Strategic management plan – Hatton National Bank

Table of Contents

Executive summary	3
Company overview	
Competitive business strategy of the bank	
Overall performance of the organization	4
External environmental analysis	6
Key success factor of the Industry	7
Future business strategy	8
Conclusion	9
References	9

Executive summary

The main challenge of the business strategy is to find a way to gain competitive positive in the market among the other available products. Banking sector is the one of strongest sector in Sri Lanka and also highly competitive. Competitive business strategy refer the long term plan of a company to achieve competitive advantage among the other competitors. Purpose of this report is to carry out the comprehensive analysis on competitive business strategy of the Hatton National Bank of Sri Lanka. Secondary data sources such as industry reports, magazines, journal article, web sources, etc. have been used to conduct this study. This study will be comprehensively analyzed the competitive business strategy of the company and how it need to change according to current business environment.

Company overview

Hatton National Bank (HNB) is one of leading commercial bank of Sri Lanka which was found in 18 88. HNB is listed company in Colombo stock exchange (CSE) and it has been recognized as one of reputed financial institute of Sri Lanka. Currently HNB operates in retail banking, corporate banking, international banking, treasury, project financing and etc. Bank has products such as HNB Grameen, HNB small and medium enterprise for business segments, HNB Singithi, HNB teen, HNB you, HNB wally- e for individuals, HNB pathum wimana, HNB Shanthi, HNB Future + for mass market, HNB privilege, HNB pay fast for professionals. Currently HNB has 251 branches and 485 ATMs in all over the Sri Lanka. Bank has been recorded total group assets of Rs 901 billion in end of 2016/17 financial year and group profit before tax has been recorded as Rs 22.5 billion. The introduction of new technologies happen at a relatively quickly and also the customers especially young generations and professionals adopt to new technologies very quickly. Therefore automation and digitalization have become new trend of the banking industry and it has become essential to adopt to these technologies to gain competitive advantage in the industry.

Competitive business strategy of the bank

HNB's strategy is to be driven through people, technology and processes for converting the bank to become a Game Changer in the banking industry. Bank need to try to attain customer service excellence by adding value to products, enhancing customer convenience and services offering and improving speed of service delivery. According to Porter (1985), HNB follows best cost strategy which provide premium product and services to customers for affordable price. Bank mission is to combine entrepreneurial spirit with empowered people and modern technology to continuously achieve stakeholders' expectation. Cost innovation strategy would be most suitable approach to HNB to achieve their mission in current business environment. Organization need to find innovative ways to provide premium service to customers for affordable price (Williamson, 2010).

According to Ansoff Matrix, HNB need to follow product development and market penetration strategies. Market penetration strategy focus on promoting existing products and services in the existing markets (Ansoff, 1965). Bank has allowed to customers to access the banking services through digital platforms to speed the service delivery. Further bank need to automate the processes to make speed the traditional banking services such as loan approval and etc. Further HNB follows product development strategy by introducing range of products and services targeting different customer segments. HNB need to further introduce new products and services according to new market requirements. In 10 years' time, Sri Lankan population is predicted to be a larger percentage of the elderly. Therefore banks need to introduce more products related to retirement plans and elderly citizens' banking services. There is one product called "HNB senior citizens" in HNB product portfolio for senior citizens. On the other hand young generation expect more real time services therefore bank need to introduce new technologies to fit to their requirements too.

Bank follows deliberate strategic model which is refer course of action adopted by the company to achieve predetermined specific goals (Diasz, 2017). Bank long term journey continue towards becoming the benchmark of the commercial banking sector in Sri Lanka. The bank will find appropriate investment and lending opportunities in regional market and continue to enhance banking business among the retail, corporate, SME and micro business segments of Sri Lanka.

