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Strategic Plan for the Industrial & Commercial Bank of China (ICBC)

Peru

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Dedications

To my parents and friends, for your support and love.

Yuwei Liu

To the people who love me and whom I love, for your always guidance and never leaving.

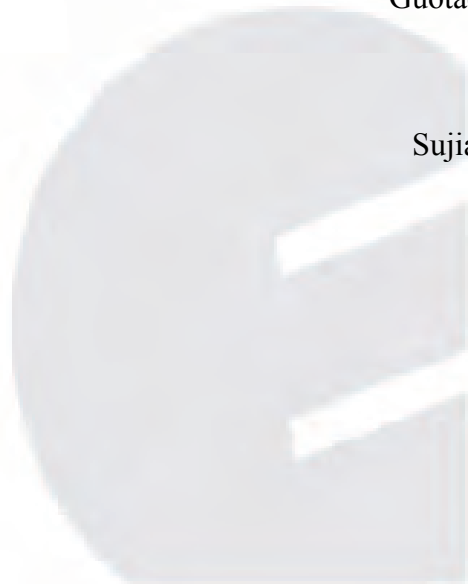
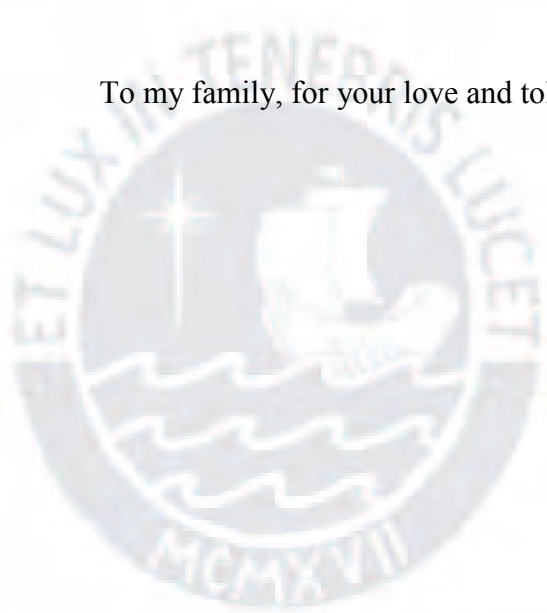
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To my parents, my wife and my sons, for all your unconditional love and support.

Guotao Xu

To my family, for your love and tolerance.

Sujia Liu



Abstract

The purpose of this thesis is to present a Strategic Plan for the Industrial & Commercial Bank of China (ICBC) Peru, with a vision for 2030, when the bank should become a preferred, profitable, secure, and innovative financial institution with a focus on bilateral business between Peru and China. D'Alessio's (2008), The Sequential Model of the Strategic Process, was adopted for the planning; ICBC Peru's public reports and interviews to its employees have been used to acquire relevant information. Firstly, ICBC Peru's vision, mission, and so on, are defined and then, the external and internal conditions are analysed. Opportunities, threats, strengths, and weaknesses are then identified through Tridimensional, Porter's Diamond, PESTE, Five-Forces, AMOFHIT, and so on, and have been used in SWOT to generate twelve strategies, from which eight are retained through SPACE, BCG, IE, and GS analysis. The vision is then divided into actionable long-term objectives to combine with the 5 strategies to generate short-term objectives and their respective conditions, such as organizational structures, policies, evaluation tools for the implementation and revision.

The main findings for ICBC Peru in this thesis are: the main opportunities, externally, are the likely future growth of Peru's GDP, internal demand, and investment; and the main threats are corruption, governmental administrative capacity, and natural disasters; internally, the main strength is the group support; and the main weaknesses are the small equity and lack of effective localization. The eight retained strategies need to solve this external and internal situation by means of: diversification (retail banking & tailored services), market penetration (more marketing), alliance with local banks (localization), and product development (Fintechs introduction).

Resumen Ejecutivo

El propósito de esta tesis es presentar un Plan Estratégico para el Banco Industrial y Comercial de China [ICBC] Perú, con una visión para el 2030, año en el cual el Banco ha de convertirse en una institución financiera preferida, rentable, segura e innovadora con un enfoque en negocios bilaterales entre Perú y China. Se adoptó el modelo secuencial del proceso estratégico para la planificación propuesto por D'Alessio (2008). Con la finalidad de adquirir información relevante se utilizó los informes públicos y las entrevistas a los empleados de ICBC Perú. La visión, misión de ICBC Perú fueron definidas primero para pasar al análisis de las condiciones externas e internas. Las oportunidades, amenazas, fortalezas y debilidades se identificaron a través del Diamante Tridimensional de Porter: PESTE, Five-Forces; y se utilizó el AMOFHIT para generar doce estrategias, de las cuales ocho se conservan a través de SPACE, BCG, IE , y análisis de GS. Luego, la visión se divide en objetivos a largo plazo para combinarlos con las cinco estrategias para generar objetivos a corto plazo y sus condiciones correspondientes, como estructuras organizativas, políticas, herramientas de evaluación para la implementación y revisión.

Los principales hallazgos de ICBC Perú en esta tesis son: externamente, las oportunidades principales son el probable crecimiento futuro del PIB, la demanda interna y la inversión de Perú; y las principales amenazas son la corrupción, la capacidad administrativa del gobierno y los desastres naturales; internamente, la principal fortaleza es el apoyo grupal; y las principales debilidades son su escasa equidad y la falta de una localización efectiva. Las ocho estrategias retenidas buscan resolver esta situación externa e interna a través de: la diversificación (banca minorista y servicios personalizados), penetración en el mercado (más mercadeo), alianza con bancos locales (localización), y el desarrollo de productos (introducción de Fintech).

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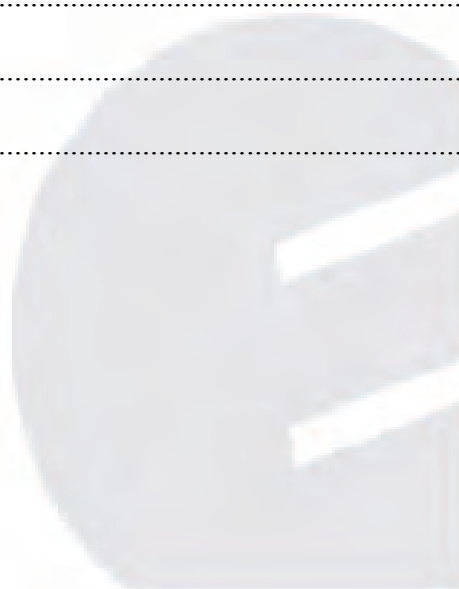
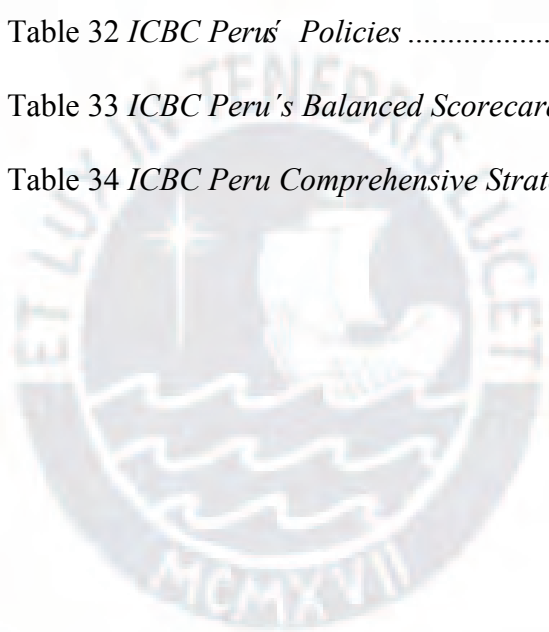
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The Strategic Process: An Overview

The strategic plan developed in this document was prepared according to the sequential model of the strategic process. The strategic process consists of a set of sequentially developed activities that allow an organization to project into the future and to reach its vision. Figure 0 shows the three main phases of such process: (a) formulation, which is the planning stage itself whereby strategies—that will take the organization from its current situation to the desired future state—will be identified; (b) implementation, in which the strategies obtained during the first stage are implemented; it is the most difficult stage due to its strictness; and (c) evaluation and control, in which the activities are carried out permanently throughout the entire process in order to monitor the sequential steps and, finally, the Long-Term Objectives (LTO) and Short-Term Objectives (STO). Apart from these three phases, there is a final stage that represents the conclusions and final recommendations. Notably, the strategic process is characterized by its interactivity—since many people are involved in it—and by its iteration because it generates a repetitive feedback.

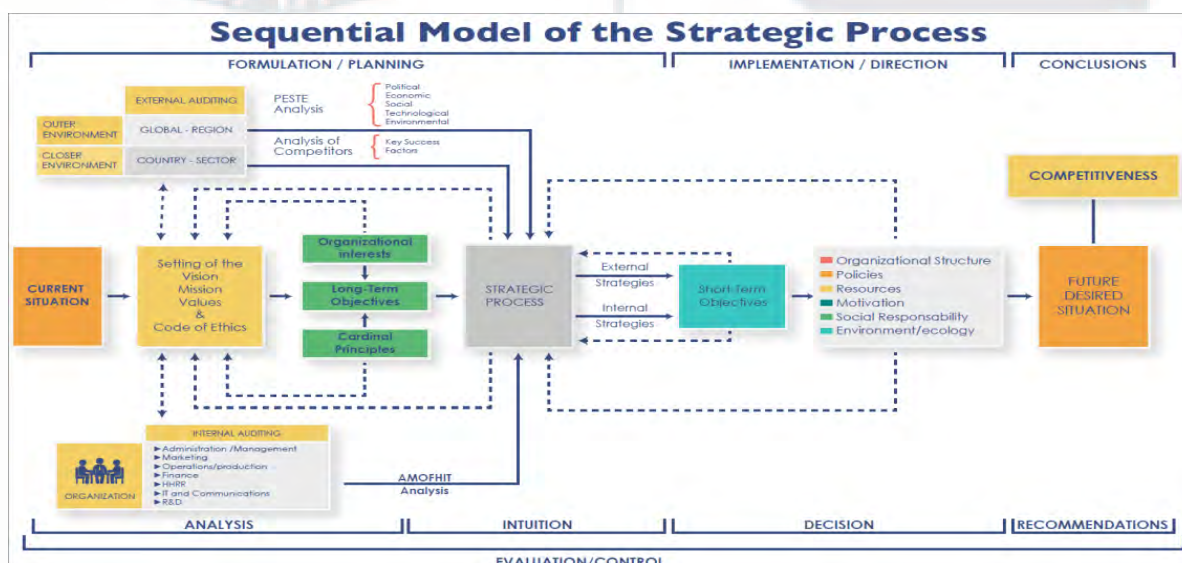


Figure 0. Sequential Model of the Strategic Process

Taken from "The Strategic Process: A Management Approach", by F. A. D'Alessio, 2008. Mexico D. F., Mexico: Pearson.

