

CHAPTER 5

X MERCHANT BANK BERHAD

The Background

The formation of X Merchant Bank ("The Bank") in the 1970s was made in recognition of the rapidly developing corporate sector which would be in constant need of integrated merchant banking services encompassing the full range of wholesale banking activities. It was a pioneer in its own way when it was first set up as it was the first merchant bank to start the Banker's Acceptance facility and even presided over the first corporate bond issue. It was a leader in its time.

X's shareholders, represent some of the biggest names in Asia. They include a homebred large financial conglomerate with extensive expertise in providing financial services to all sectors of the industry, the Government and the public which owns approximately 75% of X Merchant Bank Berhad. Its holding company is one of the largest corporations in Malaysia. The remaining 25% is held by one of the major commercial banking institutions in Japan and its subsidiary finance company in Hong Kong. The Japanese bank belongs to one of the biggest keiretsu of Japan and as such has an extensive international network in addition to a full range of domestic and international banking services in Japan and around the world. In recent years, the Bank has taken on leading roles as advisers to various private and public sector organisations pertaining to corporate financial advisory programmes. It has also

become a leading institution in the creation of financial instruments and raising of finance for both the private sector and various government agencies. Its commitment to innovate and update its range of services was exemplified when it became one of the pioneer merchant banks in Malaysia to set up an Interest-free Banking Unit offering products under the principles of Al-Mudharabah, Al-Bai'Bitamin Ajil, Al-Musyarakah and Bai'al-Dayn.

Mission Statement

The Bank's corporate vision is to be a proactive, professional and prominent Malaysian organisation offering a full range of merchant banking services. Its current mission statement is as follows:

To consistently provide a good return on investment for the Bank's shareholders, to develop the Bank's human resources to their fullest potential so as to accord the highest level of services and professionalism to the Bank's clients, to be a good and responsible corporate citizen, to upgrade and equip the Bank with the latest technology so as to provide swift and quality services internally and externally, to strengthen and improve linkages with associates and related companies, and to expand operations within Malaysia and internationally.

An effective mission statement generally exhibit nine characteristics or components, namely a) customers b) products or services c) markets d) technology e) concern for survival, growth, and profitability f) philosophy g) self-concept h)

concern for public image I) concern for employees. The vision and mission statement arguably fulfills all the components above.

The Organisation Structure

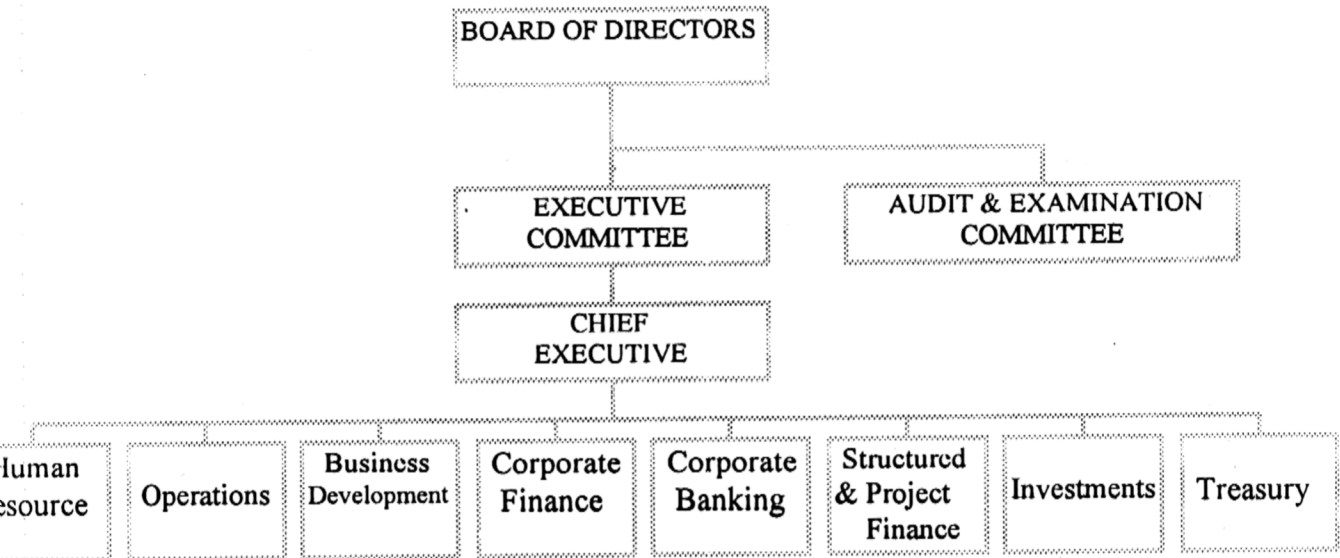


Figure 5.1 The Organisation Structure of X Merchant Bank Berhad

The Bank have a flat and service based organisational dimension similar to most Malaysian merchant banks. During the last year, its staff strength has increased significantly by 22% to 140 employees. Each department is headed by a manager and staffed by mostly graduates as executives with supporting personnel. The ratio of executives to non-executive staff is approximately 2 to 1. A new Chief Executive was taken on in 1994.

