of global business strategy which were used by ICBC was undertaken. This report contains background information of the bank. The Chinese banking environment was taken into consideration as well as the internal environment of the company was analysed with the help of SWOT, PESTEL and Porter's 5 forces frameworks. To illustrate the performance of the ICBC a resource audit, which includes assets, resources and core competencies was presented. This report focuses on the identification of company's local and global corporate strategy .

This report concludes with the strategic implementation of its policies, challenges which are being faced by ICBC and recommendation to deal with those challenges.

Introduction:

ICBC offers its customers various financial services. ICBC operates all across the globe. According to Forbes (2011) ICBC is the seventh largest public company.

History of ICBC:

ICBC started with registered capital of 20.8 billion Yuan and the capital and assets added up to 333.3 billion Yuan. In the late eighties ICBC became the
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formal member of International Saving Banks Institute. In October 1989 ICBC introduced the Peony Quasi Credit Card for the first time. The ICBC network in 91 cities got connected with a nationwide computer network system in October 1990. In the early nineties the bank was according to the Euromoney Journal was ranked number 8 in terms of capital share. ICBC went global in March 1992 and its first overseas subsidiary was set up in Singapore. In November 1995 ICBC expanded out of Asia and their first office in Europe was in London. ICBC went online in December 1997 and their official website was launched. ICBC jointly with Hong Kong Bank of East Asia acquired ICBC-BEA Finance Shareholding Co. Ltd with a 75% of shareholding in February 1998. In September 1999 ICBC launched “ 95588” its telephone banking services nationwide and in February and August 2000 respectively, ICBC began its Corporate Internet Banking and Personal Internet Banking services. In May of 2002 Peony Card Centre was established and it became the first professional bankcard business organization in China “ Peony Card” became a sought after brand. Furthermore, in 2003 ICBC signed Agreement with Microsoft (China) in Beijing for the co-operation of Personal Internet Banking’s security. The same year on December 18, ICBC launched its new personal Internet banking product “ Banking@home”. In February 2004 PricewaterhouseCoopers designed ICBC’s 8 year plan for corporate governance system and over-all risk management reform system and ICBC put it in practice in April 2005 under the State Council’s Approval. Moreover on October 27, 2009, with 236 billion restricted shares released to the market ICBC becomes the No. 1 A-share quoted company and the largest bank in the world by market capitalization. In the last quarter of 2009 the

ICBC has expanded itself as it had received the business licence to operate in “ ICBC Malaysia Company Limited” from Bank Negara Malaysia and ICBC Hanoi Branch, the first license issued to a foreign bank this year. December 16, 2009, The Central Bank of United Arab Emirates (UAE) officially approved and issued a wholesale banking license to ICBC to set up a branch in Abu Dhabi, a new ICBC branch in the Middle East for ICBC to spread its wings in the region.

Organisational structure of ICBC:

Organisational structure can be considered as a pyramid shaped system that positions the relations between the entities within an organisation vertically. Authority, power and responsibility are focused at the top and the decisions are made here and are implemented by the rest of the organisation. (Daft, Murphy, & Willmott, 2010)

The structure of ICBC is a hybrid structure, a combination of characteristics of various approaches tailored to specific strategic needs (Daft, 2007).

Functional and divisional structures combined create the organisational structure of ICBC. The organisation structure of ICBC consists of series of supportive departments expert in functional duties, containing Comprehensive Administration Departments, supervisory & Supporting Departments and Affiliated Institutions. In the functions economy of scale is encouraged due to functional structure. A management model of centralized legal person authorization and controlling one level down and supervising two levels lower is implemented by ICBC. The banking system of ICBC is centralised in one location. (ICBC, 2009)

The strategic business unit refers to the divisional structure. ICBC contains a number of Business Development Departments: Corporate Banking, personal banking, investment banking and e-banking, etc. which can fulfil individual needs and satisfactions of clients. A hybrid structure proposes greater flexibility for organisation (Daft, 2007) that aligns with the current corporate aims and strategy with divisional goals, functional expertise and productivity.