The model starts with an analysis of the current situation, followed by the establishment of the vision, mission, values, and code of ethics; these four components guide and regulate the activities of the organization. Then, the National Interests Matrix (NIM) and the external evaluation are developed to determine the influence of the environment in the studied organization. In this way, the global industry is analyzed through PESTE (Political, Economic, Social, Technological, and Ecological factors) analysis. PESTE analysis generates the External Factors Evaluation Matrix (EFEM), which provides the knowledge of the impact of the environment through the opportunities that could benefit the organization, the threats that shall be avoided, and how the organization is acting on these factors. PESTE analysis and the competitors generate the organization's evaluation in relation to these, from which the Competitive Profile Matrix (CPM) and the Referential Profile Matrix (RPM) are obtained.

Thus, the external evaluation identifies the key opportunities and threats, the situation of the competitors, and the Critical Success Factors (CSF) in the industrial sector. This makes it easier for planners to start the process that will lead to the formulation of the strategies which allow taking advantage of the opportunities, preventing and/or reducing the impact of hazards, knowing the key factors to succeed in the industry, and surpassing the competition. The internal evaluation is subsequently developed, which is aimed at the definition of strategies that capitalize on the strengths and neutralize the weaknesses, in a way that competitive advantages are built from identifying distinctive competencies. AMOFHIT internal analysis (Administration & Management, Marketing & sales, productive Operations & infrastructure services, Finance & accounting, Human resources & culture, Information, communication, & Technology) is carried out for this purpose and the Internal Factors Evaluation Matrix (IFEM) is obtained from it. This matrix allows evaluating the main strengths and weaknesses of the functional areas of an organization, as well as identifying

and assessing the relationships between such areas. A thorough internal and external analysis is required and crucial to continue with the process that is most likely to succeed.

In the next stage of the process, the interests of the organization are determined, i.e. the most important goals to be reached in order to globally succeed in the markets where the organization competes. From this, the Organizational Interests Matrix (OIM) is derived and it allows establishing the LTO based on its vision. These are the results that the organization expects to obtain. Note that the "sum" of the LTO would lead to achieve the vision and the "sum" of the STO would be the achievement of each LTO.

The matrices presented in stage 1 of the first phase (NIM, EFEM, IFEM, CPM, RPM, and OIM) are key inputs that will enhance the quality of the strategic process. In stage 2, the strategies are developed matching up and combining the strengths, weaknesses, opportunities, and threats along with the previously analyzed results. For this, the following tools are used:

(a) the Strengths, Weaknesses, Opportunities and Threats (SWOT) matrix; (b) Strategic Position and Action Evaluation (SPACE) matrix; (c) Boston Consulting Group (BCG) matrix; (d) Internal-External (IE) matrix; and (e) the Grand Strategy Matrix (GSM).

At the end of the strategic formulation, stage 3 is given by the choice of strategies, which represents the strategic process itself. A set of integration, intensive, diversification, and defensive strategies result from the above mentioned matrices. The Strategic Decision Matrix (SDM) selects these strategies, which are specific and not alternative, and whose attractiveness is determined in the Strategic Planning Quantitative Matrix (SPQM). Finally, the Rumelt Matrix (RM) and the Ethics Matrix (EM) are developed to finalize the retained and contingency strategies. After this, the second phase of the strategic planning begins: the implementation. Based on this selection, the Strategies Matrix is developed against the longterm objectives (LTO). This matrix verifies if the LTO can be accomplished by implementing the retained strategies. Likewise, the Strategies Matrix is developed against the

Competitors' and Substitutes' Possibility Matrix (CSPM) that helps to determine how many of these competitors will be able to cope with the strategies retained by the organization. The integration of the intuition with the analysis is essential, since it favors the selection of strategies.

After formulating a strategic plan that allows accomplishing the future projection of the organization, the identified strategic guidelines are implemented. The strategic implementation basically consists on translating the strategic plans into actions and, subsequently, into results. It is worth to point out that a successful formulation does not guarantee a successful implementation, since the latter is more difficult to carry out and it implies the risk of execution failure. During this phase, the STO and the resources allocated to each of them are defined, and the policies for each strategy are established. It is necessary to have a new organizational structure. The worst mistake is to implement a new strategy using an old structure.

The concern for the respect and preservation of the environment, the social and economic sustainable growth considering ethical principles, and the cooperation with the related community (stakeholders) are part of the Organizational Social Responsibility (OSR). Decision makers and those who, directly or indirectly, are part of the organization should voluntarily commit to contribute to the sustainable development by looking for the shared benefit with all stakeholders. This implies that the action-oriented strategies are based on a set of policies, practices, and programs that are integrated into its operations.

In the third phase, the strategic assessment is carried out using the four control perspectives of the Balanced Scorecard (BSC): (a) internal learning, (b) processes, (c) customers, and (d) finances, so that the achievement of the STO and LTO can be monitored. From this, the appropriate corrective actions are taken. In the fourth phase, after all the planning, the conceived competitiveness for the organization is analyzed and the necessary

conclusions and final recommendations are suggested to accomplish the desired future state of the organization. Likewise, an Integrated Strategic Plan (ISP), in which the process is displayed at glance, is presented. The strategic planning can be developed for a small business, company, institution, industry, port, town, municipality, region, state, department, and country, among others.



Chapter I: General Situation of ICBC Peru

1.1 General Situation

In 2017, the growth of economic activity in Peru, measured by the Gross Domestic Product (GDP) was 2.5%. It is a lower result than the 3.9% registered in 2016, mainly due to the lower dynamism of metallic mining. However, there are several sectors showing a better performance than before, such as the fishing sector, which was recovered by a considerable increase in the capture of anchovy after El Niño phenomenon, and the construction sector, it was also benefited by the increase in public investment for infrastructure.

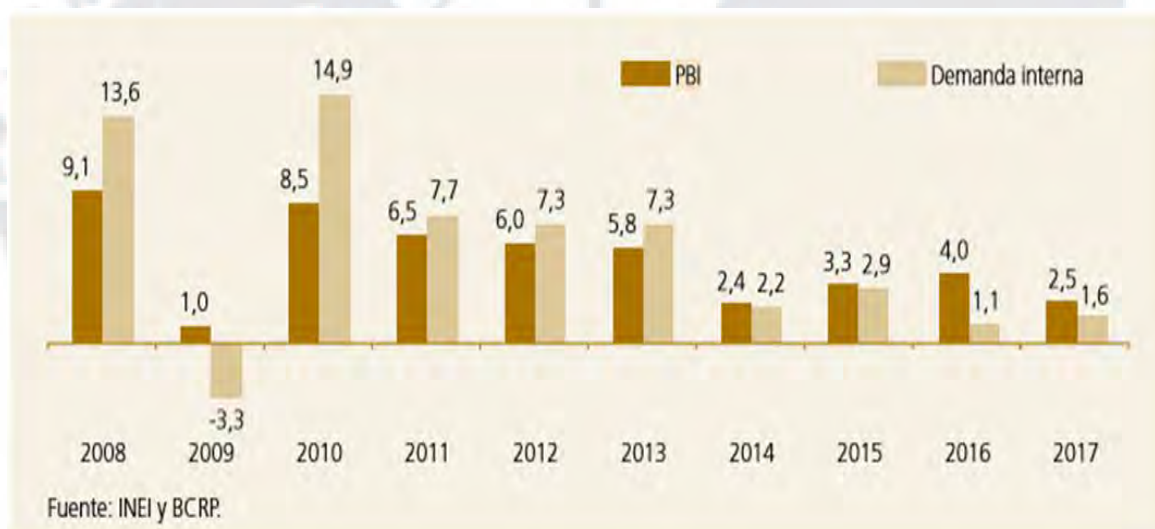


Figure 1. Peruvian GDP and domestic demand from 2008 to 2017.

Taken from “Memoria 2017,” by Banco Central de Reserva del Perú [BCRP], 2018 (<http://www.bcrp.gob.pe/docs/Publicaciones/Memoria/2017/memoria-bcrp-2017.pdf>).

Until the end of 2017, a re-composition of the GDP growth variables was observed. On the one hand, the domestic demand shows a better performance, especially in the investment field; on the other hand, the export has been moderated which is also, consistent with the lower dynamism of metallic mining production. And in terms of government figures, the fiscal deficit represented a 3.2% of the GDP. In terms of the public debt, in 2017 it remains in 24.9%, one of the lowest rates in the region as well as in the world.

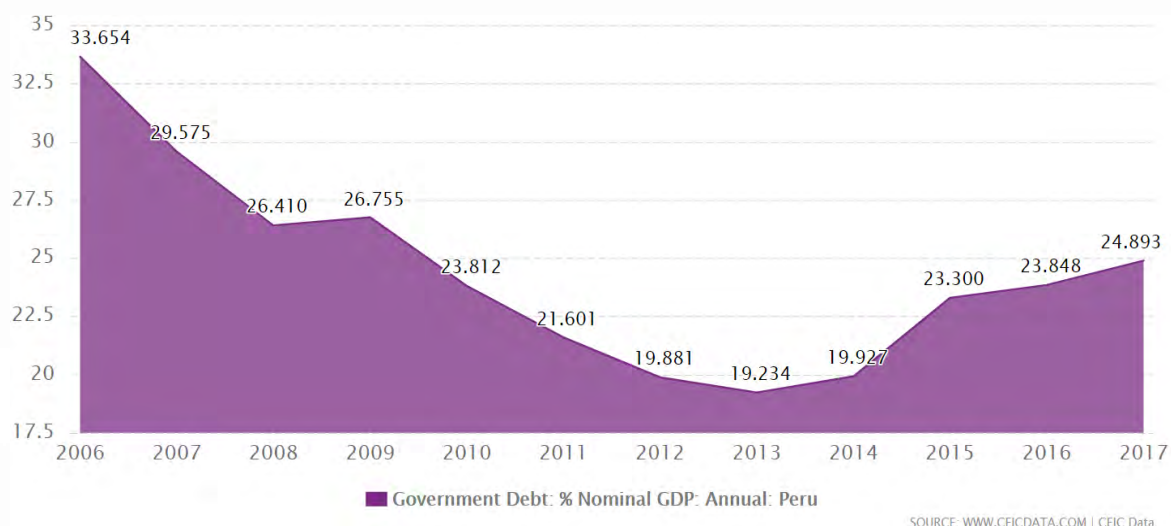


Figure 2. Government deficit result in percentage of GDP.

