Centre for Business and Enterprise

Assessment 1: BSPD824 Strategy in Management

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INTRODUCTION

According to Barney and Hesterly (2019), strategy is defined as its theory about how to gain competitive advantages, where the strategic management process is a sequential set of analyses that can increase the likelihood a company will have a better than average profit.

In addition, strategic planning (or direction) is the art of creating specific business strategies, implementing them, and evaluating the results of executing the plan, with regards to a company's overall long-term goals or desires. It is a concept that focuses on integrating various departments (such as accounting and finance, marketing, and human resources) within a company to accomplish its strategic goals, as defined by Corporate Finance Institute (2023).

In this essay, we shall look at how a practical example of Bank Y* (or the Bank) in New Zealand could plan its strategic direction in terms of the macro environment (PESTLE analysis), micro environment (Porter's five forces) and VRIO analysis.

The thesis statement in relation to this essay is "the author will argue that the macro environment is more important than the micro environment when it comes to stating the strategic direction of a firm".

LITERATURE REVIEW

The three key management concepts in relation to Bank Y are macro environment (PESTLE analysis) and micro environment (Porter's five forces analysis) and VRIO analysis. We shall find out what is PESTLE, Porter's five forces and VRIO analyses in the following paragraphs.

Internal resources such as information technology, operations and human resources are vital to the daily function of Bank Y. Yet, it is not the only factor that decides the Bank's success. External factors such as competition, economic and political situations arguably have even more effects on the market share, profitability and viability of a firm or in our example a financial institution like Bank Y.

**** Bank Y refers to a bank in New Zealand as a practical example in relation to this essay.***

Firstly, below is the **PESTLE (political, economic, sociological, technological, legal and environmental)** analysis (Aguilar, 1967) in relation to banks in New Zealand and Bank Y as an example: -

(1) Bank Y is mainly affected by political changes to Australia and New Zealand as it has a good presence in both countries and has a head office in Auckland where the group is headquartered Australia. However, Australia and New Zealand are politically stable;

(2) Economically, the banks in New Zealand are very profitable. For example, Bank Y made more than NZD2 billion in terms of profit for the year 2022, according to NZ Herald (NZ Herald, 2022);

(3) As for sociocultural factors, the cost-of-living index in New Zealand has risen sharply, namely 8.2% in the 12 months to December 2022 (Stats NZ, 2023). And, New Zealand has a concentrated banking sector. With that, it is a call on those who may have the ability to ease pressure on struggling Kiwis. Hence, according to stuff.co.nz (2023), New Zealand is moving ahead with 'open banking'. Open banking ensures banks must share customer information if they request it, making it easier for New Zealanders to compare mortgage rates, apply for loans and switch banks – improving competition by enabling customers to get better deals. To ensure relevance to Kiwis when open banking is implemented, Bank Y will need to stay relevant with more competitive product offerings and even financial hardship support mechanism like loan restructuring;

(4) Technologically, many banks in New Zealand have invested heavily in the customer relationship management (CRM) software, mobile application and online banking for the convenience of its clients. However, there tend to be algorithm on the age bias for approval of loans i.e. lower loan approval rate for those aged above 50 years old;

(5) From the legal perspective, banks in New Zealand are subject to various laws and regulations, i.e. Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and Privacy Act 2020. Compliance with these laws and regulations is critical to the banks' brand image and long-term business success, and hence implementing necessary risk management for the banks (Jensen et. al., 2022); and

(6) As for environmental factor, Bank Y is integrating ESG (environment, social and governance) approach to its business strategy, of which it has focus in environmental sustainability.

Notably, New Zealand environmental footprint for the Bank is down for water and paper consumption.

Bank Y has maintained its competitiveness throughout its years of operations in New Zealand by focusing on client-centric solution, i.e. committed to meeting the changing needs of its clients, customise its products to suit different client segments, and invested heavily in technology to serve its clients. Hence, it has been effective in the PESTLE framework. Having said that, a company would need to also focus on corporate social responsibility (“CSR”) to enhance its branding and public image including amongst its customers.

Secondly, the **Porter's five forces analysis** (Porter, 2008) in relation to Bank Y in New Zealand are: -

(1) **Threat of new entrants**: The more banks joining the industry will create more threats to Bank Y. As with all banking industries in the developed world, the banking industry in New Zealand is a highly regulated market, disabling any potential new entrant from coming into this industry without a well-capitalised book (minimum capital adequacy ratio required), compliance to the existing regulation i.e. Banking Act 1989 and Reserve Bank of New Zealand Act 1989. Hence, the threat of new entrant(s) is highly likely to be low.

(2) **Bargaining power of clients**: There are numerous commercial and consumer banks that offer similar financial products and services in New Zealand. Therefore, banking clients have many providers to go to for their banking services. However, established clients like individuals and small & medium business clients with many years of banking services and loan facilities from a bank, will be comfortable not to change their banking relationship, due to the familiarity and inter-connectivity to a bank’s system and facilities.

