

Competitive environment for hsbc



\n[[toc title="Table of Contents"](#)]\n

\n \t

1. [Competitive Advantage](#) \n \t
2. [Corporate Analysis on HSBC - SWOT Analysis](#) \n \t
3. [Conclusions & recommendations](#) \n \t
4. [References:](#) \n \t
5. [Banking Industry in HK](#) \n \t
6. [Introduction](#) \n \t
7. [Future of Banking Industry in HK](#) \n \t
8. [Efficacy of Response to the Crisis](#) \n \t
9. [Common Elements in Successful Strategy](#) \n

\n[/toc]\n \n

The financial crisis of 2008 considerably create significant impact to the not only to the bank businesses in Hong Kong but also to global economy.

Basically, the general concept of financial crisis of 2008 refers to the degree to which the performance of a firm or an industry is affected by the global financial crisis. The financial crisis of 2008 which directly affect the lenders and other financial institutions can also affect an individual investor who owns a portfolio; a company; an exporter and importer who concentrates on international trade and even a firm that has no direct international activities. Furthermore, through their impact on the costs of inputs, outputs, and substitute goods play a significant role in determining the competitive position of companies with no direct international operations relative to foreign firms (Solvell & Zander 2000).

Since few organisations can excel simultaneously all over the scene, they specialise. Some are renowned for their ability to organise and place new issues, others prosper as merger and acquisition specialists, reliable asset managers, skilful forex traders or efficient custodians. The product roster may have a connection with an initial and fairly random advantage, or it may be a judicious response to a shifting environment, competition and ultimately profitability. Regional specialisation, by contrast, tends to have more deterministic elements, geographical and cultural closeness, for example.

With respect to the current competitive environment scene and in the banking industry in which HSBC belongs, regulatory and technological changes are the main catalysts, making entrenched competitive structures obsolete and mandating the development of new products, new processes, new strategies, and new public policies toward the industry under analysis (Bond Green, 2003). Financial centres, in vigorous competition with each other, have undergone further regulatory change in their efforts to capture a greater share of international trade in financial services, even as common efforts at the regional and global level have tried to support safety and soundness and a reasonably level competitive playing field. Banks and securities firms have had to devise and implement new strategies-- sometimes leading events or (perhaps more often) responding to them--and the financial services industry has seen a wave of mergers, acquisitions, and strategic alliances in virtually all parts of the world. There are numerous major banking players in the industry, included in the list is HSBC, who strive for market leadership in all their business aspects. As such, the level of industry competition is very stiff and very aggressive.

Competitive Advantage

In the case of HSBC, even though this organisation had a very strong market competition in the industry where entrants have little or no threat will earn low returns on their profits if it has to face a superior quality and lower-cost alternative. For competitive advantage, HSBC uses strong branding and a tailored approach to give customers an individual service, whether they want investment banking services for their company, or a personal mortgage.

With high personal contact or a range of electronic access points, they can provide their customers with accessibility to their services anywhere in the world. Each product produced is tailored to the customer's needs but follows very precise processes. At each stage, the customer and advisor must sign documentation to prove that the right level of advice has been given, is understood and the customer feels that at that critical point, they have received good quality service.

Despite of the emergence of global financial crisis in 2008, the global development strategies of HSBC shows superiority but would not be appreciated without the concrete examples of their projects, which indicate the changes and success in the market. Annesley (2008) reports that two years ago, HSBC spends more than 2.5 billion euros a year on IT systems and in-house application development, and set itself a target of cutting per-unit processing costs by 10% every year. This year, HSBC expects to make an 11% saving on transaction processing this year after cutting 8.8% off costs in 2005, after 370 successful system deployments in the past three years, and the continued expansion of its pool of global platforms (Annesley, 2008). In addition, the bank has also set up a single, self-managed global

network and consolidated on four global datacenters and two regional ones. Moving application development work to low-cost centers such as India is another key part of the company's strategy, leading the bank to estimate that 4.2% of its technology development work takes place in low-cost locations, such as India and the Philippines (Annesley, 2008).

