



UNIVERSITI PUTRA MALAYSIA

**A CASE STUDY:
MAJUJAYA BANK BERHAD**

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by

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ABSTRACT

This purpose of this case study is to appreciate the application of strategic planning tools to facilitate the realisation of the objectives of Custodial Service Department of Majujaya Bank Berhad.

Part 1 of this case has discussed the development of Majujaya Bank Berhad during the eighties whereby it was linked to the banking group from Sweden which owned thirty percents of the bank. The association had provided synergy to the bank whereby through the formation of Custodial Services Department, Majujaya Bank Berhad was able to capitalise on the investment arm of the Swedish partner to generate fees based income arising from trading and investment activities on the Kuala Lumpur Stock Exchange. Due to the relatively small clientele base, the department was vulnerable when the Swedish partner being the largest customer left the department as a result of changes in ownership within the Swedish banking group. Realising the various internal as well as external factors, the department head was working on plan to overcome the predicament in order to meet all objectives of the department and the bank.

Part 2 of the case study has analysed the various factors by using the strategic tools namely SWOT as well as SPACE models and concluded that the most appropriate option for Custodial Services Department is to expand the business into the regional markets via working with fund managers who invest in regional markets. In order to proceed with regionalisation, the department needs to increase its efficiency and effectiveness by streamlining its operation and expand the capability of the computer systems while at the same time marketing its services to secure more customers.

It is through this approach at moderate scale that the department would be able to meet its objectives of being a leading local as well as regional provider while at the same time contributing to the bank's objective of achieving tier 1 by 1998.

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PART 1 : CASE TEXT

1.0 The Mandate

Francis Nevis, the Vice President of Custodial Service Department (CSD) of Majujaya Bank Berhad (MJBB)* had convened an officers' meeting in the last week of April 1997. During the meeting, he said "I have reviewed our first quarter results and would like to highlight that we have not met our budgeted revenue. We were 20 % below target. Thus it is important that we work doubly hard to win more customers into our book to ensure that we are able to catch up in the remaining quarters of the year. However, all is not lost as our good service records over the past years have begun to show results. I would like to take this opportunity to inform that our department was favourably mentioned by the Global Custodian in its 1996 Emergent Markets Agent Bank Review. It is an improvement over the 1995 survey results."

He further stressed "It is quite an achievement for us as among the local banks that provide custody business, MJBB is the only local bank that has nearly achieved the commended status. Please note that Global Custodian is by far the most authoritative and influential magazine among the custody world and widely used by global fund managers in assessing the services of custodians in the major equity markets of the world."

After a brief pause, Francis continued "In order to improve our standing in the custody world, we have to further increase our marketing effort. In this regard, I have taken a number of steps to go forward. It is appropriate for me to highlight that our department has established a WEB page a month ago. This WEB page is a hypertext linked to the Bank's main page. Since its establishment, the WEB counter has registered a hit rate of 50. For your information, this WEB page is part of our marketing initiative to create greater awareness of our services among local as well as global institutional investors."

** The name of the company and the characters portrayed in this case study had been disguised.*

Francis continued to say “Please bear in mind this is just the starting of a long journey for us to be the top rated local player in the custody business. For your information, custody is a long term business that needs a lot of perseverance. I urge you to maintain high service standard at all times in order to compete effectively for more business. I shall leave it to you to think as to why MJBB should miss the commended status. It is critical for all of you to take note that while we try to win new customers, we must continue to provide quality and efficient service to our existing clients in order to retain them.”

Francis went on to say “Just to give you an indication of the lead time requirement in getting new customer, you would appreciate that for a major customer it might take at least 2 years for them to decide the custodian to work with. The reasons being that the major customers are mainly foreign fund managers that have their own standards and guidelines. This means that they are required to conduct comprehensive review of any potential custodian bank in each share market that they are investing. Normally, it is their practice to conduct review once a year and the potential custodian bank under review should consistently show good performance records for at least two consecutive years for it to be considered for appointment.”