Taken from “the Government debt of Peru,” by Census Economic Information Centre [CEIC] Statistics, 2018 (<https://www.ceicdata.com/en/indicator/peru/government-debt--of-nominal-gdp>).

About the inflation rate, it moderated and closed nearly to 1.4% in 2017, which is below the target range of the Central Reserve Bank of Peru (BCRP). This result, according to BCRP, reflected a moderate increase in food price, an appreciation of local currency, a flat manifestation of household spending due to a weak generation of employment and a decrease of electricity price.



Figure 3. CPI performance of Peru.

Taken from “Reporte de inflación – diciembre 2018 – panorama actual y proyecciones macroeconómicas – 2018-2020,” by Banco Central de Reserve del Perú [BCRP], 2018 (<http://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2018/diciembre/reporte-de-inflacion-diciembre-2018.pdf>).

Regarding the exchange rate, its price closed in 2017 at S/ 3.24, a lower level than the registered at the end of the previous year. This reduction was influenced by the improvement of the trade balance -which in turn is explained by the recovery of metal prices and the increase in mining production and the great appetite of non-resident investors for Peruvian financial assets, especially the sovereign bonds in a context of abundant global liquidity. The BCRP sought to moderate the downward pressure of the exchange rate through purchase of foreign currency, which favoured the increase in foreign reserves, until the end of 2017, the international reserves was end up with US \$ 63,621 million, a mount greater than US \$ 1,936 million at the balance of the previous year (Banco Central de Rerserva del Perú, 2018).

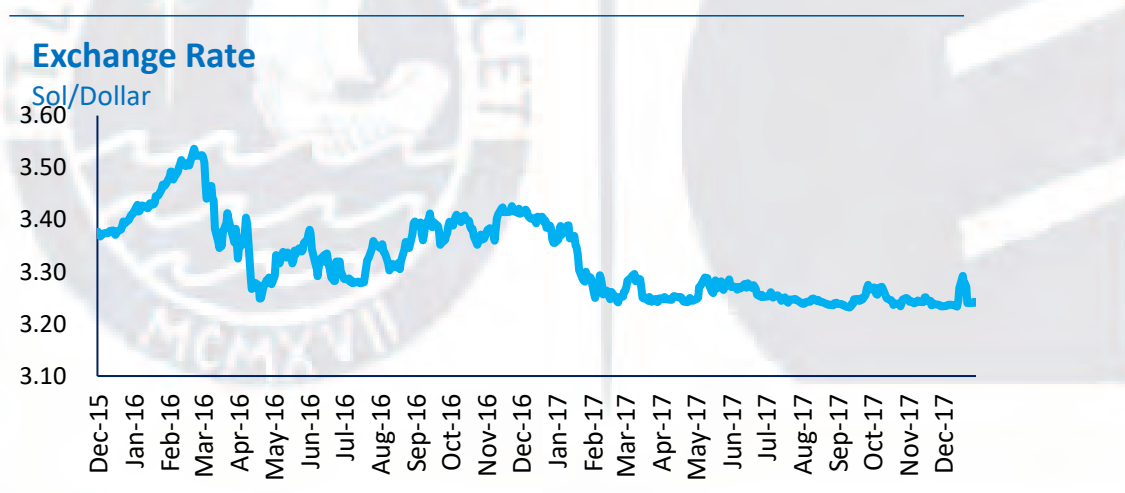


Figure 4. Exchange rate performance of local & international currency. Taken from “The Memorandum 2017,” by BBVA Continental, 2018 (<https://extranetperu.grupobbva.pe/memoria2017/entorno-economico.html#>).

Indeed, under this general economic situation, according to the statistics of SBS and AFP (2018), the Peruvian banking sector in 2017, had placed S/287 thousand millions into the private sector, which represented a 5.5% of growth, showing a higher expansion rate than the previous year (4.9%). The dollarization of the loans represented a 28.8%, compared to a 28.3% by the end of 2016 (Superintendencia de Banca, Seguros y AFP, 2018).

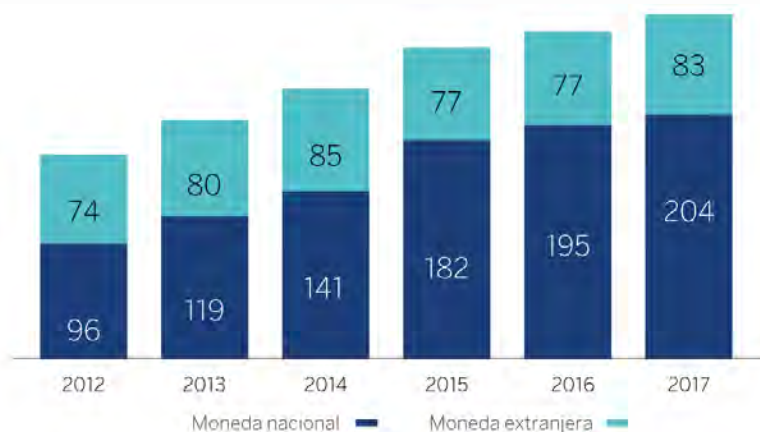


Figure 5. Loan performance of Peru (in billions of soles and dollars). Taken from “The Memorandum 2017,” by BBVA Continental, 2018 (<https://extranetperu.grupobbva.pe/memoria2017/sistema-financiero-peruano.html>).

The deposits growth rate in the financial system has reached a 9.1% in 2017, after having reported a negative figure in 2016 (-0.3%). The dollarization of deposits was reduced, from 47.6% in 2016 to 42.9% by the end of 2017.

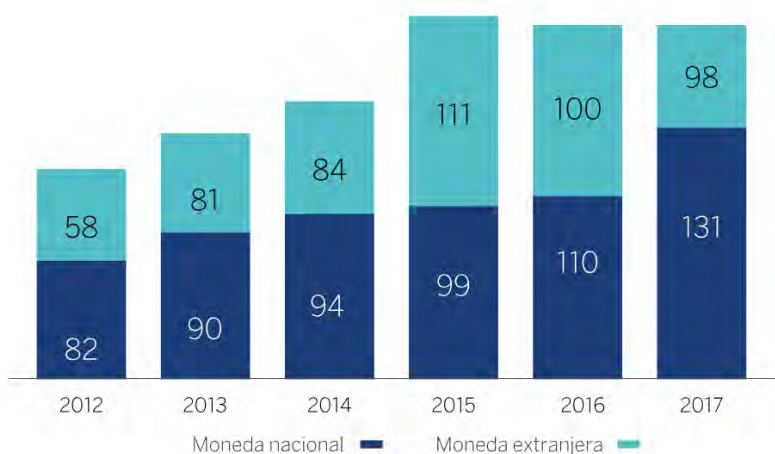


Figure 6. Deposit Performance of Peru (in billions of soles and dollars). Taken from “The Memorandum 2017,” by BBVA Continental, 2018 (<https://extranetperu.grupobbva.pe/memoria2017/sistema-financiero-peruano.html>).

The quality of the portfolio of the financial system showed a slight deterioration and the delinquency rate went from 2.80% in 2016 to 3.04% in 2017. Finally, it should be noted that the average profitability of banks measured as annualized net income between average assets (ROE), stood at 18.32%, lower than the registered level (19.86%) in the previous year.

Table 1

Operating Result Comparison of Peruvian Financing System

Banks	Delinquency (in %)		Profitability (in %)	
	2016	2017	2016	2017
Mibanco	4.46	4.74	22.91	24.80
Banco de Crédito	2.71	2.97	23.49	21.32
Interbank	2.64	2.85	22.98	20.62
BBVA Continental	2.41	2.68	20.75	19.52
Banco Ripley	2.69	3.04	18.73	17.57
Scotiabank	3.08	3.15	17.40	15.89
Banco de Comercio	3.34	3.07	14.15	13.22
Citibank	0.00	0.00	14.55	12.96
Banco Santander	0.69	0.80	12.43	11.95
Banco Falabella	5.71	7.81	12.94	9.98
BIF	2.50	3.14	11.57	9.79
Banco Cencosud	5.61	4.05	2.95	7.52
GNB	2.08	2.49	8.26	6.15
Banco ICBC	0.00	0.00	-9.05	4.04
Banco Financiero	3.98	3.72	4.83	2.76
Banco Azteca	9.24	9.46	10.70	1.95
Average of Banking system	2.80	3.04	19.86	18.32

Note. Taken from “Memorandum 2017,” by BBVA Continental, 2018
(<https://extranetperu.grupobbva.pe/memoria2017/entorno-economico.html#>).

According to an analysis of the Industrial & Commercial Bank of China Peru (ICBC Peru), the Peruvian banking sector has shown a sustained double-digit growth during the last 15 years. However, according to statistical information of the Superintendence of Banking, Insurance and AFP (SBS), the direct credits of the banking multiple grew by 5.8% in 2017 (3.9% in 2016), reaching a closing balance of PEN 245.5 billion (PEN 235.4 billion in 2016), which represents the highest growth in 16 months (ICBC Peru, 2018).

The low interest rates in USD plus the revaluation of the Nuevo Sol compared to the USD increased the demand for short-term loans in USD, mainly solicited by corporate and large companies, so that the ratio of loans in PEN / total loans fell slightly to 67% (68% in 2016). In 2013 this ratio was 54% what means that the banking system and clients have been choosing the national currency as their preference for loans. (BBVA,, 2017). The ratio of no performance debts reached in 6.8% in September 2018 (4.8% in September 2017). The upward trend is related to a lower international economic growth and a depreciation of national currency (BCRP, 2018).

Total deposits grew by 10.92% in 2017 compared to December 2016, the highest

growth in 3.5 years, reaching PEN 230 billion (PEN 131 thousand million in local currency, growth of 19%) and USD 30.3 billion (growth of 1.74%). Under this political and economic context, after its first disbursements of loans in May 2014, ICBC Peru continued to increase its productivity and managed to improve its offer of products and value to its customers in 2017, reaching the breakeven point for the first time since the opening of the bank and recording a profit after taxes of US \$ 1.2 million. Among the offer of products for the local market, the bank completed the integration of the electronic banking platform with the local compensation system CCE (Electronic Compensation Chamber) for low-value local payments (payments mass to suppliers and payroll), and the local exchange and market platform money (DATATEC), allowing the bank to participate in the professional market with its peers (ICBC Peru, 2018).

1.2 Conclusions

Under a general stable environment, ICBC Peru started operations and business in the local market in 2014 and began to get revenues since 2017 based on a combined mission resumed from the headquarters and local board. But its business scale, financial merit and profitability were still beyond other local peers.