Source: ICBC Annual Report 2005

The latest chart of organisation is attached in the appendix.

The distribution of power:

The distribution of power has been more decentralised and flexible after ICBC turned into a public corporation as compare to early times when it was not listed. Now every hierarchical level has a decent chance to take their decision on their own. Hence, the working attitudes of its employees might increase. Now they will be more motivated as they are part of decision making process and will share the success as well as the losses of the company. The biggest drawback of this management style will be communication network. With decentralising, it will be difficult to communicate with other hierarchical levels because of their interest conflicts. (ICBC, 2009)

Enviornmental Scanning:

To analyse the strategic position of any company there are several frameworks, techniques, and methods such as SWOT analysis, PESTEL and Porter's 5 forces available.

SWOT-Analysis:

SWOT is an abbreviation for “ Strengths, Weaknesses, Opportunities and Threats”. SWOT analysis is used to identify the internal and external factors which can be used to achieve a certain goal or improve the performance of any business. Strengths and Weaknesses are the internal factors of an organisation and Opportunities and Threats are the external factors to that organisation. The internal factors relate to any company and the external factors relate to the external environment of the organisation. (What is SWOT Analysis, 2011)

Strengths:

With a market value of \$239, 5 billion, ICBC is world's leading bank in the world by market capitalization and it is also one of the “ Big Four” in the domestic Chinese banking industry and has a leading marketing share in China. Due to a strong distribution of network which consist of 18, 000 domestic institutions, 203 overseas institutions and over 1, 440 correspondent banks worldwide, as well as 7, 085 self-service banking centres and 28, 656 automated teller machines ICBC has been providing its financial services to (3. 10 million corporate banking, 190 million personal banking) customers. ICBC also developed further the cash management as it got the “ Best RMB Cash Management Services (China) Award” by the

magazines 'The Asset' and 'FinanceAsia'. in 2008 with the score of 96. 23 ICBC topped the list of '50 Most Honoured Listed Companies of China' as well as was awarded the best custodian bank by The Asset, Global Custodian, Global Finance and Securities Times.

Source: own presentation

With 240 million issued bank cards in 2008 ICBC was the largest credit card issuing bank in China, an increase of 28. 20 million over the end of 2007. Therefore, Visa and MasterCard had awarded ICBC with 'Award for Leading Technology of Credit Card' and 'Best Product Innovation of the Year' respectively. ICBC is into investment banking, wealth management, insurance and asset management which lead it to the universal banking model alongside the traditional banking which helped them to diversify their revenue flow. In FY2008 and FY2009, the bank generated around 52% of total revenues from corporate banking, personal banking generates 32% of revenues, treasury and other operations contribute 16% of the total revenues. Diverse sources of revenue such as settlement, clearing and cash management, investment banking, corporate wealth management, asset fiduciary, guarantee and commitment were the main causes for non-interest income.

Weaknesses:

ICBC's allowance in financial year (FY) 2008 and FY2009 amounted to 130. 15% and 164. 41% of total non-performing loans which was higher than the impairment losses on loans in absolute terms of last two years. This increase

in allowances was on account of both external and internal factors. Hence, the profitability of the bank was affected by the increased allowances for impairments.

Opportunities:

At the end of 2010, ICBC had 203 branches in 18 overseas countries and regions and established correspondent bank relationships with 1,358 overseas banks in 122 countries and regions all across the globe. According to Swiss Re, Total takaful premiums written in 2007 was about US\$1.7 billion, and it is expected to propagate to US\$7 billion by 2015. ICBC can secure the benefits of being the first Chinese player venturing into Islamic banking.

Several products and new services has been introduced by the ICBC after the financial crisis as well as facilitating the foreign trade companies to conduct export and import business.

China's insurance market is growing rapidly. . In 2013, the Chinese insurance market is forecast to have a gross premium income of \$353.4 billion, an increase of over 100% since 2008.