The Vice President further stressed “I have been informed by top management that our bank is in the process of applying for Tier 1 status by the end of next year. Currently the bank shareholders’ fund is at RM440 million which is RM60 million short. It was decided that each department is to increase revenue from now until the end of next year in order to have sufficient retained earning to contribute to the objective of the bank .ie. to achieve Tier 1 by the end of 1998. Top management has made it very clear to all department heads that priority is given to generate internal funding in the form of retained earning rather than via external sources. In order to achieve the set objectives, each department has been given target performance goal and for your information, CSD has been given an after tax profit target of RM4 million for 1997 and RM7 million by 1998.”

Before ending his message, he said “I am fully aware that we are facing up hill battle as can be seen in our first quarter results. However please do not be intimidated by the tasks that lie ahead of us. You should take the adverse situation as a challenge. At the end of the day, I count on all of you to achieve our target objectives of being the top rated local custody provider in the medium term and a recognised regional provider in the long term while at the same time contribute to the bank’s stated objective. Last but not least, I need to remind you that our business operations carry plenty of risks and all officers must be vigilant in discharging your duties. I do not want a situation to arise where we have to suffer financial losses due to our own failure.”

The meeting went on with the rest of the discussions centered on operational issues which was a follow up to the last meeting. The meeting was adjourned at 5.00pm.

2.0 Organisational Background

Custodial Services Department (CSD) of MJBK was set up in 1991. Since its inception, it was involved in the provision of a range of custodial services for local fund managers, individuals as well as foreign institutional investors world wide.

It had served the customer of corporate banking, broker-dealer and clients from Europe as well as the Asia Pacific region since 1994. It also functioned as an agent in recent years to international and global custodian banks.

Its services included receipt and delivery of securities, trade/portfolio/cash reporting, corporate reporting/administration, processing of dividend, take-up rights and bonus issues on behalf of clients , registration, safekeeping and proxy voting. The clients were informed of the events or action affecting their stocks according to the scheduled dates stated in the various corporate action events.

Its had provided clients with 24 hours turnaround times in responding to query. Customers' portfolio records were updated within 2 hours of receiving them and monthly portfolio statements were sent via courier to the customers on the first day of the following month. Together with the statement, it also compiled and disseminated information on the latest development affecting the stock market. The customers were charged according to different package which was related to the size of their share holdings that were kept by the department.

For the financial year ending 1996, the Department achieved business growth in transactional volumes and assets under custody by an average of 200 per cent as compared to 1995. In financial term, for financial year 1996 the department had achieved a turnover of RM3 million which constituted about 8.4 percent of the bank's non-interest income. i.e. fees based income. In January 1996, the department installed a new custody system that run on IBM mini computer to replace the old system that was run on PC. The mini computer based system enabled multiple workstations access

compared to the PC based system that used single terminal access. With the installation of the mini computer based system, the staff were able to process all the transactions by 5.00pm compared to the PC based system where the transaction processing was done until 8.00pm or was carried through to the following day.

The department had implemented procedures to govern all aspect of the operations that included manual processing as well as computer system processing.

2.1 Organisational Set-Up Of CSD

CSD was set up in 1991 with 5 staff and by 1996 it had total size of 21. The additional staffs were recruited in the last two years. Since its inception, CSD had been under the supervision of an Assistant Vice President who oversaw the running of the department.

