Commercial bank of africa case study mgt 501

Finance, Banks

COMMERCIAL BANK OF AFRICA Executive summary The Commercial Bank of Africa (CBA) case examines the challenges CBA is facing in trying to introduce change in an organization.

The problem is compounded because first, the management wants to introduce change in the Information and Communication Technology (ICT) management structure, and secondly, the existing structure is working very well. This results in the Managing Director of CBA, being in a dilemma whether to introduce the change or not. The Kenya's banking sector has witnessed rapid growth in the recent past resulting in a scramble for the available customers. There were 49 banks in Kenya in 2003. The banks face stiff competition and the only way to survive is by being updated on the latest Information Communication Technology (ICT) since it is an integral part of the banking institutions. ICT is considered a major focus as a strategic key in the attainment of the comparative advantage.

Other factors affecting the banks are the business strategic leadership in order to define business policy formulation and the implementation boundaries. Like in any other country the banking environment is punctuated by government regulations (with specific reference to CBK), political interventions, the ever-changing customer needs and other self-imposing forces in the industry. The Commercial Bank of Africa was founded in 1962 in Dar-es-Salaam Tanzania but reincorporated itself in Kenya in 1967. It has eight branches in Nairobi and three in Mombasa.

In terms of comparative size using asset base and shareholder capitalization, its competitors included Citibank, Standard Chartered, Barclays Bank of

Kenya, Kenya Commercial Bank, Co-operative Bank and National Bank of Kenya. In total there are about 21 banks in the medium category that CBA falls in and most of them are already technologically compliant with a wide base of diversified products. Despite all these, CBA had proved that indigenous banks could compete on equal terms with multinationals by being rated fourth and third best bank in Kenya in years 2001 and 2002 respectively. They managed to achieve this through their efficient IT department which ensured they stayed at the Top.

CBA is headed by Mr. Awuondo who is the Managing Director and the CEO. Mr. Bristow, the Executive Director was also a member of the banks board of Directors. CBA has specialised divisions, a high skilled and experienced management, and a top notch IT department with an experienced manager who ensures they win their competitors.

CBA is for sure being challenged greatly in its current position, of adopting new strategy and the challenge is to ensure the stay on top after introducing the changes. The industry became so booming in the 1990s, seeing a number of banks come into the scene of competition for the same customers. The next few years were a different story all together, with the World Bank and the international community withholding funds to the country as a result of the prevailing political situation. In addition the number of non-performing loans was on the increase as banks have raised the lending interest rates up to 70%. This saw a number of banks make considerable losses or no profits at all.

Despite this CBA maintained its clientele and the competitive edge it had over a number of banks in the medium sized sector. Unfortunately for them a number of small banks had moved to their scale of medium–sized grade, thereby posing greater challenges. Key issues 1. Introduction of change in the management of Information Technology To remain on top in the banking sector, CBA has done a major investment in IT systems in order to maintain a competitive edger over the players in the banking industry.

They have so far succeeded, but these systems need to be continually upgraded as a response to customer demands and also cope up with the current technological trends. New advancements are invented daily forcing CBA to constantly upgrade its systems to keep up with the pace. This must be expensive for CBA, and Mr. Bristow, the Executive Director has suggested that the IT department cede control of IT and become a consulting arm. In the proposed model, line managers would be responsible for generating and owning new IT projects and products.

They would manage project implementation with the help of the IT department. When complete, all the departments would have total ownership. 2. Change in the Role played by the IT department and other departments The IT department had been used to take the lead In the new model, IT staff had to learn to play new roles and required new kills. The first was that they would continue to give development support to line functions but they now had to give business support in project management for each line function.

Secondly, they had to work with managers to set priorities in their functional area systems planning. Thirdly, they would be required to give technical services and the employees would have to have up-to-date technical knowledge. 3. Managing risks Risks were increasing due to project complexity and span of operations that had become more expensive.