In 2008, Fair Isaac Corporation, the leading provider of analytics and decision management technology, announced that HSBC would utilise Fair Isaac's proven software technologies, analytic models and development processes for Enterprise Decision Management, and this integrated solution will help HSBC grow its ability to optimise profitability across the bank's consumer lending portfolios, and support its long-term growth objectives in the Asia-Pacific region ('Press Release' 2008). Moreover, to build upon rapid growth of its credit card portfolios and strengthen its leadership in Asia-Pacific's booming consumer lending market, HSBC required a highly scalable solution to roll out optimised decision strategies across products, countries and decision areas ('Press Release' 2008).

It is evident that the Hong Kong and Shanghai Banking Corporation or HSBC invest on software programs and applications, in response to the fast-paced technological changes today. With the use of the Internet and other web-based applications, it is easier for the company to reach their customers globally and serve them better and faster. With the pleasant response of consumers to the efficient use of the World Wide Web, HSBC will not have a hard time relating to their customers globally, and even implementing projects and new programs to serve and relate to their customers effectively.

Corporate Analysis on HSBC - SWOT Analysis

As part of the business practices of HSBC, SWOT analysis illustrates their status in accordance to strengths, weakness and opportunities and treats after the financial crisis.

HSBC's Strengths and Weaknesses

Strengths. HSBC has branches in most parts of the world. This helps them have advantage against their competitors. It also gives them the opportunity to serve more consumers thus they can acquire more profit (Who is HSBC? 2010). The employees of the company are well trained. The employees were well chosen and well trained to do their respective jobs. These employees are well managed to keep them in line with the objectives and standards of the company (Who is HSBC? 2010). This is strength of a company because it brings out the best employees thus the best service can be given to the clients. If clients enjoy the service of the company they tend to return to avail again the services and products offered by the company this results to satisfaction of the goals of the company. The company has an internet banking capability wherein consumers can transact their business online. This promotes ease and convenience to consumers. It also gives them advantage over their competitors since not all competitors have such technology. HSBC due to its availability in the world has acquired a strong brand name(Who is HSBC? 2010). This is strength for the company due to people will search for the company when they need such kind of services. Having a strong brand name means that the company has competitive advantage against their rivals. Summarily, the company's strengths include

its worldwide reach, well trained and managed employees, internet banking capability, and strong brand name.

Weaknesses. The company although has a strong brand name is lacking of promotional programs. The company maybe popular to those who have seen it in the internet, have availed of their services, or have come to know of the company through HSBC's clients but to some people the company is not that known (Who is HSBC? 2010). The company needs an effective promotional advertisement that can give the company more clients. HSBC although performing well against most of their competitors still has to overcome its best competitor which is Citigroup. As shown in the second figure the numbers Citigroup has over the other companies is so high. This means the company has to work double time to overcome or be equal to Citigroup. To sum up, the company's weaknesses include the lack of promotional advertisements, and inability to overcome the best competitor it has.

HSBC's Threats and Opportunities after financial crisis

Opportunities. After the financial crisis, the main opportunity for HSBC is to increase the number of its strategic acquisitions in order to further strengthen their current market leadership position. Through such acquisitions, HSBC would be able to widen the scope of their market share, improve the quality of services that they offer to their clientele, and develop their core competencies further (Who is HSBC? 2010). A secondary opportunity for the company is its internet banking. They should improve its features so that it can cater to the needs of the consumers. The company should also promote the said technology more to attract more clients.

Another opportunity the company has is the website it has. The company can make the website more user-friendly, helpful and informative so that people will be encouraged to use it. The web can also be used as a promotional material that the company can use for more people to know the company. Succinctly, the major opportunities for HSBC are its potential strategic acquisitions and its utilisation of the Internet technology.

