2.1 Background Of The Company

BSN Commercial Bank (M) Berhad, formally known as Bank Buruh Malaysia Berhad was established in July 1975 with the primary aim of providing banking services for the working man. Identified as a Labourers Bank then, it was only natural that the Bank with one branch, had Co-operative Societies and Workers Union as its main shareholders. The restructuring of the Bank started in December 1993, where a special 30% Bumiputra shares were issue to Tabung Amanah Warisan Johor. The issuance of 21 million Bumiputra shares has resulted in an increase in the Bank's share capital from RM 49 million to RM 70 million. With this increase in capital, the Bank was able to further expand its asset base. Also with the acquisition came the businesses of the Johor Government and its associated businesses.

Then in April 1994, Bank Simpanan Nasional acquired a 41% stake in Bank Buruh. The move brought with it a wealth of experience, financial strength, technology and branch networking to Bank Buruh, thus enhancing the Bank's position in the banking sector. Bank Buruh's remaining equities are being held by National land Finance Co-operative Society Limited (7.7%), Syarikat Kerjasama Nesa Pelbagai Berhad (5.7%) and other minority shareholders. A copy of the shareholders structure is shown in figure 2.1.

With the change in ownership, Bank Buruh needed a new direction, dynamism, philosophy and vision to drive it into the 21st century. Almost a year after the changes in shareholders, Bank Buruh underwent a major reorganisation exercise involving a completely new corporate image and identity. With much pomp and splendour, Bank Buruh was renamed as BSN Commercial Bank (BSNC) on March 13th 1995. A new logo was unveiled. A
copy of the logo is shown in figure 2.2. The logo "I" represents incisive, industrious and innovative.

On the historic day, the bank took its first step in realising its vision to be:

- a commercial bank that is dynamic, aggressive and modern in its approach and technological application.
- a commercial bank destined to reach new heights in its capital base, assets and profitability.
- the best player in the banking sector.

The Bank's corporate mission is to be a strategic partner to its client in their growth process. BSNC has set its sights to become one of the top banks in the country within three years. In preparation for this, it is aggressively boosting its networks and pioneering new products.

Now 23 years old, BSNC has established itself as a dynamic and vibrant bank in the financial market backed by a young team of professionals led by a new CEO and an experienced chairman and board of directors. The Bank plans to give top priority to customer services and promises affirmative action, before anything else. Currently, it is actively improving its customer services through business process re engineering, intensive training of its employees, product development, expansion of branch network and new technology.

BSNC has undertaken an aggressive business strategy in its three years plan by expanding its loan base from RM 716 million in 1994 to RM 4.5 Billion in 1997 through a broader customer base - mainly middle and corporate customers in order to provide a stable income and good quality assets (BSNC Strategic Plan 1993). The cash flow generated will enable the Bank to finance its expansion programmes.

BSNC currently has twenty branches throughout the country. Most of its branches are located in Wilayah and Selangor (7), and the remaining are in Perak (2), Kedah (2), Kuala Terengganu (1), Penang (2), Melaka (1), Kelantan (2) and Johor (3).
2.2 Organisation Structure Of The Bank

The organisation is structured according to the various area of specialisation to ensure efficient execution of banking services, monitoring and control. The following are taken into consideration in building the organisation structure:

- To promote and internalise the coach and coachee culture.
- To match skills and experience of the job for productivity.
- To have a lean and flat organisation structure where managers have more empowerment.
- For efficiency and speedy delivery.

The following are the 5 main areas where every division is to be responsible and accountable to ensure efficiency in the area of scope and related issues:

- Treasury Function - Treasury related issues i.e. money market, forex, derivatives, corresponding banking, equity investment and wholesale funding.
- Finance Division - Finance related issues i.e. both financial and management accounts of the bank, risk management and managing of subsidiary companies and Processing Centre.
- Banking Division - Overall banking and administration of Business Centre, Branches, and Service Centres i.e. credit inclusive of TOD (temporary overdraft) / EOL (electronic on line) monitoring.
- Corporate Services - Issues related to Human Resources and administration and the bank’s strategic planing and thinking. Total Quality Management, Product Development and operational issues related to policies, system and procedures.
- Information Tech. - Issues related to technology and the bank’s administration.
Please see figure 2.3 for the Organisation Structure.

2.3 Business Structure

BSNC has divided its branches into three types, there are:

a) Business Centre
b) Branches
c) Service Centre

The Business Centre are set up on a regional basis i.e. all branches in the Wilayah will report to the Business centre in Wilayah. The Business Centre will provide all the support to its branches. Similarly Branches will provide its support to service centres designated under them. An example of the structure is shown in figure 2.4.