The IT staff would be deployed to a smaller central systems department and to functional areas like foreign exchange, treasury, and customer accounts. In this scenario, a single person would not monitor and manage overall risks. Ordinarily, Mr. Abwoga, the IT Manger oversaw all IT projects. The IT personnel therefore could not have one unit of command, and whereas they were to report to the IT manager, in this new model, they were reporting to line managers and the question was whether line managers and relationship managers would be in a position to be responsible for overseeing IT plans. .

Complexity Issues Technology interconnections were a complex undertaking due to many third party technology providers like VISA International for credit and debit cards. The line managers may not be in a position to understand the complexity of the IT well enough to give quality suggestions, and also may not understand the constraints of IT from a junior IT staff. Mr. Abwoga being an IT trained manager would easily understand. In the current centralized model, the IT department dealt with these issues. 5.

Building RelationshipsIn the new model, managing the IT function meant working together with many departments and successful project implementation required working more closely with functional users, senior management and vendors. They had to plan together for cross-functional

implications of future plans. Functional priorities would not necessarily be the bank's priority and some projects would probably be turned down. Another challenge was that functional area leaders needed to be senior managers with many years of experience, who understood the business, had good credibility with users and who would make business philosophy a reality.

. Risk of Failure The risk of failure was also high as CBA did not have backup systems like the multinational banks, where experimentation on new technology products was done in the locations before implementation in Kenya. The bank had a previous history of being the first in implementing bold technology initiatives. The initiatives had made the bank a front runner in the country's banking industry over several years.

Those successes were largely attributable to the IT team and its management structure. Mr. Awuondo therefore was in a dilemma of removing the successful IT team and placing the responsibility to the line managers, because he did not know whether it would yield better results or not. This was expressed by the phrases, " The current structure was working fine, in many respects", thought Awuondo. " CBA's comparable banks are yet to catch up with our level of technology use.

For now, we have a competitive edge, but how long would this last? On the other hand, was a fundamental re-organization of the IT function going to work? Or, would I be killing the winning team? " Awuondo pondered on how to proceed with IT management. Should the IT system be customer driven or be IT driven? 7. Competition CBA is faced with competition form banks like

Citibank, Standard Chartered, Barclays Bank of Kenya, Kenya Commercial Bank, Co-operative Bank and National Bank of Kenya. In total there are about 21 banks in the medium category that CBA falls in and most of them are already technologically compliant with a wide base of diversified products competition from other finance institutions in the market. They are all fighting for the same clientele in the environment, to a point whereby the one with the best strategies operates has a better chance of survival. Managers therefore have to be on top of things for survival of the organization.

8. Market segment CBA targets the corporate sector in the country and the international institutions operating in the country, with a high net worth. It also targets personal banking in Kenya. Its branches as seen earlier are only in Nairobi and Mombasa. But its competitors like Barclays and KCB are spreading their customer base to Africa region for example KCB has branches in Kampala and is opening in Sudan and Tanzania. And so is Barclays.

9. The Vision & Mission StatementCBA needs to define its mission and vision statements clearly as it will direct the employees and other stakeholders as to where the company is and where it wants to go in future. It should also clearly state the company’s objectives using this transition period to. 10. Government Regulations and Influence In June 2003, the government took three key measures to deal with the high interest rates charged by the bank by implementing an Act passed in 2000, the Central Bank Amendment Act 2000, commonly known as the “ Donde Act”.

It included the “ in-duplum rule”, which stated that interest on non-performing loans was to stop accumulating once the accrued interest equalled the principal sum borrowed. Secondly, it stated that Treasury Bills would cease being the benchmark upon which the industry pegged its interest rates and that instead, a ‘ neutral instrument’ would be formulated. The third measure was that the Central Bank of Kenya would explore the possibility of setting up a non-performing loan agency to assist in normalizing banks’ balance sheets, as well as setting up a tribunal with judicial powers to deal with the issue of NPLs. By implementing the “ Donde Act”, In 1990, the government had deteriorating relationship with the World Bank and got limited donor funds. They resulted top borrow heavily from the public, which resulted in banks, CBA included, taking advantage of the situation by dealing in Treasury bills. This caused the rates of interest to rise, thereby causing loan defaulters to be on the rise.