Chapter II: Vision, Mission, Values, and Code of Ethics

2.1 Background

ICBC Peru started commercial operation in 2013 in Peru as one of the overseas branches of ICBC Corporation. Until 31, December, 2017, the total amount of capital of the company is S/132,200.00. It has 132,840,200 common shares with a nominal value of S/.1.00, all of which have been fully subscribed and paid. ICBC Corporation is the only shareholder of ICBC Peru with a degree of ownership over or equal to 5% of the issued share capital with 132'840,199 shares which represent a 99.9999% of the total share capital. In 2017, ICBC Peru opened Pavilion of Peru in the electronic commerce system of ICBC Bank Corporation, where typical and representative Peruvian products (such as alpaca garments, premium foods such as Maca, and so on.) are offered directly to the bank's customers through this channel.

This is one example reflecting ICBC Peru's primary goal: to promote the economic cooperation between Peru and China. At the same time, its business in Peru was growing: with the loan portfolio grew 14% and the interest income from loans grew 45% year-on-year (32% and 67% in 2016 versus 2015 respectively) and achieved positive income in 2017.

While ICBC Peru is still a small bank in Peru, as the first Chinese financial institution open in this country, its presence has more meaning than its initial business volume. Its vision should therefore be aimed for a longer and more ambitious future of the company.

2.2 Vision

ICBC Peru has not defined its vision and although its corporation in China does have a vision, which is: "Build a world-class and modern financial enterprise with global competitiveness by adhering to the principles of delivering excellence, sticking to our founding mission, customers' favourite, leading in innovation, security and prudence, and people-oriented" (ICBC, 2019). According to D'Alessio (2017) nine criteria for vision its

scope is considered too comprehensive for ICBC Peru. Therefore, a new version is proposed:

The proposed vision of ICBC Peru is: By 2030, ICBC Peru will become a preferred, profitable, secure, and innovative financial institution offering integrated financial solutions to our clients, with the focus on bilateral business between Peru and China.

Analysis and justification: The reasons why this vision is proposed is because: first, it has a time horizon, which is “by 2030”, this also means an organization for the future ; It also has a central ideology that motivates to make change, which means to transform ICBC Peru from a current small market sharer bank to a “preferred, profitable, secure, and innovative financial institution offering integrated solutions” to its clients; it is also ambitious, and creates a sense of urgency, since only 10 years are left to achieve this goal from now; it further defines a geographic scope, which is “between Peru and China”; it is short, clear, which can be familiar to everybody, and draws a picture for the organization.

This vision is analyzed along with one of the ICBC Corporation in Table 2 to justify our choice. One primary reason why is thought the corporate vision is too comprehensive for ICBC Peru is the geographic scope, while the corporate should think globally, a local branch should focus more on its host country. However, this does not mean that ICBC Peru need not to consider any context outside Peru, since the globalization has made an impact on almost all nations in the world. This part will be covered in Chapter III, which analyse the external situation.

2.3 Mission in Peru

Unfortunately, ICBC Peru does not have neither its own mission statement. The ICBC’s corporate mission is “Excellence for You. Excellent services to clients; Maximum returns to shareholders; Real success for our people; Great contribution to society.” (ICBC,

2019, p. x). According to D'Alessio's nine criteria for a mission (2017), the mission of the bank in China would not be appropriate for ICBC Peru. Therefore, again a national-focused mission is proposed, as follows:

The mission of ICBC Peru is to realize long-term, sustainable growth as a reliable financial institution by contributing to the economic growth, investments, and cooperation between Peru and China through:

- Offering valued-added, professional, satisfactory and innovative financial products and services to local and international clients;
- Applying cutting-edge information technologies as our sustained competitive advantages;
- Leveraging corporate resources in its globalization to capture internal synergies;
- Complying to local and international regulations;
- Creating values to our employees and community.

This proposed mission identifies the organization as a “financial institution” which aims to be “reliable” with regards to its reputation and defines “long-term, sustainable growth” as the organization’s objective; it sets the market scope as “financial products and services” to “local and international clients”; it mentioned to “apply IT technology” with the philosophy to “Contribute to the economic growth, investments, cooperation between Peru and China,” and acquires sustained competitiveness through innovation and “leveraging” ICBC Corporation’s resources, such as using “parent” companies’ credit line in China for their affiliated companies in Peru, or help Peruvian companies to internationalize through ICBC Corporation’s existing global network; this mission also cares about ICBC Peru’s employees and related communities, through providing China related career development options, enriching employees’ multicultural experience for a more and more globalized world, and promoting “Green Credits” as its corporate social responsibility (CSR) for the

Table 2

Vision of ICBC Peru and ICBC Bank Corporation Compared Analysis

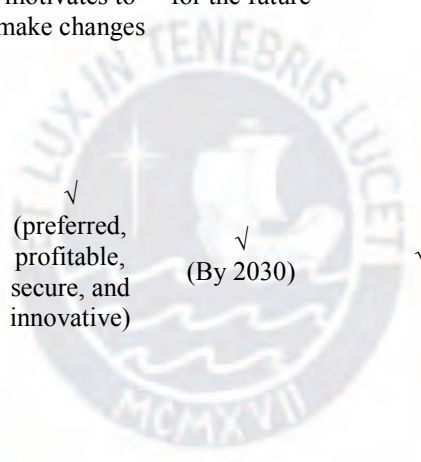
Company	Vision	9 Criteria								
		(1) Have a central ideology that motivates to make changes	(2) Design the organization for the future	(3) Be simple, clear, and understandable	(4) Be ambitious, conclusive, and realistic	(5) Define a time horizon	(6) Forecast a geographic scope	(7) Be familiar to everybody	(8) Create a sense of urgency	(9) Draw a clear picture of where the organization wants to go and why
ICBC Peru	The vision of ICBC Peru is, by 2030, to become a preferred, profitable, secure, and innovative financial institution offering integrated financial solutions for our clients, with the focus on bilateral business between Peru and China.	 √ (preferred, profitable, secure, and innovative)	√ (By 2030)	√	√	√ (By 2030)	√ (Peru and China)	√	√ (Only 10 years left)	√
ICBC Bank Corporation	Build a world-class and modern financial enterprise with global competitiveness by adhering to the principles of "delivering excellence, sticking to our founding mission, customers' favourite, leading in innovation, security and prudence, and people-oriented".	√	√	√	√	×	√ (Global, and this is why we consider it is too comprehensive for a local bank)	√	×	√

Table 3

Mission of ICBC Peru and ICBC Bank Corporation Compared Analysis

Company	Mission	(1) Clients / Consumers - Buyers	(2) Products: goods or services	(3) Markets	(4) Technology	9 Criteria (5) Objectives of the organization: survival, growth, and profitability	(6) Philosophy of the organization	(7) Self-concept of the organization	(8) Concern about the public image	(9) Concern a about the employees
ICBC Peru	The mission of ICBC Peru is to realize long-term, sustainable growth as a reliable financial institute by contributing to economic cooperation between Peru and China through: <ul style="list-style-type: none"> • Offering valued-added, professional, satisfactory and innovative financial products and services to local and international clients; • Applying cutting-edge information technologies as our sustained competitive advantages; • Leveraging corporate resources in its globalization to capture internal synergies; • Complying to local and international regulations; • Creating values to our employees and community. 	✓ (Peru local and international clients)	✓ (Financial services)	✓ (Local and international)	✓ (Introduce cutting-edge IT technologies)	✓ (long-term, sustainable growth)	✓ (Contribute to economic cooperation between Peru and China)	✓ (A reliable financial constitution)	✓ (Reliable, CSR, creating value to community)	✓ (Creating value to employees)
ICBC Bank Corporation	Excellence for You. Excellent services to clients; Maximum returns to shareholders; Real success for our people; Great contribution to society	×	×	×	×	✓ (Profitability, as in maximum returns to shareholders)	✓ (Global, and this is why we consider it is too comprehensive for a local bank)	✓	✓ (Great contribution to society)	✓ (Success for our people)

community. The authors have done an analysis comparing the corporate mission with the one we proposed using the nine criteria in Table 3. The analysis shows that the corporate mission has not clearly defined the clients, the products or services, or the market. And it does not mention anything about technology. This is the reason why it was decided to propose a new mission specifically for ICBC Peru.

2.4 Values

The values of an organization can be considered as the most important policy guidelines: usually, they direct the performance of their officials and they constitute the pattern of action that guides the decision-making process (D'Alessio F. , 2008). Taking into account the importance of the values in achieving the vision of ICBC Peru in order to carry out a good long-term strategic planning, the following values are defined:

Responsibility, Integrity, Professionalism, Innovation, Prudence and Performance.

Responsibility: The entity is always responsible to the state, the society, customers, employees, shareholders, and the bank. It will step forward to perform its responsibilities, to boldly take on challenges, and to carry its missions through.

Integrity: The entity abides by every commitment it has made, keep its words consistent with its actions, have an open mind, and adhere to the principles of honesty and trustworthiness.

Professionalism: The entity always aims to endow itself with greater capability and competence, to carry on its work in the spirit of craftsmanship and to constantly pursue perfection.

Innovation: The entity always moves ahead, and never stands still. It will make daring explorations, it will learn from others, and it will proactively develop innovative ideas.

Prudence: The entity firmly holds the bottom line for risk management, ensure compliance in our operations, and abide by the laws governing the development, in a bid to

achieve sound growth over the long term.

Performance: The entity evaluates performance by results and profitability, thus promoting sustainable growth.

2.5 Code of Ethics

The code of ethics is where the minimum consensus on ethics is established, and where the principles of the organization are emphasized. The code of ethics must establish the desired behaviors and unwanted behaviors specify the duties and rights (D'Alessio F. , 2008). According to the Report on Compliance of the Code of Good Cooperate Governance (Reporte Sobre El Cumplimiento Del Código De Buen Gobierno Corporativo Para Las Sociedades Peruanas - 10150) (ICBC Peru, 2016), ICBC Peru established its code of ethics to direct the behavior of directors, managers and employees. Since the information of the code of ethics itself is not available, it is not possible to evaluate if it is good or not. In this sense, based on the vision, mission and values proposed by us and ICBC Peru's report 10150, it is proposed that ICBC Peru could include the following aspects in their code of ethics:

- Comply with local and international regulations;
- Provide satisfactory and professional services to clients;
- Be honest, reliable and prudent;
- Be responsible to the society and contribute to the economic development of Peru;
- Keep constant innovation;
- Respect cultural diversity.