2.4 Corporate Philosophy

With the many changes that are taking place at BSNC, the management saw the need for a clearly written Corporate Vision, Mission and Philosophy, which will then be used by all staff to guide themselves in meeting the challenges ahead of them. The Corporate Vision, Mission and Philosophy of BSN is divided into six main categories as shown in figures 2.5 to 2.7.

A well-conceived vision comprises core ideology and an envisioned future. Core ideology consists of core purpose and core values whereas envisioned future consists of “Big, Hairy, Audacious Goal” (BHAG) and a vivid description of the envisioned future. It can be observed that BSNC’s vision statement is lacking in a BHAG and a vivid description. A BHAG usually has a time frame so that the organisation can galvanise itself to achieve a certain goal within that time frame. The time frame suggested by management experts is between 10 to 30 years (Collins & Porras 1996). For example, Vision 2020 is a BHAG as there is an envisioned future to look forward to, in
addition to motivating the people towards the goal of developed nation status by the year 2020. The wordings in BSNC’s vision statement do not sound exciting. A vivid description of the goals BSNC wishes to achieve could well serve as a powerful tool to motivate the employees.

It can be said that BSNC does appear to have a core purpose as implied in the vision statement, which is its aspiration to become the heartbeat of the community wherever it operates. The core purpose is the reason for an organisation’s existence, and should stand the test of time. In this case, BSNC’s core purpose of being the heartbeat of the community wherever it operates can easily withstand the test of time, as it can be “like a guiding star on the horizon, forever pursued but never reached” (Collins & Porras 1996). The core purpose can be achieved if the bank has a clear definition of what it meant by “business climate”, “community problems” and “community projects”.

It is also observed that BSNC’s five core values (responsible, caring, friendly, innovative and resourceful) are good values, which can be used as timeless guiding principles. However, BSNC’s vision statement does not appear to capture the essence of all these five core values, except for the words social responsibility, which can be linked to the core value of being responsible.

A mission statement tends to be more concerned with the present and how to attain it. e.g. “What is our business and how to attain it”? In contrast, a vision statement tends to be more long-term focused e.g. “What and where are we headed”? It is evident that BSNC has demonstrated seriousness in articulating its mission statement by way of defining clearly what is meant by customer needs, and easy and friendly services. It is important that whatever the mission be, it is in a measurable term. That is lacking as phrases like “consistently”, “personal commitment” and “more than they expect” do not reflect that.

However, BSNC faces a major constraint in attaining its corporate strategy as it does not have a complete and proper database on information related to the
customers. This appears to be a hindrance when it has to determine marketing strategies for the bank. Integrative Computerisation measures suggested in this study may provide to be useful in fulfilling that gap. Although BSNC has embarked on computerising its entire business operations, the progress so far has been quite slow. To date, the computerisation of operations such as deposits and the general ledger package has been successfully implemented. Computerisation is still in progress in the Treasury, Trade Finance and Direct Banking operations. The slow progress in computerisation has prevented the bank from providing more efficient services to its customers. Beside that BSNC’s limited network has become an obstacle to market its products throughout the nation. There is a need for the bank to speed up it’s marketing efforts to attain its corporate strategies.

The corporate philosophy and operating principles are vague and too general. Most of the indicated items are not in measurable terms. No indication on how the bank is going to create an environment that values the individuals ideas and creativity. The notion that “innovative and technology will be the engine that will keep us vital and growing” is not reflected in its operating strategy as they are still conducting most of the business transactions in conventional methods as highlighted in the later stages of this study. The suggestions provided in this study may be of assistance in improving its processes.

2.5 **Current Situation Of The Company**

The central bank’s call for merger among the banks has further created anxiousness among the banks. It means BSNC has to withstand competition from even stronger banks in the near future. Over the past 3 years the banking industry has transformed greatly. There was a broadening and deepening of the financial structure as the economy grew in size, complexity and sophistication and the demand increased for new financial services and instruments. Many banks had embarked towards the entire range of diversified financial services termed as “Universal Banking”. BSNC has some
what manage to increase its product line but has still not diversified its activity
to cover other financial services termed as Universal banking.

BSNC offers a full range of commercial banking services. It's main services
includes lending, borrowing and dealing in foreign exchange which is similar
to any other banking institution. The difference between banking product and
consumer product is that they are intangible and are usually provided to assist
other transactions i.e. a loan to business could be used to buy equipment,
take over a business, land etc.