11. Economic Issues In the latter years of the Moi administration the most problematic issue in the banking industry was that of non-performing loans (NPLs) making banks ncur heavy losses as a result of massive provision and write-offs. CBA, like most banks, suffered losses for example the bank made provisions for bad debts of Ksh 140 million in 2000 and Ksh 40. 8 million Evaluation of key issues 1. Information Technology The banking industry has been transformed by use of IT, determining how to handle customer demands within the shortest time possible and with accuracy. CBA operates information systems that have become reliable over time thereby enabling them have a competitive edge over a number of competitors.

CBA is forced to upgrade its system regularly due to stiff competition from other banks, and the introduction of newer and advanced technologies in the industry. It is for this reason that the management has to adopt a decision that will ensure full and effective utilisation of information systems that are stable, reliable and result achieving with comparison to cost analysis. 2. Change in the Role played by the IT department and other departments Change in CBA, as highlighted by the MD is expected to be faced with a lot of resistance from a section of the staff. Mr.

Awuondo himself feels that one should not change for the sake of change and that this may be un unnecessary change. He also fears that the IT manager and the other managers may not embrace the change since the IT manager is used to take the lead in IT matters, and the senior management are over reliant on the IT department personnel. 3. Managing Risks Investing in IT is quite expensive, and the IT manager was in control of the IT department and had to make the final decisions on what was to be purchase on behalf of the IT department. If the decision he took failed, he was to blame. With this role being transferred to line managers, who may not be experts in such a field, was quite risky as there may be shift of blame to even the juniors for the decisions made.

4. Complexity issues Due to project complexity, it was such a risk putting the IT staff in the hands of line managers, who did not know a lot about the IT world, instead of putting them under IT specialist like the IT Manager. The managers would definitely have a big challenge taking the lead to an individual who already was used to leading and the problem will come in

when there is a mistake and someone needs to take responsibility. Before Mr Abwoga, the IT Manager would be answerable.

But now the line managers may also refuse to take the blame and say they were misguided. Even if they trained, the complexity of IT requires training for long period before one becomes an expert and also some managers may not be interested in IT. 5. Building relationships This may be good for the organization when people work together. They plan together and each manager has a chance to explain why they should be allocated the amounts they have requested and due to scarcity of resources, they are forced to prioritise together and implement together.

It develops more understanding. But it may also be negative when there is no cooperation. Some managers may feel their projects are more important than others and should be given a priority. Also when working together, some people may delay your work, and make the working atmosphere unbearable. 6.

Risk of failure Fear of the unknown was evident in Mr. Awuondo’s mind. In the management practise we learn that is not advisable to introduce change for just the sake of it. In our marketing practice lessons, we find that most Business people introduce change when there is decrease in sales resulting to decrease in profits. The structure put in place was quite efficient and had propelled the organisation to the top of most of its competitors.

It was risky to try this change as it had quite expensive. Staff needed to be trained, staff roles had to change before they implemented the new model. If

it succeeded, well and good. If it failed after all this, it could be quite embarrassing and CBA may stand to loose some customers. 7. Competition There are over 40 banks operating in Kenya, and this forces CBA to keep upgrading or adopting a new information system to keep at the top from their ompetitors, give quality services to their customer resulting to satisfied and happy customers, and in so doing, maximise their profits.

8. Vision and Mission CBA needs to define its vision and mission statements and clearly set its objectives which should be Specific, Measurable, Achievable, Reliable and should have a Timeframe (SMART) objectives. This will enable all the stakeholders to understand, adopt and practice. They govern the daily operations of the bank and direct on the policies and regulations that the bank should adopt in order to attain the set goals.