Threats. The main threat to the company is Citigroup. If the HSBC don't do anything to improve their current status they might not catch up with Citigroup and more success may come to that company. Another treat is the economic condition of the countries they are operating in. The status of the economy in United Kingdom (UK) is different from the status of the economy in Hong Kong, the status of the economy in UK might be good unlike the status of the economy in Hong Kong, potential problems may arise thus HSBC should prepare measures to counter it (Who is HSBC? 2010). Additional threats to HSBC may include the ever-changing legal landscape for international business operations, unforeseen strong industry entrants which could decrease the potentialities of HSBC's market presence in the countries which they have yet to explore.

Conclusions & recommendations

Businesses are continuously evolving in order to meet the needs of its people. However, they should be cautious to the changes in order to maintain competitiveness. Therefore, they need to have a careful review of their financial status. Overhead costs and credit rating should be also reviewed carefully. Business companies around the globe should not rely alone on credits instead they should think of creative ideas to sustain their

growth and development. Thus, if the financial crisis hit the country, they'll be able to survive. Basically, the actual cause of the financial crisis or the emergence of financial crisis of 2008 is that both Europe and the United States were living beyond their means for too many years (Foster, 2008).

After the crisis banks in Hong Kong including HSBC remain intact despite of severe damages. As previously stated, the context of financial crisis of 2008 conforms to the financial capabilities of a firm in global context. After the crisis, businesses are now much becoming careful concerning the assessment of their business process to avoid downfall. For recommendation, HSBC and other retail banks in Hong Kong should now consider risks management. The cost of indemnity had restricted management's alternatives in dealing with the hazards faced by the organisation. Basically, one of the foremost problems was that insurers rated firms according to business in such a way that a fine run firm that had few losses were required to pay for the claims of poorly run firms within the same industry. With this, the role of risk management must be considered. Management may began to make out that abridged losses intended reduced cost of risk. If managers reduced losses they could hold them themselves without resorting to indemnity. However, it took some time for industries to settle in management.

The delicate inquisitiveness in management is the result of a number of instantaneous drifts. With the current economy, the trade and production has augmented financial and direct investment in unstable up-and-coming markets. With this we may say that risk management has also ensnared consideration as a result of the recurring and well-publicised breakdowns

linked with its execution. Regardless of the amplified academic and specialised concentration paid to risk management, common instances still occur when classy investors or firms experience abrupt, unexpected, and devastating losses.

Basically, risk is a mean reason in economic existence for the reason that individuals and firms create immutable reserves in research and product improvement, inventory, plant and equipment and human capital, without knowing whether the potential cash flows from these funds will be adequate to pay off both debt and equity holders. If such genuine investments do not engender their necessary returns, then the financial claims on these returns will turn down in worth.

In addition to altering the extent of equity and debt in their capital composition, firms/business organisations can also influence their chance of liquidation by extenuating the risk disclosures they countenance.

Firms/Business organisations should come out to prefer between the types and degrees of disclosures, assuming those that they consider have an aggressive gain in supervision and laying others off into the capital markets. Other features of the firm's processes such as the convexity of its tax lists, can also influence the amount to which administrators challenge to alleviate risks (Tufano 1996). Apparently, Besanko, Dranove & Shanley, (1996) believes that economists and strategic planners view risk management as being related to the issue of the boundaries of the firm. In this structure, the pronouncement to alleviate meticulous risks is comparable to the verdict to outsource a particular purpose. Thus, risk management, like technology, allocation, or level, is a basis of economical plus.

With respect to risk management as tool to counter financial crisis of 2008, we may also say that, strategies that should used by the banks must contribute to the bank's possible success rate especially in the face of crisis that involves the financial aspect of the organisation. The presence of a these strategies may give the organisation a competitive advantage over their rival organisations through their scheme on how the organisations or departments that make up the industry are able to work together, and at the same time how they establish their reputation in order to continue giving their services to their clients. Here, the corporate strategies that companies use involve the bank responsibilities and the brands that contribute to the performance of the bank.

References:

Annesley, C 2008, Computer Weekly. com, viewed 07 April, 2010, .

Besanko, D Dranove, D & Shanley, M 1996, Economics of Strategy. New York: John Wiley & Sons.