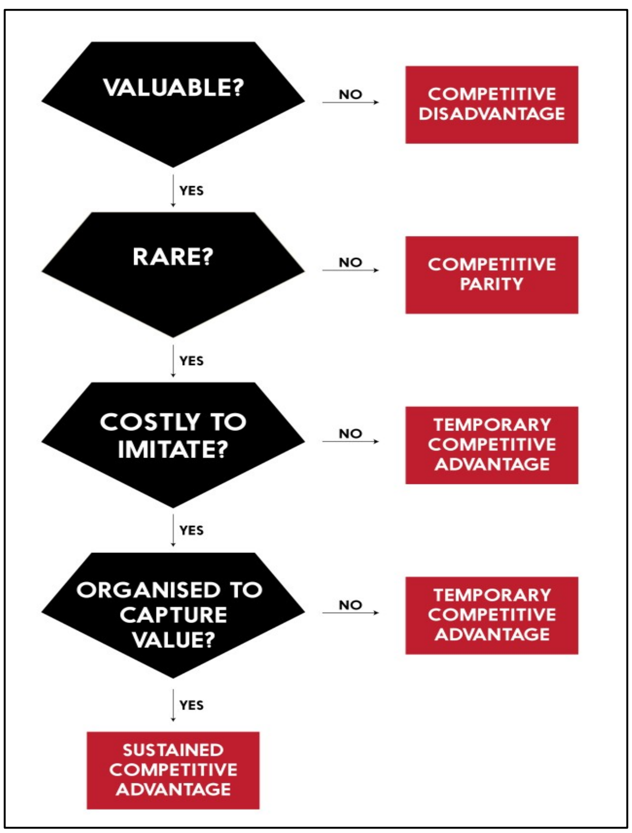
(3) **Bargaining power of suppliers**: Potential supplier have request for proposal and due diligence questionnaire to furnish before it can be onboarded as supplier of a bank in New Zealand. In other words, it will not be easy to be onboarded as a supplier for a bank.

However, once the supplier is onboarded, the business relationship will be long-term as any sudden termination of a provider will be detrimental to the operations of the bank.

(4) **Threat of new substitutes**: Notable examples of disruption to the traditional banking in New Zealand are bitcoin, crowdfunding, peer-to-peer lending and buy-now-pay-later ("BNPL") like Afterpay offering 0% interest instalment facility.

(5) **Competitive rivalry**: There is a mild competition between the banks in New Zealand. Having said that, some of the banks have been acting quite gentlemanly i.e. 12-month deposit rate offered for some of the banks is 5.50%p.a. With this, there is no competition in the rate offered.

Thirdly, we shall look at the **VRIO (Valuable, Rare, Inimitable, Organised) analysis** (Barney, 2019), in relation to Bank Y in New Zealand as an example, as follows: -



Valuable?	Rare?
Bank Y is a well-established brand name, having good presence in New Zealand and its households. Therefore, Bank Y has a brand which is valuable.	Money can be printed by the Reserve Bank of New Zealand, hence, Bank Y does not have a rare resource in terms of physical notes. Nevertheless, Bank Y may have a rare resource in terms of “sticky” client-base, as the clients may already have facilities like mortgage loans with the Bank for the next many years i.e. 30 years.
Inimitable?	**Organised?**
Setting-up a bank in New Zealand requires big capital, banking talents, operational expertise, branding and compliance to regulations, therefore, it is costly to imitate the business framework of an existing bank in New Zealand.	Bank Y is a well-organised financial institution with a comprehensive system in place like client relationship management (CRM), mobile application, online banking, human resources system, operational system, risks management system, investment framework, compliance, etc.

(Barney, 2019)

* VRIO analysis was first developed by Jay Barney in its publication in 1991.

CONCLUSION

It is a good management strategy to use PESTLE analysis, Porter’s five forces analysis and VRIO analysis on a firm’s strategic direction, as this will ensure that the company has a sustained competitive advantage, rather than a temporary one.

To reiterate, the thesis statement in relation to this essay is “the author will argue that the macro environment is more important than the micro environment when it comes to stating the strategic direction of a firm”. It is imperative to note that macro environment like changes to political and economical environment could be detrimental to a firm more than micro environment such as bargaining power of suppliers and customers. Take for example, the case of a bank run in USA recently, due to economic and interest rate impact on its profitability from losses of long-term treasury bonds sold, thence, the firm’s trust by depositors, causing huge withdrawals in a short time. Of which, such macro scenario has caused more damage to the viability of the firm than the micro environment (Helmore, 2023).

In conclusion, whilst in the effort of maximising the profitability of a firm, it is important that strategic direction of a company adopts an ethical strategy management. According to Barney (2019), externalities such as environment and public health could suffer due to a company's profit-maximising behaviour. To add on, externality like the financial well-being of New Zealanders could also be affected by the stance of financial institution on maximising profitability of their product offerings i.e. mortgage and interest-bearing loans. With the negative perception of the profit-maximising behaviour by the public including customers, the public image of financial institution will take its toll eventually, which may affect the sustainability of an institution or company. Hence, a company will need to balance between profitability and CSR, in order to succeed in a competitive and globalised world.

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