Overall performance of the organization

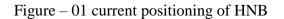
HNB has awarded as "Best retail bank in Sri Lanka" continuously nine time within 2007 to 2016 by Asian Banking Magazine. Bank has rated as AA- (lka) according to Fitch rating. Further HNB branches and ATM has spread all over the Sri Lanka. According to number of branches and ATMs, HNB is in 2nd place among private banks in Sri Lanka (First Capital Research, 2017). Total group

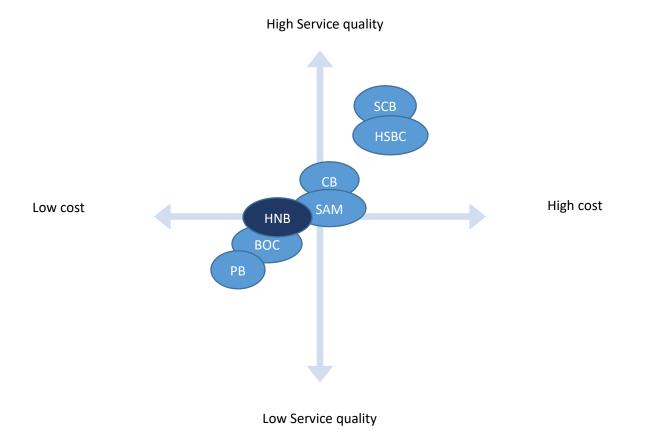
asset value of bank has been reached to Rs 901 billion end of 2016/17 financial year and it has increased 19% compared to last year. Further bank turnover has been recorded as Rs 96 Billion and revenue has increased by 37% compared to last year. And also net profit before tax has been recorded as Rs 22.4 billion in 2016/17 and it has been improved by 39% compared to previous year. When consider the total asset value, HNB is in second place among Sri Lankan private banks. Further share price of the bank has been increased by 6.8% to Rs 240 under situation of Colombo Stock Exchange was not performed well.

Main reason for this recent success of the bank is that according to the business strategy, bank has enhanced the value proposition through new products, new delivery channels and also improvements of the service standards. Further HNB has introduced integrated online banking system for cash management which make customers' life more convenient. Personal financial services has grown by 6.4% in 2016/17 financial year even though interest rate has been increased. This is mainly due to strategic initiatives of the bank such as sales driven culture, service excellence and the digital drive.

However it is not enough to outperform in the banking industry among other competitors. HNB is still new to digital technology, however international banks which operates in Sri Lanka such as Standard Chartered Bank, HSBC and private banks such as commercial bank, Sampath bank are highly used digital technology to provide better service to customers. Further those banks has fully integrated digital platform and also facilities such as pear to pear payments, contactless payments and etc. On the other hand, public banks which cover approximately 50% of market share in banking industry has more coverage and product portfolio all over the Sri Lanka and provide banking services more affordable price.

When consider the stakeholders of the bank, Central bank, shareholders, employees and customers are the main stakeholders. HNB is a financially stable bank and has complied with central bank's rules and regulations. Shareholders' expectation is a wealth maximization. Instead of financial stability, bank's Earning per share has increased 35% in last year and dividend per share has been maintain stable since bank follow constant dividend policy. Therefore shareholders should be satisfied about the performance of the bank. Further customer view point, they expect better services. Financial performance of the bank reveal that generally customers are satisfied about the service. However there is still enough room to add further value to customer segments such as youth and senior citizens.





External environmental analysis

The PESTEL analysis can be used to evaluate the external environment trends, forces, demands and drivers (Diasz, 2017).

Political factors – Currently political environment of Sri Lanka is highly unstable and it has negatively affected to economy too. Further currently there is no stable economic policy due to political instability. Current government has presented different economic policies within last three years. Unstable political environment will be negatively affected to long term growth of the banking industry.

Economic factors – Overall economic growth is shown downturn trend. GDP is only increased by 3.1% in 2017 and it is recorded as lowest GDP growth of the country in recent past. Further rupee has been depreciated significantly. However young generation seems to show an interest on entrepreneurship and this has become an opportunity to banks in SME sector.

Social factors - In 10 years' time, large percentage of Sri Lankan population is predicted to be elderly. Therefore banks need to introduce more products related to retirement plans and elderly citizens' banking services. Further women percentage has increased in Sri Lankan workforce. Therefore more female centric product need to be introduced.

Technological factors – The introduction of new technologies has caused to revolutionize the banking sector. All the commercial banks in Sri Lanka have gone to digital platform with banking apps and technologies that makes banking faster and more convenient. And also most of the private banks has automated their manual processes. Further some of banks have already introduced the cutting-edge technologies such contactless device to device payments too.

Environmental factors – There is a developing trend towards environment protection in all the business sectors of the country. Bank also highly concern on environmental friendly process and projects. Some bank has opened concept branches which operate solar power. Further automation and AI lead towards the paperless office environment.

Legal factors – Sri Lanka has a well-regulated legal system for banking sector. All the financial institute are monitored by central bank and also country has strong labor law system.