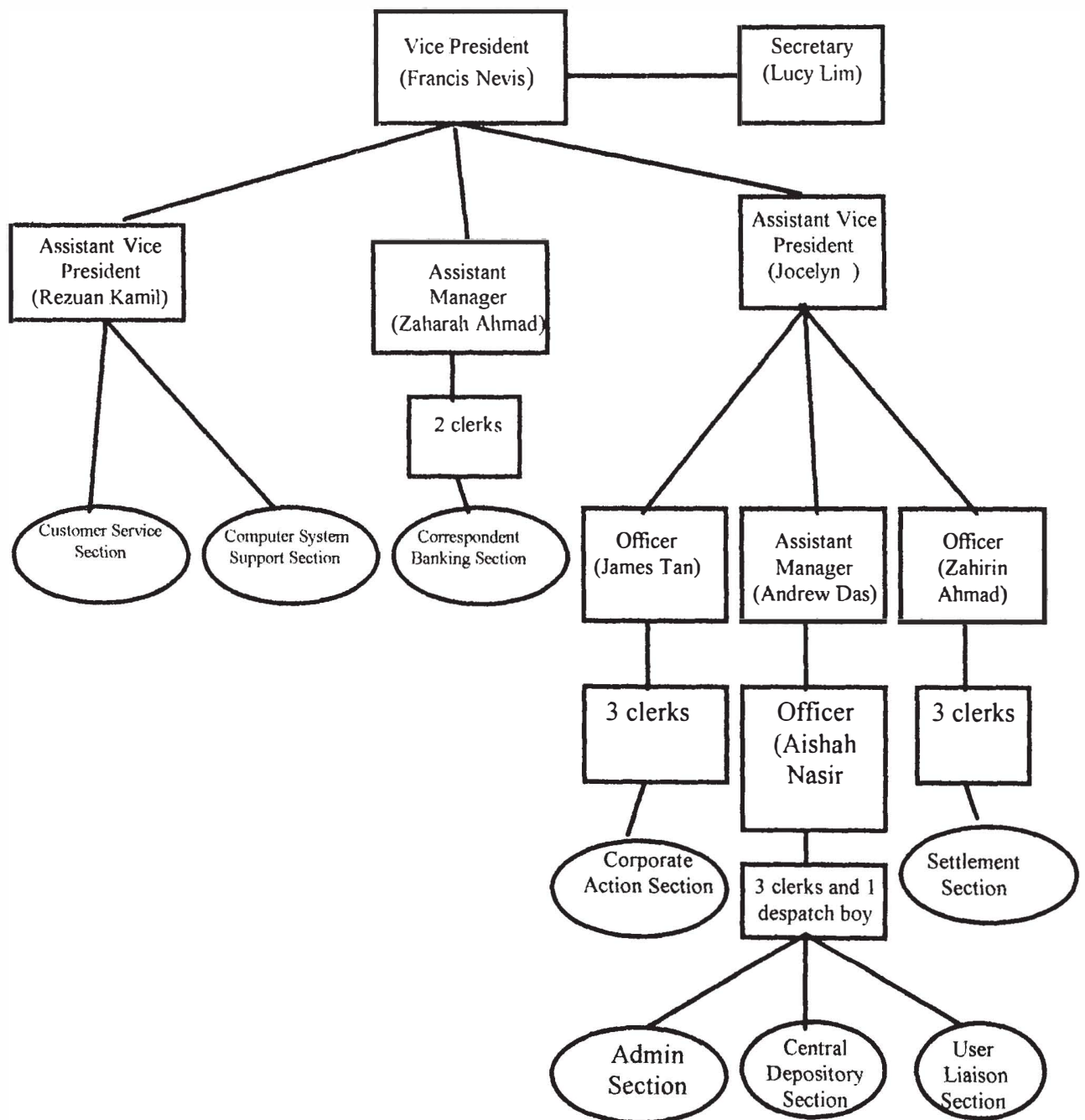
In June 1995 the bank employed a Vice President by the name of Francis Nevis who had more than 10 years experience in general banking as well as in the custody business to take over the functioning of the department. Prior to joining MJBB, Francis was heading the custody operation of Hong Kong Bank Malaysia for a couple for years before he moved on to Standard Chartered Bank's Custody Division to take charge of the administration section of the custody department. MJBB had recruited him to head the custody business.

In his first few months of duty, he had examined the existing business portfolio and developed plan to expand the capability of the department as well as working on getting new customers. To date he had recruited 3 key positions to take charge of his key functional areas, .ie. Administration, Corporate Action processing as well as Information System support.

In May 1997, CSD took over the functioning of the bank's Correspondent Banking Department (CBD) when the previous head of department had left the bank. CBD (became a section of CSD) was entrusted with the aspect of international banking that

was supporting the bank 35 branches in matters pertaining to settlement of clients' (who were mainly exporters and importers) international trade transactions.