Another dimension to banking that makes its products different is that the
service of the staff can be one of the features of the product itself. In other
words the way the staff deal with the customers is an integral part of the
product as seen by the customer. When a customer buy a product, they are
not really buying "a product" they are buying a combination of benefits that the
product will gave then.

For example a Current Account means money transaction, but the product
may be seen by customers as providing other benefits such as :
   a) recording of transaction
   b) a means of saving time
   c) a cash substitute
   d) a status symbol

Currently, the focus is on the Customer Service Representative (CSR), ATM
facilities, mobile Bank, Home Banking, Telephone Service Centre and
Customer Relationship Executive.

The Bank is venturing and implementing the CSR platform and Executive
Work bench to gain access to their existing Marketing Data Base, Business
rules and guidelines Data Base, Customer Data Base and Financial Data
Base. They are also utilising the EDI/Internet facilities to link to the external
environment like Legal Services, Customer's Electronic Mail, Commercial
Database, Commercial Information Service and all the Electronic Distribution Channels (ATM, EFTPOS etc.).

2.6 Evaluation Of the Financial Performance Of BSN Commercial Bank

The Bank's audited Profit & Loss accounts and balance sheet for the last four years are shown in table 2.1 and 2.2.

**TABLE 2.1**
Profit And Loss For The Period Ended

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(RM Million)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Income</td>
<td>454</td>
<td>299</td>
<td>179</td>
<td>90</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>(363)</td>
<td>(205)</td>
<td>(106)</td>
<td>(53)</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>91</td>
<td>94</td>
<td>73</td>
<td>37</td>
</tr>
<tr>
<td>Loan Loss On Provision</td>
<td>(100)</td>
<td>(32)</td>
<td>(22)</td>
<td>(6)</td>
</tr>
<tr>
<td></td>
<td>(10)</td>
<td>62</td>
<td>51</td>
<td>31</td>
</tr>
<tr>
<td>Non Interest Income</td>
<td>27</td>
<td>48</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Net Income</td>
<td>17</td>
<td>110</td>
<td>63</td>
<td>37</td>
</tr>
<tr>
<td>Overhead Expenses</td>
<td>(65)</td>
<td>(49)</td>
<td>(44)</td>
<td>(19)</td>
</tr>
<tr>
<td>Profit Before Taxation</td>
<td>(48)</td>
<td>61</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Taxation</td>
<td>(4)</td>
<td>(29)</td>
<td>(12)</td>
<td>(7)</td>
</tr>
<tr>
<td>Profit After Taxation</td>
<td>(52)</td>
<td>32</td>
<td>6</td>
<td>11</td>
</tr>
</tbody>
</table>

**Source:** BSN Commercial Bank, Annual Report 1994-1997
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash And Short Term Funding</td>
<td>683</td>
<td>449</td>
<td>428</td>
<td>238</td>
</tr>
<tr>
<td>Investment Securities</td>
<td>930</td>
<td>819</td>
<td>385</td>
<td>104</td>
</tr>
<tr>
<td>Loans And Advances</td>
<td>4,594</td>
<td>3,256</td>
<td>1,914</td>
<td>716</td>
</tr>
<tr>
<td>Other Assets</td>
<td>121</td>
<td>84</td>
<td>28</td>
<td>25</td>
</tr>
<tr>
<td>Statutory Deposit</td>
<td>773</td>
<td>432</td>
<td>178</td>
<td>64</td>
</tr>
<tr>
<td>Investment In Subsidiaries</td>
<td>33</td>
<td>33</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td>Fixed Asset</td>
<td>54</td>
<td>47</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>7,187</td>
<td>5,120</td>
<td>2,974</td>
<td>1,150</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit From Customers</td>
<td>2,935</td>
<td>2,005</td>
<td>1,266</td>
<td>374</td>
</tr>
<tr>
<td>Deposit By Financial Inst.</td>
<td>3,060</td>
<td>1,790</td>
<td>775</td>
<td>599</td>
</tr>
<tr>
<td>Bills And Accept. Payable</td>
<td>624</td>
<td>740</td>
<td>392</td>
<td>47</td>
</tr>
<tr>
<td>Subordinated Loan</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>92</td>
<td>60</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>6,764</td>
<td>4,645</td>
<td>2,524</td>
<td>1,055</td>
</tr>
</tbody>
</table>

| Share Capital             | 210  | 210  | 210  | 70   |
| Reserves                  | 213  | 265  | 240  | 25   |
| Shareholder’s Funds       | 423  | 475  | 450  | 95   |
| **TOTAL LIABILITIES**     | 7,188| 5,120| 2,974| 1,150|