Bond, J & Green, G 2003, 'Welcome HSBC Strategic Overview', Managing for Growth 2004-2008, viewed 07 April, 2010, .

Foster, JB 2008, The Financialisation of Capital and the Crisis. viewed 07 April, 2010 at <http://monthlyreview.org/080401foster.php>

Press Release 2008, Fair Isaac, viewed 07 April, 2010, .

Solvell. O & Zander, I 2000, 'Cross-Border Innovation in the Multinational Corporation', International Studies of Management & Organisation, vol. 30, no. 2, p. 44.

<https://assignbuster.com/competitive-environment-for-hsbc/>

Tufano, P 1996, Who Manages Risk? An Empirical Examination of the Risk Management Practices of the Gold Mining Industry. Journal of Finance, September, 1097-1137.

Who is HSBC? 2010, HSBC Global Site, viewed 07 April, 2010 at .

Banking Industry in HK

Introduction

With the continuous and rapid changes the world and people undergo, organisations find it necessary to adapt new methods or reformulate current business applications so as to function more effectively and achieve specific corporate goals.

This paper discusses the variables and issues about the impact of financial crisis among banks in Hong Kong. Particularly, this study will focus on the examination of the impact of financial crisis to the said industry. This paper shows the Hong Kong's bank industry awareness about their both internal and external environment such that they have instituted strategic management imperatives to complement the demands of industry. This paper illustrates the challenges in order to determine the possible strategic moves in order to survive in financial crisis.

Future of Banking Industry in HK

The global economy is now in extreme turmoil. It initially began in 2007 and was referred as credit crunch when the confidence of investors for the value of securitised mortgages in the United States lost. This has initiated a series of domino effects that have adversely affected the financial sector due to its complicated and high leveraged financial contracts and operations in <https://assignbuster.com/competitive-environment-for-hsbc/>

the American sub-prime mortgage sector (Culp, 2001). And in September 2008, the sub-prime crisis became even more deteriorated, leading to the crashes of stock markets across the globe and entered the current period of even higher volatility. Under the current turmoil, not have any bank can really not be involved, even the USA five largest investment banks two be sold (Bear Sterns sold to JP Morgan on 29th of May 2008 and Merrill Lynch &Co. sold to Bank of America on 15th of Sep2008), at same day of Merrill Lynch sold, the Lehman Brothers been bankruptcy and other two of the bank the Goldman Sachs, Morgan Stanley change into the commercial bank. And that are not all there are still have a lot bank in the world been bankruptcy, nearly bankruptcy or be come to the nationalisation.

From the scenario, it shows that all business effort or venture was continuously facing with different problems about financial management problems. Thus, it is very important for the manager or owner to concentrate and evaluate their business process especially during the times of crisis that the global communities are facing. Thus, key financial decisions usually faces the business administrators in problems and issues that is related to financial investments they typically give solutions about the assets on which the firm requires to put money and how a preferred venture have to be financed. With this consideration, we may say that the recent financial crisis is one of the problems experienced not only by some firms in the United States but also by the global economy including the banks and other business in Hong Kong. Basically, the recent financial crisis of 2008 around the globe is actually related to the concept classified by the general media as a " credit crunch" or " credit crisis" was started last 2007 of July. The crisis was

triggered when most investors lost their confidence in the value of securitised mortgages in the United States and then later it spread out not only in America and Europe but also in Hong Kong. This development created a liquidity crisis that prompted an extensive inoculation of capital into financial markets by the United States Federal Reserve, European Central Bank and Bank of England (Norris, 2007).

Despite of this turmoil in the financial and banking industry of Hong Kong, the future remains to be positive. As seen, after the crisis banks in Hong Kong remain intact regardless of severe damages. As previously stated, the context of financial crisis of 2008 conforms to the financial capabilities of a firm in global context. This is a good indication that businesses are now much becoming careful concerning the assessment of their business process to avoid downfall.