Diagram 1 :The Human Resources Setup for CSD



Source : Company's Record

As seen from Diagram 1, CSD was headed by Francis Nevis who oversaw the overall functioning of the department. The various sections and the work functions were as follows:

a. Customer Services

This section was under the care of an Assistant Vice President who also oversaw Computer System Support Section with job scope as follows:

- Provide support to customer pertaining to any issue that may arise during the normal course of business dealings.
- Conduct customer visits to exchange information on latest market development for mutual benefit and to enhance business relationship.
- Conduct visits to prospects with the view of securing new business for the department.

b. Computer System Support Section

- Provide on-site support to CSD staff in resolving any problem that may arise in the course of using the computer system.
- Collate new system enhancements from users and liaise with software vendor on the development and implementation of the system enhancements.
- Provide recovery support to Information System Department in resolving computer batch run problems.
- Evaluate any new hardware and software requirement for the department.
- Undertake new system development where necessary to support new business requirements.
- Develop and update computer operation manual for the various application systems that were implemented in the department.
- Work with other functional departments of the bank to undertake cross functional project.

c. Correspondent Banking Section

This portfolio was put under the care of Custodial Services Department when the previous Head of Correspondent Banking and the sole officer had left the bank and the Correspondent Banking Department was left without any head for one month. Since the took over, it was under the care of an Assistant Manager with job scope as follows:

- Establish banking agency arrangement with other overseas banks to support the customers' international trade transactions requirement.
- Support branches on matter pertaining to application of Letter of Credit for exporters.
- Undertake review of agent banks credit worthiness in order to protect the bank's interest in extending credit to customers.

d. Corporate Action Section

This section was under the care of another Assistant Vice President who also oversaw Settlement Section with job scope as follows:

- Monitor information pertaining to corporate announcement such as Dividend, Rights Issues, AGM, and EGM from various business newspapers and company periodicals.
- Disseminate information pertaining to corporate announcement to all affected customers for their further instructions.
- Undertake the processing of various corporate announcements on behalf of customers according to instructions given.

e. Administration Section

This section was under the care of another Assistant Manager who also oversaw Central Depository Section as well as User Liaison Section with job scope as follows:

- Maintain inventory on various stationery used by the department.
- Undertake the maintenance of static information of customers and stock records in the computer system.
- Perform printing and despatching of customers' monthly portfolio valuation statements.
- Provide support to customers on any inquiry pertaining to their shares holding status.
- Maintain inventory of customers' shares certificates that were still in physical form.
- Compile monthly income and expenses reports for management reporting.

f. Central Depository Section

- Undertake the updating of the status of ownership of customer's shares holding records in the Central Depository System (CDS).
- Perform reconciliation of customers holding in the Central Depository System against the holding maintained in the bank's internal back office computer system.
- Undertake the maintenance of CDS account that included opening of new account for new customers.

g. User Liaison Section

- Provide input pertaining to user requirements to Computer Support Section for the purpose of development or enhancement of computer application systems.
- Perform user acceptance testing of computer application systems.
- Provide feedback to Computer Support Section on any problems that may arise from application systems or computer hardware.

h. Settlement Section

- Perform updating of customers' instructions into the computer system. The instructions can be in the form of Order to Receive or Order to Deliver shares to other parties such as banks or brokers.
- Liaise with the various parties such as share brokers or customers to effect and confirm the validity of any instruction.
- Undertake the processing of monetary transactions on behalf of customers in relation to the settlement of shares transactions.
- Disseminate information to customers informing them of status of the execution of their instructions.
- Perform compilation of transaction statistics on a monthly basis for management reporting to ascertain the monthly transaction volume from the various customers and their contribution to department's revenue.

3.0 Organisational Development

Prior to April, 1996 MJBB was known as Malaysian Credit Bank. It was 30 percents owned by Bank Credit (BC) of Sweden which was itself a commercial and investment bank in Sweden with branches world wide. BC had allowed MJBB to make use of its world wide branches network to assist its customers who were engaged in international trades. Growth Funds Far East (GF) and Equity Asset Asia (EAA) both subsidiaries of BC group were involved in the equity market. GF was based in Singapore whereas EAA was based in Hong Kong. Their functions were to invest in the stock markets of Asian countries. The two subsidiaries had invested in stock markets of countries such as Hong Kong, Singapore , Indonesia, Malaysia as well as other Asian markets.

Both GF and EAA were having investment portfolios in companies listed in the Kuala Lumpur Stock Exchange(KLSE). In the year 1991 GF and EAA had appointed MJBB as their local custodian to look after their investment in companies listed on the KLSE. Both companies started their investment in KLSE in 1991 with equity holding held by GF in the region of RM 100 million whereas for EAA it was in the region of RM300 million.