Threats:

After enjoying the double digit growth for last several years, and the banking industry was benefited most of it but late Chinese economy is having a slight decline. In second quarter of 2010, China's economy grew by 10.3%, down

from 11.9% in the first quarter of 2010 and it might remain the same for the last 2 quarters as well.

With emerging China several foreign banks are interested in or already started to undertake a number of businesses, including custodian services investors, insurance agency business etc. Foreign banks in China are allowed to offer over 100 types of products and services under 12 broad categories of business activity. According to the China Banking Regulatory Commission (CBRC), within the five years since China's WTO accession in early 2002, operational entities opened by foreign banks increased from 190 to 312. Since foreign institutional investors were first allowed to invest in Chinese banks starting in 1996,

35 overseas banks have acquired stakes in 23 Chinese banks by 2008. As competition was continued to intensify in 2009. Hence, this could affect the revenues and profits of the bank.

PESTEL Analysis:

PESTEL is not just the internal environment but also the macro-economic factors affecting the external environment of a company affect the way it conducts business. These factors need to be kept in mind while formulating strategies and making decisions for the future. Demand and supply may fluctuate due to a number of vital variables that may not be in the control of the management. PEST-EL analysis is a framework used for categorizing Political, Economic, Social, Technological, Environmental and Legal issues

influencing the operating environment of the organization (Johnson and Scholes 2008).

Political:

In 1976 China made a huge breakthrough when it abandoned its old autocratic socialist system and turned into to “ modern” Socialism which was more focused on Market-oriented economy. China has intensified its involvement to international organization since 1990’s.

After becoming the member of World Trade Organisation (WTO) China has opened the doors for the foreign banks to enter the Chinese banking industry.

Economic:

China besides India is one of the emerging giants and it has already occupied the second place as world’s biggest economy after USA. Therefore, China is a very attractive destination for all the foreign companies especially in the manufacturing sector. There is a slight decline in the Chinese Economy due to the financial crisis but the forecast for the coming years is much brighter. In comparison to planned economy before 1976, China is reforming its economy now for a more open market and free trade with other countries.

Social:

China ranks at the top in terms of population which is 1, 331, 460, 000 till 2009.

China lacks the high potential individuals and has the insufficient leadership which can follow the rapid economic growth. To control the population the policy of one child is not seen everywhere with the correct frame of mind. The biggest hurdle for all the foreign companies is the language. Chinese people are tied strongly with their culture therefore local language is the only way to conduct the business.

Technological:

Since the introduction and popularity of Internet online shopping is more into practice now in China According to CNNIC the number of online purchasers is 420 million. Internet Banking and Telebanking is becoming more common now. In 2006 China had approximately 400 million mobile phone users and 6.1 million of them are connected online.

Environmental:

The natural resources such as land water and air and the environment of China has been damaged seriously by its rapid economic progression. A large amount of usage of polluted energy such as Coal and oil. China is the third largest coal and oil consumer in the world.

Human right Issue (500, 000 individuals are in custody without any charge and trial and 1 million cannot access to Legal system. (Amnesty International)

Legal:

A set of policies has been established by the Bank of China to fight against white colour crimes. More than 200 administrative rules and regularity documents has been implemented by China Banking Regularity Commission to control the financial crimes.

China offers a open market to the foreign banks.

Porter's 5 Forces Framework:

According to Porter there are 5 main forces which can shape every market and industry. These five main forces assist to figure out the intensity of competition to the profitability and attractiveness of an industry. Porter's 5 forces framework on banking industry in China will provide us a suitable tool to depict ICBC's position in the chinese banking sector. Being a leader in the banking industry ICBC has to deal with all these forces to sustain its top ranked position. These five forces are: risk of new entrants, rivalry, bargaining power of buyers, bargaining power of suppliers and threat of substitute product. Porter's 5 forces framework for ICBC as follows:

Risk of new entrants:

The entry barrier for foreign banks has disappeared when China joined the WTO in 2002. Many foreign banks consider China a profitable destination for banking industry. Several financial and non financial companies can easily come to China and start operating their business.