Efficacy of Response to the Crisis

With regards to the current financial crisis (2008) businesses including banks and other lending and other financing institutions in Hong Kong are exposed to different business risks. Despite of the emergence of these risks, banks in Hong Kong are efficiently responding to counter the risks created by the current financial crisis. According to Joseph (2002), one of the common issues among banking business are the position risk of asset liquidity and market liquidity. It seems that if a loss occurs in the on- and off-balance-sheet performance of the entity due to market price instability, then market risk is also an issue which could arise. Aside from this, there are also concerns linked to asset liquidity risk which could occur when there is an incapability to slacken financial instrument place in a level close to its

market value due to require of profundity or market disruption of the instrument (Joseph, 2002). For international, large and active banks, security trading engrossed them for the reason that customer's surrogated capital markets against banks loans. Consequently, position risk is obtained by these banks. In insurance businesses, position risks come up from funding risk or the risk that they will evade in paying policyholders. Even though technical requirements are secluded by regulation to avoid non-payment, insurance firms uncovered their investment premiums to position risks restraining their further capacity to perform contractual obligations.

As response to the current crisis among banks in Hong Kong, Joseph (2002) assured that guideline can avert a subsequent bank crisis through regulation of capital since the capital can serve up as blockade in opposition to the capital as incentive-reducing feature for banks to take considerable risks and loss. Additional, regulation can be more successful when there is a group-wide inspection rather entity-to-entity since it thwarts multiple gearing to avoid unsuitable augment in equity. The group wide-view to regulation is not appropriate to securities firms as a substitute to broker-dealer only due to some grounds. Moreover, Joseph, (2002) believed that negative news will not create crisis because the assets of the firm is unconnected from the assets of the clients and there is simple and non-service unruly transfer of assets to other firms. They carry dated debt mechanisms that are not exaggerated by self-fulfilling forecasts. They hold more liquid assets and resources traded in every day which alleviate the asymmetric issues since lucidity is eminent. Finally, they pass the accountability for payment systems to banks that they stay away from large value outflows.

Actually, the main task of any nation in the world is to present their citizens with a high-quality life. Thus, countries like Hong Kong try their best to recognise and arise with elucidations to the various problems meet in their nation. Similarly, the countries including their business organisations discussed in this paper should do the same. Businesses in Hong Kong including their banks were able to face downfalls and adversities in their governments and economies in order to experience triumph. Due to these challenges and adversaries, the governments may make use of all their possessions in looming up with solutions and look for answers to their struggle. These downfalls were apparent in the history of South East Asian countries, and pushed them for improvements in their governments, with the execution of new policies. The nation's success relies on the response of the countries' citizens, leaders governance and external factors, such as the international trade relations and world output.

With the execution of variety of macroeconomic policies in Hong Kong, it helped their governments realise the importance of reform, for in their situation, reform has been beneficial. With regards to the current financial crisis, Hong Kong and their business organisations including banks must consequently sustain their achievement by additional improvement of their current macroeconomic policies, and make new ones for incessant political, economic, industrial and environmental stability and growth, globally and locally.

Common Elements in Successful Strategy

Due to the emergence of global financial crisis, bank industries around the globe especially Hong Kong are creating strategies to maintain their

existence. One of the strategies imposed by banks was through acquisition and expansion. For instance, HSBC, a bank in Hong Kong continuously exerted efforts to their acquisition strategies just to maintain their leadership despite of the current. However, this effort requires considerations of scenarios and business capabilities. Actually, establishing a bank in other parts of the world such as those belonging in the European Union may be more advisable for some entrepreneurs. There are many reasons for this judgment. One of which is the fact that the European Union is a vast region of countries whose level of development varies. This means that EU offers business areas that are less developed than the other, giving better opportunities for foreign banks. Rules and regulations are likely to be more stabilised in some European regions as compared to the Hong Kong business setting. Tariffs or barriers to entry like taxes may also be lower in other European countries, making foreign entry less difficult. Most importantly, market diversity in EU is far larger than in China, making access to opportunities and market growth easier.