Key success factor of the Industry

Key success factor can be defined as the most important strategic necessities which are essential to remain competitive within the industry (Johnson and Scholes, 2008). Following key success factors can be identified in Sri Lankan banking industry.

Cutting edge technologies to optimize customer value

In this highly competitive environment, digitalization, automation and AI help banks to achieve a competitive advantage among other competitors. Therefore bank need to invest in right technology.

Customer service and convenience

7

Instead of hard quality dimensions such as technology, integrity and safety, soft dimensions such as helpfulness, friendliness and communication should also be there (Raj, 2011). Therefore bank should apply both hard and soft quality dimensions to satisfy the customers. Many private banks were highly successful due to quality customer relationship management practices.

Future business strategy

HNB business strategy need to be driven through using cutting edge technology and more customized product and services. Especially young generation quickly move towards to e-banking facilities. However still HNB use many manual processes for retail banking. Therefore HNB need to further invest in digital technology to make customers' life much easier and reduce the delays and non-value adding activities. Routing activities need to be automated then management can focus on core activities. 20% of non-routing activities cause to 80% of value creation in the banking industry (Jubraj, Graham and Ryan, 2018). Further bank need to introduce more customized products targeting senior citizens, young generation and working women. Customers expect to get more personalized service from banks. Chief Digital Officer need to be appointed to lead the project. HNB can launch digital branch to promote the digitalization.

Further bank need to meet the expectation of different stakeholders through the business strategy.

Stakeholder	Stakeholder's expectation	How to meet stakeholder expectation
Government and central bank	Financial stability and comply	Use big data and IA to identify
	with regulation.	risks and automate the compliance reporting
Shareholders	Wealth maximization	Use analytics to identify the
		customer requirements and
		introduce new products.
Customers	Ability to access banking	Access banking services to
	services from anywhere at any	digital platform.
	time.	Fully integrated mobile app.
		Introduce faster payment
		technologies such as mobile
		wallet and P2P payment.

	Table – 01 anticip	pated stakeholder e	xpectation and how to	o meet the expectation.
--	--------------------	---------------------	-----------------------	-------------------------

Conclusion

This report has been identified the new technological developments and changes of the industry. Further this report discuss key success factors which bank need to achieve to gain competitive advantage of the market. Further according to this study, it is revealed that current business strategy has been caused to success of the bank however it is not enough to outperform among the competitors. Competitors mainly private banks use new technologies to process improvement and meet the customers' expectation beyond to HNB. Therefore HNB need to revisit the business strategy and need to adopt according to business environment changes to meet stakeholders' expectation. Further new product need to be introduced to target on future changes of the society. Operation of the business need to change according to new business strategic changes. There should be detail road map to achieve this strategic changes including key performance indicator. This process need to review time to time to monitor the progress of the project. Further every levels of the bank need to contribute to the project to make it success. If Hatton National Bank could implement this new strategic implementation project, definitely bank can achieve a competitive advantage in the market among other competitors and meet the stakeholders' expectations.

References

Porter, M. E. (1985). "Competitive advantage: Creating and sustaining superior performance". New York: Free Press. Williamson, P. E. (2010) "Cost innovation: preparing for a value for money revolution" London, Elsevier, pp 344- 350

Ansoff, H. I. (1965) "Corporate strategy" London, McGregor Hill

Diasz, L. (2017) "Marketing and business strategy" 1st edition. Colombo: Soft wave printing First capital research, (2017). "Sri Lanka banking sector" [pdf] available at: https://www.firstcapital.lk/wp-content/uploads/2015/06/Sri-Lanka-Banking-Sector-Report-STRONG-BUY-Dec-2017-2.pdf access on 24.14.2018

Johnson, G., & Scholes, K. (2008). *Exploring corporate strategy: Text & Cases* (4th ed.). UK:Prentice Hall

Raj, G, 2011, Using technology to drive business agility in a volatile environment <u>http://www.bankingtech.com/264171/using-technology-to-drive-business-agility-in-</u> <u>a-volatile-environment/</u> (Access on 24.14.2018

Jubraj, R. Graham, T. and Ryan, E. (2018) "Redefine banking with artificial intelligence" Accenture [online] available at: <u>https://www.accenture.com/t00010101T000000Z_w_/gb-</u> en/_acnmedia/PDF-68/Accenture-Redefine-Banking.pdf access on 25.04.2018