Rivalry:

Besides the Big Four banks in China several other foreign banks have started their operation in China which has intensified the rivalry which has been there forever. Now ICBC has to compete not only with the Big Four sondern with big foreign banks such as HSBC.

Bargaining power of buyers:

Banking industry is a high buyer concentration industry. China is the largest country in terms of its population. A significant number of people use bank service, such as deposit money, mortgage, loan, investment, insurance and currency exchange these days. Internet is changing everyone's life customers can easily obtain the information via internet. In the banking industry interest rate and service charge are sensitive indicators for customers. In recent years various substitute products and services are available for example currency exchange, insurances and loans and they are provided normally by the other financial institutions.

Bargaining power of supplier:

Credit Card industry is a high concentration ratio industry and ICBC has been awarded with awards from the leading companies such as VISA and MasterCard Worldwide. Although few Aother companies also provide credit card system, such as JCB and American Express but their market share in the world is much less than VISA and MAstercard. So switching cost might be high for ICBC.

Substitute products:

Internet made a huge difference to many organisations when it comes to deal with money. Now they do not need to transfer huge amounts through banks. They can do the same with other low charge service and it is also more convenient. The services such as Real-time money transfer (i. e. Western Union), real-time payment (i. e. Paypal), currency exchange (i. e. Xe. com) and insurance (i. e. InsWeb. com) through Internet provide a high quality but low service charge service.

Resource audit:

Opportunities can be created and exploit in the external environment in which a business usually operates. Besides these opportunities threats are also present which can impair any business. However, to deal with these threats and exploit the opportunities, a business requires the right resources and capabilities. The current holding resources of any company can be recognized by the resource audit. These resources can be either owned (e. g. plant, machinery) or acquired from other resources such as partnerships and joint ventures.

Financial resources:

Existing Finance:

According to the first quarterly report (2011) of ICBC, the bank has continued to push forward to their growth and obtained a sustainable profit as compare to last year. The total assets have an increase of 6. 92% from the last year and its value is now 14, 389, 996 (RMB in million). Besides the assets the liabilities have also increased simultaneously and its value is now 13, 517,

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771(RMB in million) which are 6.97% more than last quarter. The equity attributable to equity holders has an increment of double digit (10.54%). Net profit for this period is 53,836 (RMB in million) which is 29.03% more than the first quarter of 2010. The result shows the successful implementation of their strategy local and globally.

Human resources:

ICBC is enjoying the services of 387,000 employees till December 2010 at its global and local centres.

Physical resources:

ICBC has till now around 18,000 outlets and 23,000 ATMs all over China.

Intangible resources:

As being the leading institute in the banking industry ICBC is enjoying their good brand image. ICBC has also obtained the partnerships with several banks all across the world especially in Africa. ICBC has also won the reputation for their Internet banking services. ICBC has one of the secure internet banking system in China.

Current Strategy:

In June 2009 ICBC had introduced its three year new Development Strategy Plan and Implementation Scheme of that plan to all its offices. In the last ten years of ICBC's strategic transformation this plan is the second three year plan and it was based on the implementation experience of the development

strategy plan of years between 2006 and 2008. This plan was produced after a comprehensive analysis of the latest development of ICBC and the economic and financial trends at domestic level and global level.

Implementation experience of old Plan (2006-2008):

The base of this strategic plan was laid on the experience of achievements and failures which had been achieved by ICBC in last 20 years as well as on the direction of China's financial reforms. The aim was set to achieve this strategic transformation within next 10 years. The strategies such as adjustment of management structure, development by areas, innovation, service differentiation, cross-border management, comprehensive risk control, and emphasis on technology and human capital were executed successfully and ICBC got better results than it originally expected.

Therefore, at the end of 2008 ICBC became the number one ranked bank in market value as well as it became the most profitable bank in the world.