Nonetheless, it should also be considered that certain risks can also hinder the development of a foreign bank within EU. For instance, the presence of higher competition level is likely, considering that multiple local and foreign banks will be operating within the region. Moreover, though laws and regulations may be stable, differences in banking policies, operational practices and other relevant factors may make market access not as easy. From this standpoint, it becomes clear that establishing a bank in any foreign country has its advantages and downsides. This suggests that foreign entrepreneurs must be skilled in handling this possible business risks.

Hong Kong and its banking sector have a lot to offer for foreign investors; however, the country and its administration must improve some of its banking aspects not only to make Hong Kong more appealing to entrepreneurs but also to prevent business issues. One of these means would be the stabilisation of its business laws and banking legislations. The country must have a definite ruling for both domestic and foreign banks in such a way that both will benefit from. While the Hong Kong government is protecting its local banking sector, it must also employ means that will make foreign bank investors less cautious. The restrictions should also be implemented at a reasonable level.

Hong Kong has in fact, conducted several changes so as to be more open for foreign banks. For instance, it has attempted to improve its corporate governance by requiring and encouraging banks to introduce governing boards. Moreover, approved accounting firms are now used for auditing. Operational risks are also being handled by strengthening balance sheets; financial statement definitions are also slowly being accomplished based on international standards.

The foreign investors themselves can apply certain means to safeguard their businesses from these recognised risks. One of the important strategies that firms should consider is to operate alongside a local business partner (Overby, 2000). This will help the firm adapt easily to the Hong Kong business environment. A local partner can also assist in learning the Hong Kong culture, practices, regulations and means of interaction. More importantly, a Hong Kong business partner can also help in achieving progress faster. Training the staff becomes even more important in foreign

business ventures. The workforce must be supported fully particularly in adapting the business' new concepts, standards and technologies. The management should ensure that the local staff is also well-adjusted to the new system so as to encourage them to contribute more for the business (Berger, Hancock, & Humphrey, 1993).

In general, the investors can start off by analysing the business environment they wish to invest on. It is important that business entrepreneurs are aware of the distinct features of each foreign setting; in this way, the investors will know how to address in the most effective way. With this, it is evident to say, that one of elements needed to consider for a successful strategy was learning and adaptation since these are perhaps the two most important factors that should be present.

For instance, it has been reported that at the end of 2003, HSBC launched the 'Managing for Growth' program, which is a strategic plan that provides the company with a blueprint for growth and development from 2003 to 2008 ('Strategy' 2010). This strategy builds on the company's strengths and addresses the areas where further improvement is considered both desirable and attainable. HSBC's core values are integral to its strategy, in communicating them to customers, shareholders and employees, and comprise an emphasis on long-term, ethical client relationships, high productivity through teamwork, a confident and ambitious sense of excellence, being international in outlook and character, prudence, creativity and customer-focused marketing ('Strategy' 2010). In addition, there are several key elements in achieving HSBC's global development objectives, and these include accelerating the rate of growth of revenue, developing the

<https://assignbuster.com/competitive-environment-for-hsbc/>

brand strategy further, improving productivity, and maintaining the company's prudent risk management and strong financial position.

Developing the skills of their employees is also given emphasis to ensure that all employees understand how they can contribute to the successful achievement of HSBC's objectives ('Strategy' 2010).

Moreover, there are eight strategic imperatives included in the plan of HSBC in accordance to their development strategy. Their first imperative is their brand, by making HSBC and its hexagon symbol one of the world's leading brands for customer experience and corporate social responsibility. The second imperative is their Personal Financial Services, which drive growth in key markets and through appropriate channels, HSBC can be the strongest global player in personal financial services. The third one is Consumer Finance, which is extending the reach of this business to existing customers through a wider product range to penetrate new markets. The fourth imperative is Commercial Banking, making the most of HSBC's international customer base by creating an effective relationship management and improved product offerings in all their markets ('Strategy' 2010).

Furthermore, the fifth imperative is Corporate, Investment Banking and Markets, which accelerates growth by enhancing capital markets and advisory capabilities, by being focused on client service in sectors where the company has critical relevance and strength. The sixth one is Private Banking, which aims to serve the company