2.6 Conclusions

In this chapter, ICBC Peru's vision, mission, values and code of ethics have been elaborated. The vision is to be a preferred, profitable, secure, and innovative financial institution by 2030. This is what ICBC Peru "want to be" in the future. The mission defines "what ICBC Peru's businesses are": offering financial products and services to local and

international clients through applications of advanced IT technology and corporate resources, and they also creates value to employees and community. The values and code of ethics are elaborated according to the vision and mission, which will be the guiding principles in decision making in the daily operation. The words in the vision may seem general or even vague at this moment, such as “preferred”, “profitable”, or “innovative”, they will be further defined through long-term objectives in later chapters.



Chapter III: ICBC Peru External Evaluation

In this chapter, different theoretical frameworks, models and matrices will be used to evaluate the external elements that affect ICBC's business in Peru. The sequence of external evaluation is from macro to micro. That is: from the world to the host country, and to the company. The world is understood through the interplay between nations, namely the Relations between Nations shaped by their distinctive interests. Then, the specific country, Peru, is defined by its National Advantage, the situation within this country using PESTE model is analyzed, which will be summarized as the External Factors Evaluation Matrix (EFEM). The, EFEM is used to analyze the financial industry in Peru via Porter's Five Forces Model and to connect the results to ICBC to develop its Competitive Profile Matrix (CPM) and Referential Profile Matrix (RPM). Each word with a capitalized initial letter above represents one crucial aspect of the external evaluation.

3.1 Tridimensional Analysis of the Nation

Frederick Hartmann's Tri-Dimensional Theory of the Relations of Nations (1978) is used. In Figure 7, it can be noted that there are three important dimensions in the relations between nations that should be carefully evaluated: national interests, national potentials, and core principles. In the following paragraphs, these three aspects will be taken into consideration, in order to have a comprehensive, up-to-date, and deeper understanding of this country. Only with this knowledge, can we elaborate a relevant strategic plan for ICBC Peru for its specific external environment.

3.1.1 National interests

National interests, as defined by D'Alessio (2008) are the aspects that essentially concern a country. And they can be categorized from two perspectives: the four intensity levels, which are survival, vital, greater and peripheral; and the two forms of interplays between nations, which are common and opposed. These factors are important because

we live in a globalized world and few countries can isolate themselves from the global influences nowadays. These influences are realized through the interplays of nations, which are mainly driven by national interests defined by the nation's geographical position, history, culture, etc. Thus all strategic plans should be elaborated taking into consideration of this context.

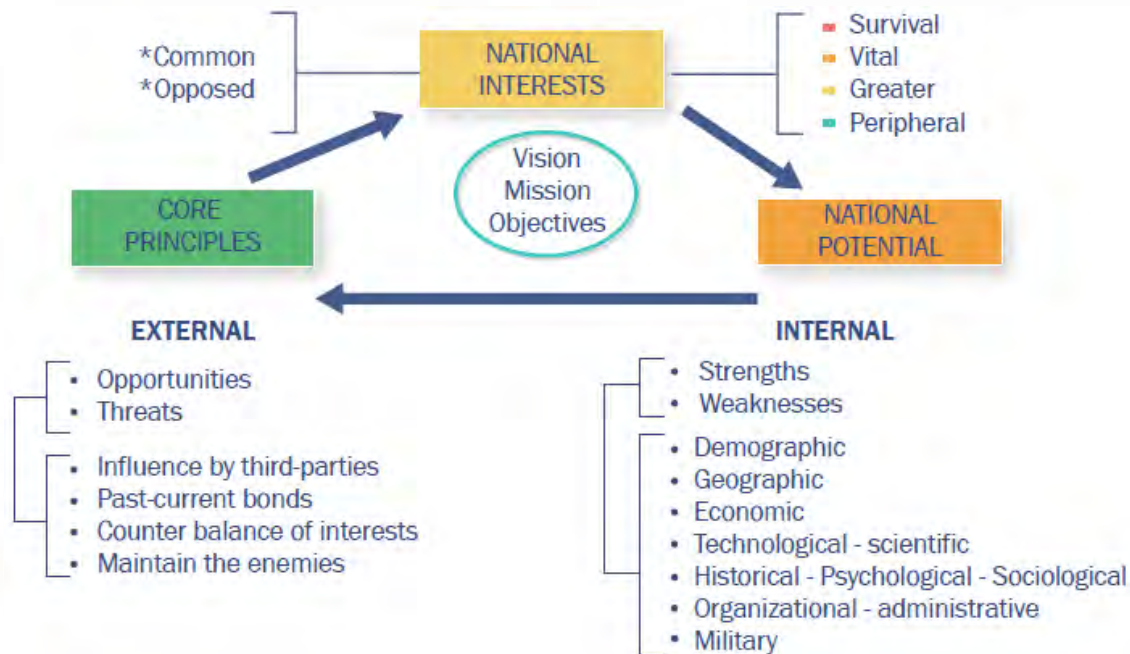


Figure 7. Hartmann's tri-dimensional analysis. Taken from "The Strategic Process: A Management Approach," by F. A. D'Alessio, 2008. Mexico D. F., Mexico: Pearson.

Peru's national interests have been well explained in Peru's Bicentenary Plan for 2021, which is developed by the National Strategic Planning Center (hereinafter CEPLAN, its acronym in Spanish), as six axes:

Axis One, Fundamental rights and dignity of the individual, which is aimed to guarantee basic human rights, strengthen democratic system, administration of justice, promote fairness;

Axis Two, Opportunities and access to services, which aims at creating universal access to basic services, including education, health, water and drainage, electricity, telecommunications, housing and safety, in order to achieve a better quality of life for all;

Axis Three, State and governability, which means to continue reform the state according to decentralization principles, to promote governability through developing a mechanism of citizen participation, to develop the foreign policies that guarantee Peru's sovereignty, and has effective military defensive force against external physical threats;

Axis Four, Competitiveness and employment, which seeks to develop a competitive economy with a high level of employment and productivity through ensuring the credibility and predictability of economic policies, integrating to the global market, and promoting innovation and technology;

Axis Five, Regional development and infrastructure, which aspires to realize decentralized development within a balanced productive and social infrastructure, through encouraging regional governments to promote investment in transportation, energy and irrigation projects via both public and private ways;

Axis Six, Natural resources and environment, aims to promote the conservation and sustainable use of natural resources.

Then, the above Peru's national interests is compared to Donald E. Nuechterlein's framework of national interests, which proposed 4 basic interests in his article: (one) Defence interests, which means the protection of the nation against physical, external threats to the political and economic system of the government; (two) Economic interests, which mean the development of the state's economic well-being in relation with other countries; (three) World order interests, which mean the maintenance of international political and economic framework the country identifies with; (four) Ideological interests, which mean the protection of a set of value the country believes to be universally good (Nuechterlein, 1976). And so, the CEPLAN's six axes is re-organized in the sequence of Nuechterlein's framework and carried the national interest analysis through two dimensions: the intensity level and the relation types (For convenience purpose, only

major or adjacent countries are considered).

For *defence interests*, there is axis Three and it is reasonable to consider that Peru has an opposed interest with Chile in this sense, because historically, Peru, Bolivia, and Chile had several conflicts over land and water territory (axis Three). However, since the Latin America integration process started, regional cooperation and development have been reinforced, Economic Communities and Benefits Sharing Groups have been established, and the former opposed “enemies” have started a win-win relationship: these three countries are now actively collaborating with one another in trading, sharing port facilities, exploiting resources exploitation, so the intensity level is not survival but vital (there is still a need to keep an eye on it). And USA and EU are considered to be important alliances with regards to national security.

For *economic interests*, there are multiple axes: two, four, five, and six. Economically speaking, USA, EU, Japan and China are thought to be important to Peru, which also share the common interests (one) in promoting rural area development and infrastructure update through foreign aid and/or other forms of benefits, such as national debt relief, etc. (axis two & five), (two) in enhancing the national economic development through more investment and trade (axis four & six), and the intensity level is vital or important. For *world order and ideological interests*, there is axis One, which means Peru believes in the democratic system and values, and in this sense, USA, EU and China again are considered to share the common interests while Venezuela, Bolivia have the opposed ones, the intensity level is important or peripheral. The final result can be seen in following Table 4.

3.1.2 National potential

Now that it has been defined Peru’s national interests, there is a need to analyse the country’s weaknesses and strengths to determine Peru’s potential in achieving or protecting its national interests. This analysis should be carried out through factors of seven perspectives

as described by D'Alessio: demographic, geographic, economic, technological/scientific, historical/psychological/sociological, organizational/administrative, and military (D'Alessio, 2008). The analysis will be in the same sequence as below.

Table 4

Peru's National Interest Matrix

National Interest	Survival	Interest Intensity		
		Vital	Important	Peripheral
Defense - axis three - State and governability		CHL*	USA EU	
Economic - axis two - Opportunities and access to services			USA EU CHN	
Economic - axis four - Competitiveness and employment		USA EU CHN	JAP	
Economic - axis five - Regional development and infrastructure			USA EU CHN	
Economic - axis six - Natural resources and environment		CHN CAN	USA EU	
World order - axis one - Fundamental rights & dignity of individuals		USA EU CHN	VEN*	BOL*
Ideology - axis one - Fundamental rights and dignity of the individual		USA EU CHN	VEN*	

Note. * Opposed interests

Demographic factors. Population determines some of the fundamental aspects of a country, such as: internal demand, labour force, and labour cost, etc. According to the census results of Peru's National Institute of Statistics and Informatics (hereinafter INEI, the Spanish acronym from Instituto Nacional de Estadística e Informática) in 2017, the population of Peru was 31'237,385, with 50.2% women and 49.8% men, ranked as the number five most populated country in South America after Brazil, Colombia, Argentina, and Venezuela. Although the population has been steadily increasing, its growth rate is slowing down in recent decades, as shown in Figure 8. The population pyramids of Peru showed the age and sex structure of Peru's population. Figure 9 shows that the proportion of people between 15-60 years old has increased along the years. This means a more stable society has been formed.

Peru's population growth, sex and age structure generally reflected a healthy state. With more people being born in a stable environment, fresh influx of labour forces is

expected to happen in the following decades, which would keep the labour cost on a relatively economic level while at the same time maintaining the internal demand in the future. Thus, we consider this is one of Peru's strengths.