. Market Segment There is need for CBA to follow the other competitors in diversifying its customer base. They may also consider bringing on board the larger group of small business in Kenya since majority of Kenyans are low income earners. They can also open branches in other towns in Kenya. The can open in the African region e.

g. in Sudan since right now it is a new market, and many business people are moving that direction. 10. Government influence The government's regulations will always affect banks and as much as the banks came together and to Mr. Donde to court, the court ruled in the governments favour because the bill was going to help the majority of the people and not the profit making banks.

This is why, many investors scan the external environment e. g. Governments policy on trade in different countries before investing. 11. Economic Issues The issue of non performing loans has reduced as most of such loans were taken by politicians and persons who were politically correct. After defaulting, they were protected by the politicians and the banks lost.

Now things have changed and any person can be sued. This has helped the Banks a lot. Prioritising of Key Issues The issues discussed above will be prioritised in the sequence that needs to be followed for effective changes to occur in CBA. 1. Vision & Mission The current situation in CBA is forcing the management to re-evaluate where they are heading. There is need to first and foremost lay down the vision and the mission of the organisation.

Vision and mission are the driving force, identifying the reason as to why the company has been formed in the first place and lay structures on how to get there. The managers need to move with time and be prepared to embrace change. The longer the staff stays in one place, they become resistant to change and want things do be done the same way. They reason it has worked all these years, why change? The management have to provide visionary leadership, and learn to be ready to face change at any one time and also be willing to face challenges that may come their way.

2. Market Segment The Managers have to plan and decide who they target market will be. For the business to attain desired results there has to be an audience or public that shall consume its product. The target group of CBA is narrow and requires to be widened. Even though it is a priority to have the

group enlarged measures should be put in place to ensure that the existing customers are maintained. 3.

Competitor analysis CBA has to plan with their competitors in mind and scan the strategies used by their competitors so that they can stay at the top. 4. Analysis of Risk They have to analyse the risk they are taking in trying to introduce change verses how the change may affect the organization. How much will the change cost and what are the possible profits the change will bring.

5. Analysis of the complexity issuesThey have to analyse how complex the change may be and how they are going to deal with this. Whether the change would be easy to adopt or if it will take the staff a long period to adopt the change. 6.

Managing risks They have to look at how this changes will be carried out. Lay structures on who will do what and clearly state who will be responsible for what. i. e. formulate strategies and policies on how the change will be managed.

7. Government regulations and policies They need to scan what the government policy is regarding what they need to do. How the policies will affect their business. . Economic issues Look into how the changes will be funded and if there is enough money to fund the changes move to the next stage.

9. Change in the role played by IT and other departments (staffing and Training) Look into the staffing issue and introduce training for all the

managers and staff so that they are prepared for the change to so that they can enhance their performance and grasp the knowledge relevant for performance of their new duties before the changes can be implemented. Currently, many organizations encourage staff who have multiple skills and can multitask. The senior management and the rest of the staff should be independent on the usage of the system, unless when it comes to technical issues that only IT can address.

10. Building relationship The management have to unfreeze the position by informing staff well in advance of the coming changes early enough to give their suggestions. Train them in preparation of the changes. Prepare them in the training learn to work together as a team. Practise this so that they are prepared for change.

Hold some team building workshops to help prepare them to work as a team. 11. Introduction to the Change in IT management Now they will actually be prepared to take in the change. Introduce and implement the changes, then freeze the position by getting feedback on the effects of the changes be flexible to take in corrections of unforeseen circumstances and adopt ways that will ensure the changes are accepted by all stakeholders. Alternative Ways of Dealing with the above issues CBA reason to change the IT department is to ensure that they stay at the top and are in a good position to lead their competitors, the existing ones and also the emerging ones. The alternative solution is that CBA can diversify its products to those that can sell well in the competitive market, bringing in new clients on board and creating a niche in the industry.