The Corporate Finance department offers mainly corporate advisory services which include company listings, mergers and acquisitions, restructuring, underwriting

and the norm. Corporate Banking offers structured financing, credit facilities, loans, issue of bank guarantees, bills and invoice discounting, and interest-free banking. The department of Structured and Project Finance offers project financing, international finance and off-shore loans, syndicated credit facilities, private debt securities, and trustee and agency functions. The Investment department service institutional clients and offers portfolio management, custodial and settlement services, nominee services, research and investment counseling. The Treasury offers inter-bank deposits and placements, short term repurchase agreements (Repos); and primary and secondary trading of bills and other financial instruments. The function of the Operations department include general financial and administrative duties, processing of deals concluded by the Treasury and Investment departments. The Bank is one of the few merchant banks that possess a Business Development Unit whose functions are corporate planning, corporate communications, general business development and training. The Human Resource Department manages the recruitment, payroll and coordinates human resource development programmes. All department heads report to the Chief Executive.

The Bank firmly believes that its competitive edge rests on its staff and teamwork. As such, it is embarking on a coordinated approach towards human resource development programmes designed to develop both technical and managerial skills. In addition, training programmes extend to clerical and support staff.

Business Operations

The Bank mainly distributes and markets their services and products through their head office in Kuala Lumpur. It does not have any other branches in Malaysia. Services are also delivered by direct contact with the customer. This is usually practiced with East Malaysia clients. Previously, the bank does not practice cross-selling of its services through affiliated companies or subsidiaries actively or vice-versa. Its clients comprise mainly quasi-government institutions and corporations.

The Promotion Mix

Previously, the Bank does not actively promote its services and have kept to a low profile servicing loyal clients. Currently, the Bank uses the following promotion mix which comprise of push and pull strategies. They are:

1) Personal Selling

The Bank embraces the Relationship Officer (RO) concept as its main services marketing tool. Generally, relationship officers go out to solicit business and to forge closer customer relations by making presentations etc. while managers follow up on leads and negotiations. However, managers and executives can function at RO level. All managers and executives contribute to the technical aspects of the service.

2) Advertising

The Bank is currently embarking on an advertising campaign to promote itself in the corporate world. Its unorthodox adverts in business newspapers and magazines has

invited numerous inquiries. Other tools used are booklets, corporate brochures, technical bulletins and literature to be disseminated to clients.

3) Sales Promotion

The Bank also participates in exhibitions and conduct public seminars. This is in line with the current marketing strategy to create awareness and gain exposure among the corporate world.

Pricing Strategies

The Bank's pricing objective varies depending on the type of service, client and the competition. For some services e.g. loans, the Bank charges at a premium above the minimum pricing structure set by AMBM because it prides itself on the quality of the work done, efficiency and speed in execution. On the whole, the Bank believes in charging a fair economic value and in certain cases, charges at a premium if the perceived value of service is above market norm.

The Internal and External Analysis

To analyze the Bank, a SWOT analysis is used. The aim is to identify the internal strengths and weaknesses, and external opportunities and threats. The internal strengths and weaknesses is a summary result of the different department managers' views. An Internal Evaluation Matrix (IFE Matrix) and External Factors Evaluation Matrix (EFE Matrix) were then used to see how well the Bank would respond to both internal and external factors.

SWOT ANALYSIS

The strengths, weaknesses, opportunities and threats that have been analyzed are summarized as follows:

STRENGTHS

1. The Bank is backed by financially strong shareholders.
2. Possible synergies are available within the parent group structure of the Bank.
3. The Bank is well established and regarded in financial circles .
4. Enlightened, visionary new leadership.
5. Capable managers and great potential exists in the staff.

WEAKNESSES

1. The Bank currently has a weak corporate image and viewed as passive by the corporate sector.
2. The Bank has one of the lowest capitalisation in the industry.
3. Lack of cross-selling culture and utilizing group subsidiaries and associated companies' expertise.
4. No credit rating by Rating Agency of Malaysia (RAM).
5. The Bank does not have any branch or distribution network to reach other markets e.g. East Malaysia.
6. The Bank has no formal regional or international network to serve clients in the international arena.
7. The Bank has a relatively low market share in all areas of services offered.