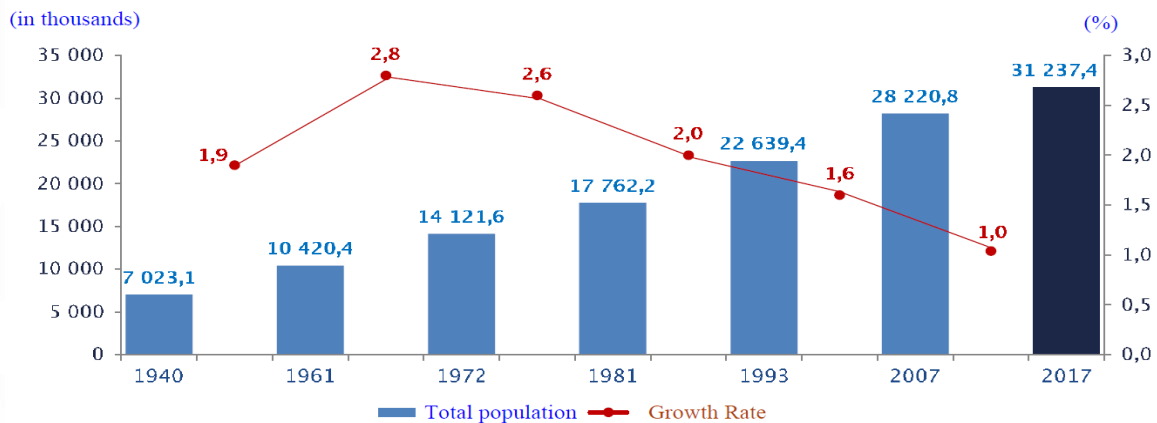


Figure 8. Peru's annual total population and growth rate, 1940 - 2017.

Taken from "Censos Nacionales 2017 – Primeros Resultados," by Instituto Nacional de Estadística e Informática [INEI], 2017 (https://www.inei.gov.pe/media/inei_en_los_medios/Conferencia_Prensa_CPV2017.pdf).

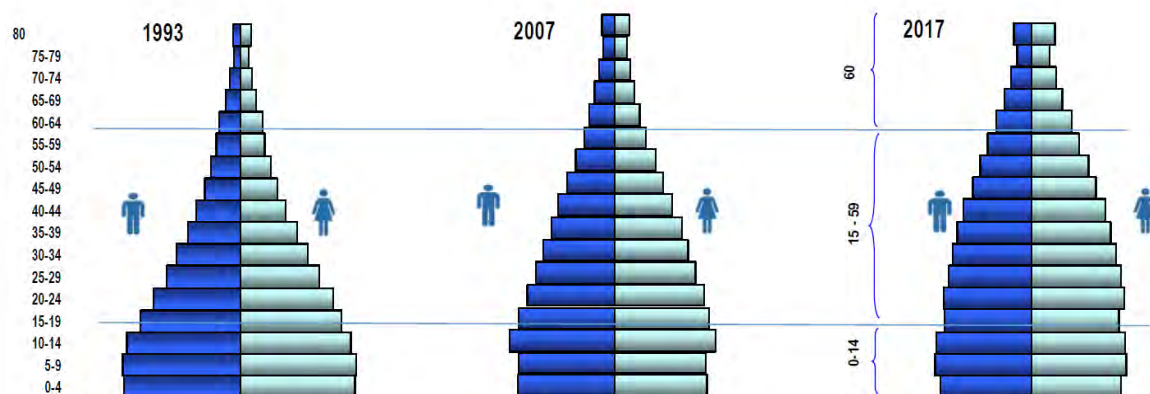


Figure 9. Peru's population pyramids of 1993, 2007, and 2017.

Taken from "Censos Nacionales 2017 – Primeros Resultados," by Instituto Nacional de Estadística e Informática [INEI], 2017 (https://www.inei.gov.pe/media/inei_en_los_medios/Conferencia_Prensa_CPV2017.pdf).

Geographic factors. Peru is located at western South America, bordering the South Pacific Ocean, to the North of Chile and South of Ecuador, a central place on the west costal line of this continent. According to USA's Central Intelligence Agency's (hereinafter, CIA)

“The World Factbook”, Peru has a total area of 1,285,216 sq km and is the 21st largest country in the world (Central Intelligence Agency, 2018).



Figure 10. Peru location map.

Taken from “The World Factbook,” by Central Intelligence Agent [CIA], 2018 (<https://www.cia.gov/library/publications/the-world-factbook/geos/pe.html>)

Peru has three distinctive terrains: the coastal plain with dry desert climate in the west, that harbors one of the world’s richest fishery resources; the highlands of Los Andes with tough weathers and that holds a wealth of metal resources such as copper, silver, gold, and zinc; and the vast jungle of The Amazon in the northeast with non-stop raining and humidity, that preserves precious flora and fauna along with the origin of the world’s longest river.

While blessed with natural resources and biodiversity, Peru also faces the constant threats of earthquakes, tsunamis, El Niño and the flood and landslides it brings about. Peru needs to control the threats while making the best use of their wealth at the same time.

Economic factors. Peru’s economic growth has been in the leading position in recent years in the Latin America and Caribbean region, as it can be seen in Figure 11, its GDP growth from 2010 to 2017 is well above the average.

Future GDP growths as in 2018, 2019 and 2020 are expected to be at 4.0% (Banco Central de Reserva del Perú, 2018) because of investments in three major aspects of Peruvian economy: the infrastructure, the mining industry, and public services (Ministry of Economy and Finance, 2018). In this regards, it is considered from an economic perspective, that Peru does hold strength.

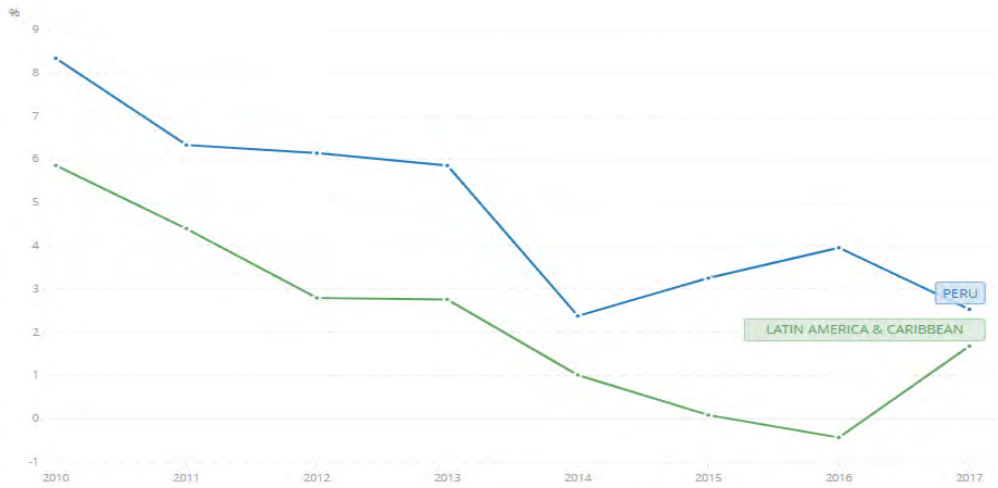


Figure 11. Peru GDP growth rate as compared to the average of LAC
Taken from “database,” by The World Bank, 2017
(<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2017&locations=PE-ZJ&start=2010>).

Technological/scientific factors. Although, Peru has achieved a good performance in the economic development in last decades as mentioned before, its potential is hindered by its relatively weak science, technology, and innovation system (STI system). According to The Global Innovation Index 2017 developed by Cornell University, INSEAD Business School, and the World Intellectual Property Organization (WIPO), Peru scored only 32.9 out of 100, and ranked 70 out of 127, behind Chile (46), and Brazil (69).

The reasons for this lag as explained by Zuniga in her study, are the lack of investment and STI system supporting policy gaps (Zuniga, 2016). As Figure 12 and Figure 13 show, the low investment intensity in private sectors and the lack of support in public sectors for STI in Peru, pose a big problem. Thus, this is considered as a country’s weakness.

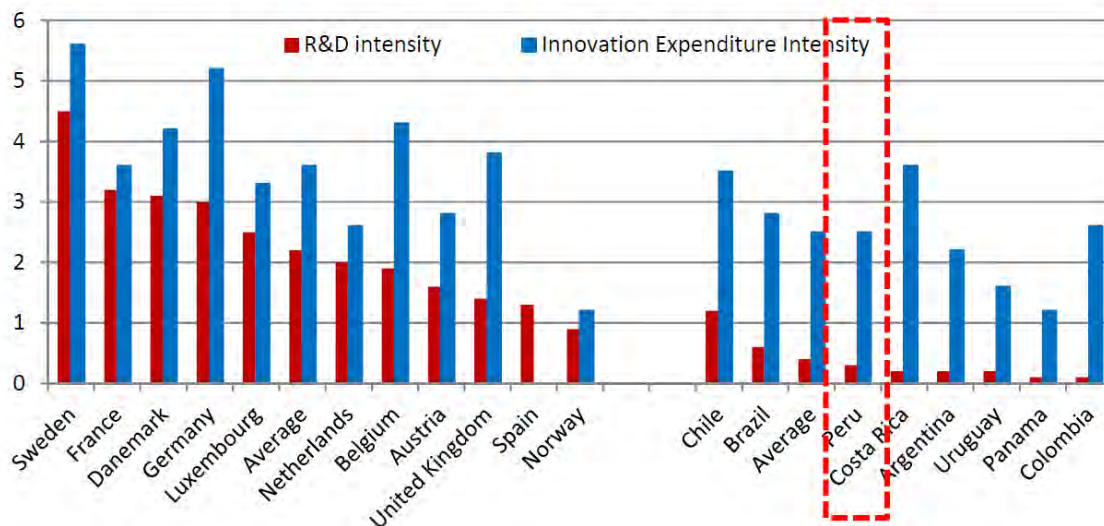


Figure 12. Innovation investment intensity in firms across countries
 Taken from “Innovation system in development: The case of Peru,” by Zuniga, 2016
 (<https://www.merit.unu.edu/publications/working-papers/abstract/?id=6130>).

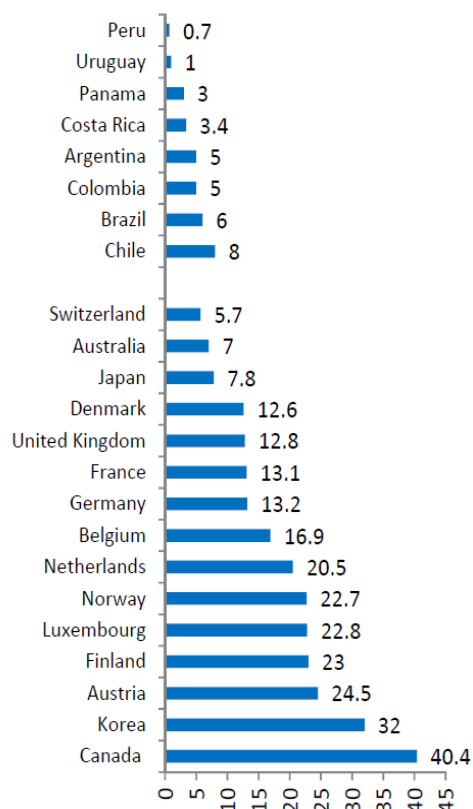


Figure 13. Percent of firms that received public support to finance innovation.
 Taken from “Innovation system in development: The case of Peru,” by Zuniga, 2016
 (<https://www.merit.unu.edu/publications/working-papers/abstract/?id=6130>).