For example, lower the minimum balance on certain account categories, or even have the ledger fees on accounts reduced to accommodate the low income earners. They can either adopt the change or stick to their old way of upgrading the IT infrastructure instead of completely changing the whole system. The costs of implementation of a new system is higher than upgrading. They will also save on training, so they will not waste their time learning new things that may be difficult to them.

The staff will also be relieved of stress that comes with changes and how to cope with the changes. CBA can also merge with a suitable partner in the industry, or franchising. This would increase its capital base, and enable it to work with the multinationals that it competes against. It can also relaunch itself anew, and come up with many options that are initially limited by capital. Optimum Solution The optimum solution would be a Radical change are required in the management style. This may be one of the reasons as to why the new Executive Director has been introduced into the system.

The lack of visionary leadership has caused a lack of new ways of doing things and being innovative to continue enjoying the competitive edge already created. A growing organisation requires leaders with ambition, ready to face change whenever it comes with the appropriate strategies and not mere fear as exemplified the current leadership. The management should all work together as a team. This will help in decision making and a better solution arrived at.

They should also onsult the board of directors and get their approval to carry out the changes. Together they should clearly define vision and mission

statements of the bank, and formulate structures and policies on how to implement the plans and objectives. The new business strategy as suggested by the new Executive Director should involve participation and empowerment. The company should put in place a flat structure and make all the departments part of the corporate strategy on the basis of their level in the hierarchy, as all are required in the efficient delivery of service to its customers. A collective responsibility for decision making should be enhanced among all those involved in the process.

The staff should be trained and encouraged to multitask. Senior managers should set a good example by understanding how the system operates, hence become self- reliant. As at now it would even be difficult for them to assess the performance of the current system considering they do not fully understand it’s performance, shortcomings and the potential it has. Understanding and team spirit must be established between the various departments..

Their relationship with the customers should be maintained and enhanced. This will ensure that CBA remains at the TOP. Implementation Programme ActivityFormulators ImplementersDurationBudgetExpected Results 1. Vision & MissionBoard of DirectorsManagers 3 months Kshs. 1, 000, 000.

00Mission and vision statements 2. PlanningMangers with input from staff Mangers 3 monthsKshs. 3, 000, 000. 00Plans and budgets for a specific period and strategy formulation on how to implement the plans.

3. Staff Training & DevelopmentHR MangerThe HR unit And all staff6 monthsKshs. 3, 000, 000. 00Competent and knowledgeable staff. 4. Introduction to change Senior Management With input from staffAll staff 12 monthsKsh.

, 000, 000. 00New Machines purchased as line managers take over. 5. Increase of Market segmentBOD & Senior ManagementAll staff12 monthsKshs.

500 millionIncrease customer base & and profitability Conclusion Mangers play a key role in all organizations including banks. For any business to thrive, it has to have a good management team who consult and work together as a team. The CEO has to be a person with a vision and be in a position to steer organization to great heights. For example, when the CEO for Mumias Sugar, Mr. Evans Kidero joined Mumias Sugar, the shares for the sugar factory started moving upwards from Ksh. .

50 per share to Ksh. 40 per share. Also Kenya Airways which had remained Ksh. 8. 00 per share for over 10 years, moved upwards to Ksh.

98. 00 per share when the new MD Mr. Titus Naikuni took over. CBA's managers do not seem to work together and discuss important issues as introduction of change in the organization entails. The executive Director and the Managing Director should have held lengthy discussions to help the Managing Director understand fully the imperative change and also given him a chance to ask questions and iron out his fears.

Then the managers would have been consulted on the issue to give their input and then the staff in a cascading manner. When all views have been incorporated, then the managers would carry out their role of making a decision, planning, organising, staffing, directing and coordinating. . Today is IT decisions, tomorrow may be another major decision. CBA needs to get a strong management team to ensure continuity of staying at the top.