OPPORTUNITIES

1. Strengthening through a merger or collaboration with a foreign merchant banking group with expertise and a global network.
2. Explore and expand into new service areas and market segments such as, non-traditional industries and entrepreneurs.
3. To develop alliances and linkages with related and associated companies.
4. Expansion and development of current range of services and products e.g. call warrants and venture capital.
5. To enhance competitiveness through technology and human resource development

THREATS

1. Liberalisation of the financial services sector will bring a proliferation of new players.
2. Competition from stockbroking firms, accounting firms, commercial banks and other financial institutions offering similar products and services.
3. Strong competitive strategies e.g. innovation, regionalisation and aggressive pricing policies of other merchant banks.
4. Tight labour market and high turnover of staff.

Internal Factor Evaluation Matrix (IFE)

This tool summarizes and evaluates the major strengths and weaknesses in the Bank and it also provides a basis for identifying and evaluating relationship among those areas (Davis, 1995). The intuitive judgment of the Bank's corporate planner was sought for developing this matrix. The weights assigned to a given factor indicates the relative importance of the factor to being successful in the merchant banking industry and factors considered to have the greatest effect on organizational performance are accorded the highest weights regardless of whether it is an internal strength or weakness. Ratings are company-based while the weights are industry based. The final weighted score of 2.46 indicates that the Bank is currently in a marginally weak internal position. Table 5.1 shows the Internal Factor Evaluation Matrix (IFE) for the Bank.

External Factor Evaluation Matrix (EFE)

The EFE Matrix allows strategists to summarize and evaluate external and structural information (Davis, 1995). Again, the weights indicate the relative importance of that factor to the firm's industry. Usually, opportunities receive higher weights than threats but threats too can receive high weights if they are especially threatening or severe. Ratings are based on effectiveness of the firm's strategies. A perfect score of 4.0 indicate that an organization is capitalizing on opportunities and are avoiding external threats in an outstanding way. The weightages and ratings were

given by the corporate planner in view of the current internal and external context.

The final score of 2.80 indicates that the Bank's strategy is responding positively to external factors. Table 5.2 shows the External Factor Evaluation Matrix (IFE) for the Bank.

Internal Factor Evaluation Matrix (IFE)

<u>Critical Success Factors</u>	<u>Weightage</u>	<u>Rating</u>	<u>Weighted Score</u>
Strengths			
1. Financially strong shareholders	0.08	3	0.24
2. Synergy within group structure	0.05	4	0.20
3. Well-established	0.05	4	0.20
4. Strong leadership	0.10	4	0.40
5. Great staff potential	0.10	4	0.40
Weaknesses			
1. Weak corporate image	0.10	2	0.20
2. Low capitalisation	0.15	1	0.15
3. Lack of cross selling culture	0.07	1	0.07
4. No credit rating	0.05	2	0.10
5. Lack of distribution network	0.05	2	0.10
6. Disability to serve clients globally	0.05	2	0.10
7. Low market share in all areas	0.15	2	0.30
Total Score	1.00		2.46

Table 5.1 The Internal Factor Evaluation Matrix (IFE)

Note : (1) The ratings values are as follows: 1 = major weakness, 2 = minor weakness, 3 = minor strength, 4 = major strength. (2) Weights ranges from 0.0 (not important) to 1.0 (all important) to each factor. (3) Total weighted scores below the average of 2.5 characterize organizations that are weak internally whereas scores significantly above 2.5 indicate a strong internal position.

External Factor Evaluation Matrix (EFE)

<u>Critical Success Factors</u>	<u>Weightage</u>	<u>Rating</u>	<u>Weighted Score</u>
Opportunities			
1. Strengthening through merger	0.05	1	0.05
2. Explore new service areas and market segments	0.15	3	0.45
3. Alliance with related and associated companies	0.15	3	0.45
4. Expand range of services and products	0.10	3	0.30
5. Enhance competitiveness through technology and human resource development	0.15	4	0.60
Threats			
1. Liberalisation of financial services sector	0.10	2	0.20
2. Competition from other institutions	0.05	3	0.15
3. Strong competitive strategies from other merchant banks	0.15	2	0.30
4. Tight labour market and high turnover of staff	0.10	3	0.30
Total Score	1.00		2.80

Table 5.2 The External Factor Evaluation Matrix (EFE)

Note : (1) The ratings indicate how effectively the firm's strategies respond to each factor, where 4 = the response is superior, 3 = the response is above average, 2 = the response is average, and 1 = the response is poor. (2) The average weighted score is 2.50.