Historical/ psychological/ sociological factors. Peru's history can be traced back to more than 20,000 years, when ancient humans began to spread throughout America after migrating across the Bering Strait. The first civilization in Peru, which is also the oldest in all South America, is Caral, dated from as early as 3,000 BC. Various cultures emerged afterwards, and all became part of the Inca Empire. Europeans' discovery of America drastically changed Peru, the Spanish invasion and the colonial governance forged the unique culture of Peru, which still influences the country today (Lonely Planet, 2018). It could be argued that some psychological and sociological problems of Peru today have their origin in its history. One of the alarming phenomena in Peru is the social conflicts caused by disparity of development in different regions and different ethnics, which present a huge uncertainty for investment and economic development.

According to Peru's Ombudsman office (Defensoría del Pueblo in Spanish), as of December 2018, there were 181 social conflicts throughout the country with 78.1% of them derived from socio-environmental issues (Defensoría del Pueblo, 2018). Therefore, it is considered this sociological factor to be a weakness from Peru.

Administrative factors. The Constitution of Peru states that, Peru is a democratic republic. The government is unitary, representative, and decentralized. The structure of the state is composed of the Executive branch, Legislative branch, and Judicial branch (Congress of the Republic, 1993). This democratic regime is considered to have obvious advantages in the western world, which has largely promoted the cooperation between Peru with the US and EU. However, Peru's executive-legislative conflicts that emerge frequently in recent history still pose an uncertainty. Moreover, as it was mentioned before in the technological analysis, the lack of effective policies and governance, not only in STI but also in various other sectors, further hinders the future development of this country.

Military factors. The Constitution regulates that one of the fundamental duties of the

State is to defend the national sovereignty (Congress of the Republic, 1993). Armed forces and National Police are the tools to guarantee this duty. Peru's military forces are composed of Army, Navy, and Air Force. According to the CIA, Peru's percentage of military expenditure against GDP peaked in 2015 with 1.69% in the last five years, and in 2017, the expenditure was 0.9% of its GDP. All signs prove that, Peru is living in the longest period of peace from a global perspective, and so it is thought that in this context, Peru's military forces are sufficient to protect the national security and the stability of its development.

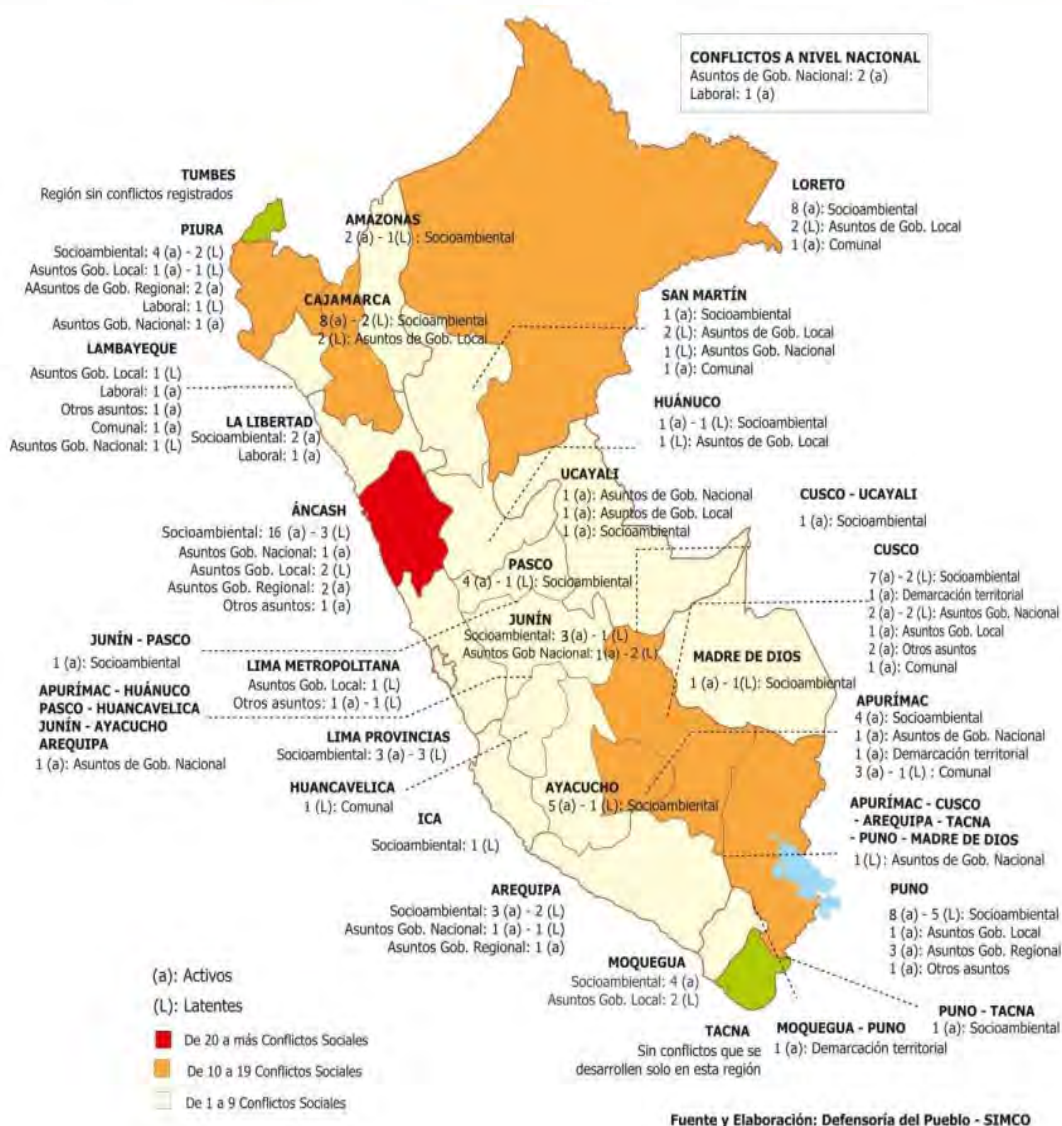


Figure 14. Registered cases of social conflicts in Peru as of December 2018
Taken from "Reporte De Conflictos Sociales N.º 178," by Defensoría del Pueblo, 2018
(<https://www.defensoria.gob.pe/wp-content/uploads/2019/01/Conflictos-Sociales-N%C2%B0-178-Diciembre-2018.pdf>).

3.1.3 Core principles

The core principles can serve as a tool to identify the opportunities and threats to Peru by analysing the following four aspects: (a) influence of third parties, (b) past-present bonds, (c) counterbalance of interests, and finally, (d) keeping enemies.

Influence by third parties. There is no purely bilateral interaction in a globalized world. It is considered that there are two forms of influence from third parties: (a) direct influence to Peru or to its counter-party, or (b) influence to the greater context where both Peru and its counter-party reside. These two forms don't have clear boundaries, which mean the direct influence may also be partially exerted through the context, and vice versa. For example, China is the main destination of Peru's mineral exports; any demand fluctuation of China will inevitably influence Peru's mineral export to other countries. Another example is that Peru, as a partially dollarized economy, is exposed to the US' monetary policy changes, which would in turn impact Peru's economic relations with any other countries.

Regional economic or tax cooperation organizations further obsolete the pure bilateral relations. Peru is a member country in various international organizations with a goal of integration, such as: Free Trade Area of America (Área de Libre Comercio de Américas, ALCA), Andean Community (Comunidad Andina, CAN), Southern Common Market (Mercado Común del Sur, Mercosur), Asia-Pacific Economic Cooperation (APEC), etc.

In all, an increasingly globalized world and the creation of more international integrating organizations will grant Peru more development opportunities but this may also expose the country to latent threats. Therefore, Peru should always take a more comprehensive perspective in dealing with other countries.

Past-present relations. What happened in the past, especially between countries, will usually have long lasting impacts in this time or even the future. The War of Pacific between Peru, Bolivia, and Chile not only changed the landscape of the three countries forever, but

also left invisible impacts that have lasted until today. Chile is still considered by most Peruvians, as a possible threat to national security. And various disputes derived from the war weren't settled until recent years, such as the marine dispute over fishery resources. However, a new bond between these two countries also took place in the global peaceful development environment. In 2006, Peru and Chile signed a free trade agreement, aimed at promoting bilateral cooperation.

Another example is Peru and Spain. With the colonial history, Peru has a complex bond with Spain. The latter, however, also places Peru in a special position in terms of culture and economy. According to the Private Investment Promotion Agency (Pro-inversion), as of December 2015, the Foreign Direct Investment Stock in Peru was still lead by Spain with 18.51% as the largest investment origin, followed by the UK, 17.89%, and the US, 13.18% (Private Investment Promotion Agency - Peru, 2015). Therefore, it could be argued that, taking stock of past bonds may reveal opportunities to develop new relations with other countries, while deliberately creating new bonds can to some degree, offset negative past bonds.

Counter balance of interests. This principle means that a country should compare the benefits and cost of its decision with regards to other country, and take this stance to adjust its policies. An example is Peru's anti-dumping against China's shoes export to the country. Some economists argued that this may worsen the commercial relationship with China and may even cause retaliatory anti-dumping from China against Peru. Considering China is Peru's largest export destination and Peru's footwear industry contribution to GDP may be well below 1%, the government should counterbalance its anti-dumping policies. Fortunately, China has never initiated retaliatory Anti-dumping against Peru (Osang, 2018). It is clear that every country should consider the possible benefits and cost of a decision before carrying it out.

Keeping enemies. The idea of this principle is that a country should “keep” a number of “enemies”, or “competing countries” in peacetime, with the aim to force itself vigilant, motivated, so that greater success can be achieved. The competition between Peru and Chile in the fishery or mining industry may have served to Peru regarding its economic development. On the other hand, Chile is suitable to be “kept” as an “enemy”, because it has a similar economic model and is neighbouring with Peru (Paluck, 2010).

3.1.4 The influence of the analysis to ICBC Peru

In general, after analyzing Peru’s national interests and potential, and identifying its opportunities and threats using the four core principles, we can see that Peru is now faced with a complex context and an uncertain but also promising future. The countries that have opposed interest with Peru in the National Interest analysis are not likely to have direct negative impacts on Peru, since only Chile poses vital opposed interest in the National Defence Interests, and Venezuela and Bolivia are only important and peripheral in the World Order Interests.