ICBC was mainly successful because it enhanced the capability of comprehensive profit-making, paid a close attention to risk control and decided to achieve transformation in self-development.

ICBC's new three year Plan (2009-2011):

The successful implementation of previous strategic plan gave ICBC the assurance to carry out transformation strategy further to sustain the progress in development. The new plan offers the guiding idea that " Guided by scientific outlook on development, striving to enhance core competitiveness, continuing to promote management structural

transformation, developing more innovations, and achieving fast, stable and sustainable development of ICBC” to seize opportunities to strengthen and to brace its market position. To apply this strategy ICBC has decided to start from the reality and carry out the scientific outlook on development into every step of transition. The New Plan proposes ten strategic projects which attach emphasis to structure adjustment, finance innovation, service upgrading and etc., and a set of precise objectives and measures for various regions and for diverse services according to the general objective and task design of the ten strategic projects. For the successful execution of the strategies ICBC also introduced an implementation scheme to make thorough and specific arrangements of the tasks and responsibilities for different departments and branch offices. ICBC establishes coordination mechanisms to coordinate the New Plan to ensure the flexibility and adaptability. Furthermore, at the start of each year, required adjustments will be made to the evaluate indicators according to the actual changes in the business environment and the implementation effect of the new plan in the preceding year.

The existing problems, implementation progress and the implementation situation would be strictly monitored through regular inspections and reported to the Board of directors.

To accommodate their corporate social responsibilities ICBC has developed poverty alleviation project in Nanjiang County and Tongjiang County in Sichuan Province and Chengkou County in the city of Chongqing. Over 300 (RMB in millions) has ICBC invested already in this project. This amount

includes loans as well as the donations which have been distributed by the bank to eight hope projects which includes schools and medical treatment centres. There are several other projects which ICBC is directly responsible or helping them to improve the social life of the people of China.

According to the Annual Report Announcement 2010 ICBC has earned more profit in 2010 as compare to 2009. ICBC is getting those results because of their clear and good implementation of that strategy. Besides the increased profit overseas asset size had also increased in the last year as shown in the following diagram. That explains very clearly that ICBC is on the right path regarding their domestic and global strategy. The exceptional outcome of ICBC in 2010 especially at a time when it was concerned with a complex and changing operating environment was mainly a result of the Bank's successful implementation of its strategy at home as well as overseas. 12 new branches had been established in 2010 and a global network encompassing 203 overseas subsidiaries placed in 28 countries, spreading over five continents worldwide.

Every business company faces threats and challenges although the numbers depict the different picture. These challenges could be overcome by the company by bringing some minor changes in their business strategy. As many other companies ICBC also faces some challenges which needed to be addressed. Firstly, ICBC is growing very rapidly which can cause some problem as it may affect their quality of service. Secondly the bigger challenge which is coming in the way of ICBC is the competition with foreign banks. After several foreign banks entering China makes hard for the ICBC.

Now ICBC has more competition and even small mistakes can lead to huge financial and customer losses.

Reccomendations for improvement:

ICBC is facing a few challenges during their successful stint. These challenges has been mentioned above. These are not huge challenges and does not need any drastic changes in their strategy doemstically and globally.

First challenge which was mentioned is their rapid growth. To grow fast is not a challenge unless you start compromising on the quality of your services. To keep in check this problem they need more check and balance in their organsitional structuer. As I mentioned above in the organisational structure that the main problem of their structure is communication problem. When IC BC can sort out that problem then there will be no compromise in the quality.

Secondly, the callenge which can cause ICBC more problem is the competition in the chinese banking sector with the foreign banks as well as with the chinese banks. These foreign banks are entering China with much more oncoming force. Now ICBC can not afford any mishandling with their customer. A small mistake can lead ICBC to huge financial and customer loses. ICBC needs to transform their strategy in a way that they deal with their competetors in a way that they do not lose any customers locally as well as globally.