**Source:** BSN Commercial Bank, Annual Report 1994-1997
BSNC has undergone tremendous growth from the period 1994 to 1997. This can be clearly seen from the financial statement presented above. For example the asset base has grown from a mere RM 1 Billion in 1994 to RM 7.2 Billion in 1997. Similarly the profit has grown from RM 18 Million in 1994 to RM 61 Million in 1996 but it encounters a sharp decline in 1997. The increase in profit for 1996 was due to an increase in asset base i.e. loans and advances which has grown from 716 Million to RM 3.2 Billion in 1996. Despite an increased asset base in 1997 compared to 1996 , the profitability dropped due to an increase in interest expenses and loan loss on provision. Apart from the above the growth in non interest income from Treasury operation and fee based income has also contributed significantly towards the increase in profit in 1996 compared to 1997.

The Non Performing Loan (loans where there is no repayment for more than six months) has drop drastically in terms of percentage against total loan from 1994 to 1996 but it has more than doubled in 1997. The following are the NPL position of BSNC for the last four years (BSN Commercial Bank, Annual Report 1994-1997).

**TABLE 2.3**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(RM'Million)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Performing Loan</td>
<td>478</td>
<td>148</td>
<td>96</td>
<td>89</td>
</tr>
<tr>
<td>% against total loan</td>
<td>9.95%</td>
<td>4.4%</td>
<td>4.8%</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

**Source:** BSN Commercial Bank, Annual Report 1994-1997

This is due to the regional economic slow down which was started by the currency crisis in Thailand way back in May 1997. The contagion effect has caused the Malaysian Ringgit to fall against "green back" and interest rates to go up. The cost of operation and funding has gone up causing many local companies to wind up besides falling behind on heir monthly instalments on bank loans.
At the end of 1996, the Bank came up with a three years plan to further strengthen its presence in the Banking Industry. Table 2.4 shows some of the targets extracted from the three-year plan.

**TABLE 2.4**  
Targets From Three-year Plan

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>(RM Million)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and Advances</td>
<td>4,600</td>
<td>5,500</td>
<td>6,700</td>
</tr>
<tr>
<td>Customer Deposit</td>
<td>3,500</td>
<td>4,600</td>
<td>5,600</td>
</tr>
<tr>
<td>Overhead Cost</td>
<td>70</td>
<td>85</td>
<td>100</td>
</tr>
<tr>
<td>Provision for Bad Debt</td>
<td>37</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>92</td>
<td>122</td>
<td>160</td>
</tr>
</tbody>
</table>

**Source:** BSN  Commercial Bank, Strategic Plan 1993

The actual achievement for the year 1997 can be shown as follows,

**TABLE 2.5**  
Actual Achievement For Year 1997

<table>
<thead>
<tr>
<th>(RM Million)</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and Advances</td>
<td>4,594</td>
</tr>
<tr>
<td>Customer Deposit</td>
<td>5,994</td>
</tr>
<tr>
<td>Overhead Cost</td>
<td>64</td>
</tr>
<tr>
<td>Provision for Bad Debt</td>
<td>100</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>(48)</td>
</tr>
</tbody>
</table>

**Source:** BSN  Commercial Bank, Annual Report 1997
Listed below are some of the industry average as per the 1996 BNM report.

**TABLE 2.6**

<table>
<thead>
<tr>
<th>Industry Average VS BSN Commercial Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>1. Pre-tax Profit / Average asset (ROA)</td>
</tr>
<tr>
<td>2. Pre-tax Profit / Equity (ROE)</td>
</tr>
<tr>
<td>3. Pre-tax Profit / Per employee (RM'000)</td>
</tr>
<tr>
<td>4. Non Interest Income / Net interest income</td>
</tr>
<tr>
<td>5. Overhead to staff cost ratio</td>
</tr>
<tr>
<td>6. Staff cost per employee (RM'000)</td>
</tr>
<tr>
<td>7. Loan deposit ratio</td>
</tr>
<tr>
<td>8. Non-performing loan / Total loan</td>
</tr>
<tr>
<td>9. Gross interest margin</td>
</tr>
<tr>
<td>10. Deposit mix - Current account</td>
</tr>
<tr>
<td>- Fixed deposit</td>
</tr>
<tr>
<td>- Saving account</td>
</tr>
</tbody>
</table>