CSD had provided services that encompassed settlement as well as safe custody of shares purchased by the two subsidiaries of BC, .ie. GF and EAA since 1991. By 1992, CSD was providing custodial services to 3 other overseas fund managers that were also investing in the KLSE. Apart from handling those fund managers, in the same year CSD was also handling some 100 individuals clients of the bank's branches as well as 50 corporate customers of the Corporate Banking Department of the Bank.

In June 1996, the central bank approved the sales by BC of its 30% stake in MJBB to another subsidiary of Majujaya Group. The deal was concluded in December 1996. Thus Majujaya had since maintained 100% ownership of the bank.

During the period when BC was part of MJBB, MJBB was making use of the vast world wide branch network of BC to conduct its international banking business that included trade finance activities, foreign exchange, remittances etc. At the same time BC was also channelling some of its equity investment activities to MJBB through the two companies as mentioned earlier. In term of equity transaction volumes, the two companies collectively contributed about 70% of CSD's overall transaction volumes.

Since the beginning of 1997, CSD recorded a declined in transaction volumes from the two investment companies of BC. In term of percentages the average monthly transaction volumes since 1997 had dropped to about 50% from the previous level of 70%. BC had its regional office based in Singapore. The Vice President of CSD, Francis had recently made a visit to the Singapore office of BC as part of his regular customer visits. Francis was monitoring the transaction volumes of BC and wanted to establish the reason for the decline in transaction activities. The following dialogue had transpired during the meeting with the Chief Executive of the BC's Singapore office, Mr Hedge Johnson.

Francis : "Glad to meet you again, Mr Johnson , How is everything ?"

Johnson : "Fine! Indeed I am very happy to see you here in Singapore. In fact I have been very eager to be able to see you to inform you of the recent development in the BC group. As you are aware, BC as a group has been acquired by one of the leading financial group in Sweden, .i.e the Credit Sweden Group and the acquisition exercise is expected to be completed by second quarter of 1998. "

"It is very normal for the new owner to rationalise its business operation after the take over and we are already being affected in some way or another. The immediate change that has happened as you would have noted was the decline in equity business going

through MJBB. I must stress that we have over the years through our unique relationship been able to support each other and a significant amount of our equity business in this part of the world have been going through MJBB.”

“As the Chief Executive in the Singapore Office, I have been instructed by the new owner to wind down the equity business as this is not the business that they would like to be involved for reasons best known to themselves. As such I have since cascaded down the line about this decision and I am given 3 months to restructure my operation here to take on new business challenges to be assigned to me meanwhile progressively winding down the equity business.”

“The new owner is very strong in international trade finance business and I have since been directed to take on this area to further expand the market share in this part of the world. With regard to the continuing of our business relationship, at this stage I am not able to commit or offer any proposal as I need to obtain direction from the new owner in Sweden. Nevertheless I would like to give my assurance to you that I would stress to the new owner that we have a long established good working relationship with MJBB in Malaysia and would want to continue and further develop this relationship probably in other businesses other than the equity sector.”

Francis

“I guess it is normal for new owner to have different emphasis. It is just unfortunate that the move taken by your new owner has somehow affected us quite significantly, I certainly feel honoured that you will take the liberty to stress the importance of our

relationship to your new owner to continue to deal with us in other areas.

I guess we would have to strategize ourselves in light of this development. In fact my meeting with you this morning primarily is to establish directly if there is any underlying service problem that you may have experienced from our office as I notice lately there is a significant decline in equity transaction volumes from your two investment arms. Now that I am aware of the reason and happy to note that the decline in volumes were caused by a change in business emphasis by your new owner rather than due to service related issues.”

Jean Claude : ”Indeed we are happy with your service even though there are areas of improvement like turnaround time in settlement advises which may be an areas warrant fine tuning.”

Francis : “We are aware of the shortcoming in this area and have already identified the necessary areas for improvement. We certainly hope that in future should your new management decide to resume the equity business, we would be most happy to offer our services to you. Let me assure you that we are committed in this business and would continue to widen our scope of services to include more value added services to all our valued clients.”

Jean Claude : “We will certainly like to be working with you closely and would notify you of any change in policy at the earliest possible opportunity”