### 2.7 Reasons For Selecting The Company

BSN Commercial Bank was selected among the other local banks mainly Malayan Banking, Bank Bumiputra, Hong Leong bank and RHB bank due to its smaller size and ability to expand rapidly after it has been acquired by Bank Simpanan Nasional. The bank also is currently operating in a semi-computerised environment and that gives room for further improvement by reengineering its current processes and operating systems. Besides that the current economic turmoil will have greater impact on smaller banks than the larger banks. According to Rose, S. Peter (1991), "the smaller banks are usually affected by changes in the health of local economy. For example,
many are closely tied to agriculture or to the strength of other local businesses so that when commodity prices fall or the sales of local businesses are depressed, the bank generally experiences slower growth, and its deposits, loans, and earnings may fall." This statement is of critical importance to pay due attention as BSN Commercial Bank was previously a Labourers Bank and closely tied to agriculture and local businesses. Hence, it justifies the reason for choosing BSN Commercial Bank for the purpose of this study.

2.8 Research Objectives

The primary objectives of this study are to apply Business Process Reengineering techniques to:

i) Improve current business processes.
ii) Increase customer satisfaction.
iii) Increase efficiency and profitability.
FIGURE 2.1

SHAREHOLDERS STRUCTURE

- BANK SIMPANAN NASIONAL (41.34%)
- TABUNG AMANAH WARISAN JOHOR (30.00%)
- MINORITY SHAREHOLDERS (15.26%)
  - NATIONAL LAND FINANCE COOPERATIVE SOCIETY LTD (7.70%)
  - SYARIKAT KERJASAMA NESA PELBAGAI BHD (5.70%)
FIGURE 2.3

BSN Commercial Bank
Organisation Structure
FIGURE 2.4

BSN Commercial Bank
Business Structure
FIGURE 2.5

Corporate Vision
By living to these values, BSNC expect to set a standard of excellence that will reward the shareholders, customers and staffs. The corporate vision is for BSNC to become the Heartbeat of the community wherever it operates. The bank intend to achieve this by improving the business climate with community projects, by promoting community economic development programme and resolving community problem by providing resources. Basically BSNC intend to achieve leadership and business through social responsibility.

Corporate Mission
To meet customer needs by providing easy and friendly services.

Customers needs means,

• meeting the needs by constantly seeking and acting upon their opinions and request regarding product & service quality, relationship etc.
• personal commitment by everybody to give the customer the best service.

Easy means,

• Seeking service improvement continuously.
• Providing simple and easy to understand communications for customers.
• Ensuring staffs are well trained, informed and skilful.

Friendly means,

• Delivering friendly and professional service consistently through well- trained and motivated employees.
• Delighting customers by giving more than they expect.
• Treating all staffs, suppliers and associates as we would wish them to treat us.
• Supporting the well being of the communities within which the bank operates.
FIGURE 2.6

Corporate Values

The five corporate values are:

- Responsible - entail integrity, show commitment, discipline and accountable.
- Caring - demonstrate warmth, show empathy, concern and cooperate
- Friendly - approachable, willing to listen, and attend the need of customer
- Innovative - open mind, adventurous and widen geographical base.
- Resourceful - exhibit initiative, enterprise and motivation

Corporate Strategies

The corporate strategies adopted by the bank are

- Dynamic growth strategy
- Market niche strategy
- Building business through people strategy and technology.

Corporate Philosophy

As a way of life, BSNC has adopted the following philosophy to guide the decisions and behaviours.

- The Employee
  The employee of choice, committed to building people to build up the business. The bank will create an environment that values individual ideas and creativity and rewards achievement, enthusiasm and team spirit.
FIGURE 2.7

- The Customer
The customer are the precious assets. The bank will give its single minded commitment to understanding and fulfilling the customers need with excellent service, reliability, superior products at fair price with value added.

- The Business
Committed to uphold the highest standard of integrity based on good values and business ethics. Innovative and technology will be the engine that will keep us vital and growing. There will be synergy with associate companies, as a source of support and expertise to the overall business growth of the group.

- The community and Nation
Profitability with social responsibility. Success will be measured by the contribution to the communities. To the nation as an active partner in the growth and aspiration, mobilising scare resources for value added ventures.

Corporate Operating Principles
- Unswerving commitment to the vision
- Decisiveness with prudence in managing the bank
- Single mindedness in delivering highest standard of excellence in the quality of services
- Willingness to work as a team to achieve excellence
- Steady growth against one time record
- Great sense of responsibility for the given trust.
- Passion for quality and speed
- Doings thing right for the first time
- The confidence to challenge the conventional and courage to do as we dream.