At the same time, we can see Peru has a lot of countries sharing the common interests in economy growth, especially China. And the continuous growth of this Asian giant will require a large amount of natural resources, which Peru has in abundance, which already means a good start. Peru’s good population structure also gives a potential for long term development. And most important of all, the majority of threats, such as the under-development of infrastructures and the social conflict, can all be solved through more investment, either from outside the country (FDI) or from the national government, and they all need financial support, this is where ICBC Peru comes into play.

3.2 Analysis of the Competitiveness of Peru

To be able to start the strategic planning for ICBC Peru, the analysis of the competitiveness of Peru needs to be made, where ICBC Peru will operate (D'Alessio,

2008). Porter’s Diamond model will be used to carry out this analysis.

Before the analysis is conducted, it will be useful to refer to existing authoritative data about this topic. The World Economic Forum issues The Global Competitiveness Report on a yearly basis, which uses its Global Competitiveness Index 4.0 framework (GCI 4.0) to analyze 137 countries around the world. Similar to Porter’s method, the GCI 4.0 “assesses competitiveness through the factors that determine an economy’s level of productivity (World Bank, 2018).” The factors are “12 main drivers of productivity”, which are grouped into four main categories: (a) Enabling Environment, (b) Human Capital, (c) Markets, and (d) Innovation Ecosystem. The Figure 15 shows the full list of 12 pillars in these four groups.

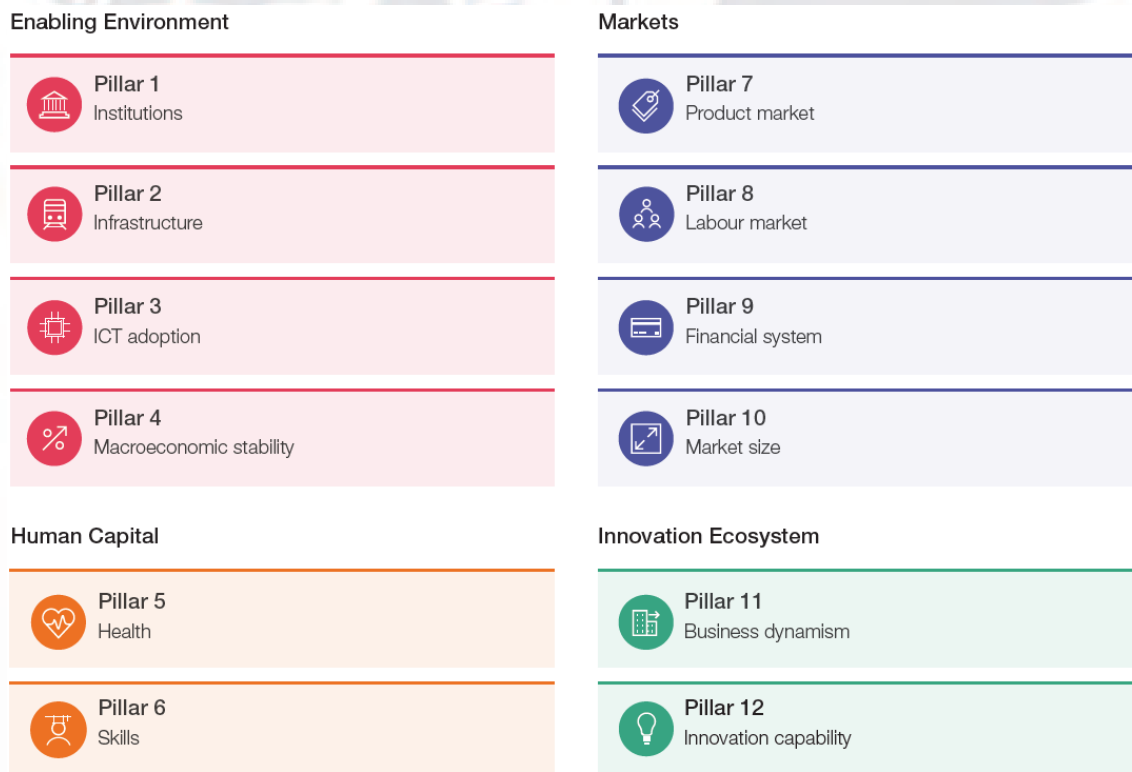


Figure 15. GCI4.0 Framework.

Taken from “The Global Competitiveness Report 2018,” by World Economic Forum, 2018 (<https://www.weforum.org/reports/the-global-competitiveness-report-2018>).

By calculating the scores in each of the 12 pillars, a country’s competitiveness is defined and its position ranked at the same time. Peru ranked 72 out of 137 countries

during the 2017 to 2018 period, five positions behind the last period, mainly because of the recent corruption scandal and the inefficiency of financial markets (which may create an opportunity for ICBC Peru to step in and solve the relative problem through its unique resources and capability).

Peru's final score is 4.2, approximately the average of all 12 pillars scores. While this result seems worrisome, however, when we compare the average scores of Latin America and the Caribbean region as a whole, we can see that Peru is in line with its neighbouring countries.

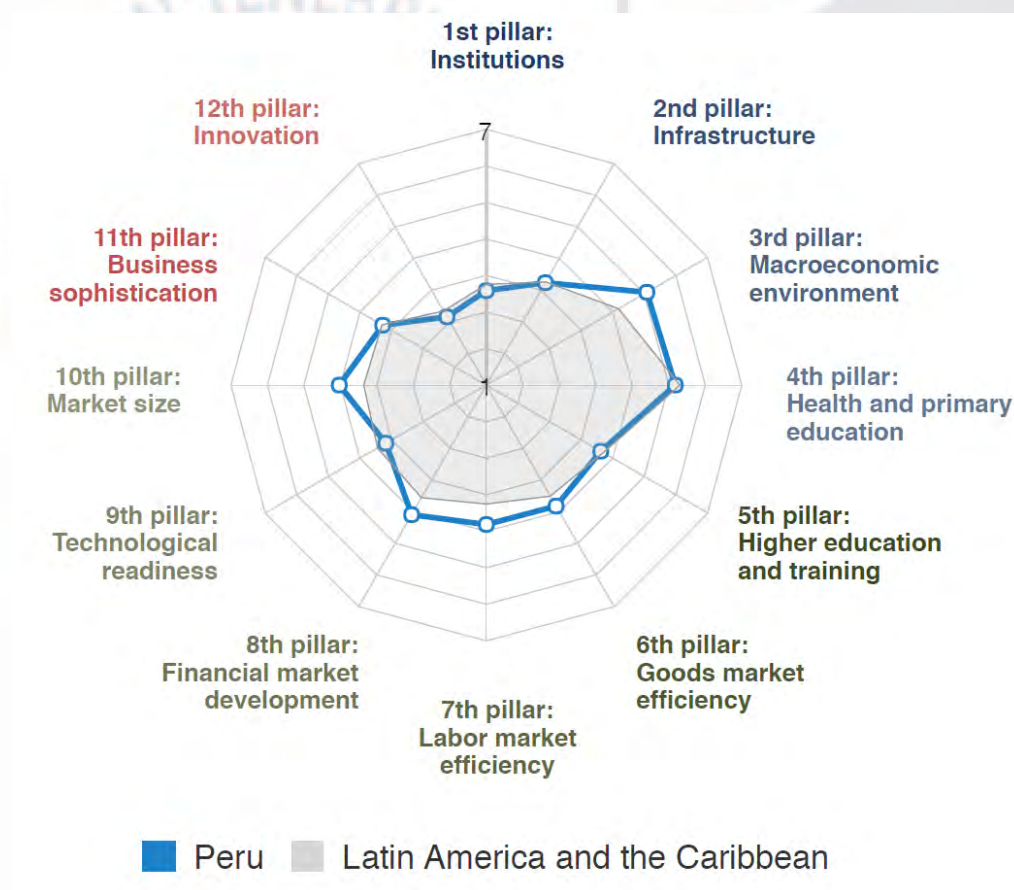


Figure 16. Peru's competitiveness final scores. Taken from "The Global Competitiveness Report 2018," by World Economic Forum, 2018 (<https://www.weforum.org/reports/the-global-competitiveness-report-2018>).

It is evident that Peru is doing better than Latin America and Caribbean average in the third pillar – Macroeconomic environment, the sixth pillar – Goods market efficiency,

3.2.1 Factor conditions

Porter (1998) defined the factor into five categories, (one) Human resources, (two) Physical resources, (three) Knowledge resources, (four) Capital Resources, and (five) Infrastructure. He further defined the types of these factors as basic factors, which contains the natural endowments, and the advanced factors, which contains knowledge, infrastructure.

Let's start with basic factors. As we analyzed in the previous chapters, Peru's physical resources are abundant, it holds a strategic geographic position: the central western coast of South America, with convenient access to other countries for commerce and to fishery resources. Its Andean mountains contain rich minerals of various metals, which enable it to become the leading mining country in the world. Besides to its geographic resources, Peru also has a favourable population structure. Although its population growth is slightly dropping in recent years (Instituto Nacional de Estadística e Informática, 2018), the dependent ratio is steadily decreasing (Central Intelligence Agency, 2018) which means more labour forces are entering the market, readily available for creating values.

On the other hand however, for advanced factors, as scored in the Global Competitiveness Report, Peru has not taken advantage of its basic factors, and still lacks good infrastructures: not enough sea ports or airports, low quality roads, etc. Its educational system fails to train the new working forces that are entering the market, which in turn hinders the knowledge resources. From ICBC Peru's point of view, it is clear that supporting Peru in building a more efficient financial industry will create the capital resources, which will further help to promote the infrastructure resources building, and turn the development into a virtuous circle.

3.2.2 Demand conditions

Porter defined the demand condition mainly as home demand, which are three important aspects: (a) Home demand composition, (b) Size and pattern of growth of home

demand, and (c) The mechanisms by which a nation's domestic preference are transmitted to foreign markets (Porter, 1998).

We consider that home demand is determined by population and economic growth. Peru's population growth rate is around 1% at 2017 (Instituto Nacional de Estadística e Informática, 2018). And its GDP growth at 2018 is around 4% (Banco Central de Reserva del Perú, 2018). These data predict a relatively good outlook of home demand in the future. Moreover, as we mentioned above, it is forecasted that investment in private sectors such as mining industry, in infrastructure, and in public services will likely increase in the following years. In this regards, all these projects will need large amount of financing, which means opportunities for ICBC Peru.

3.2.3 Strategy, structure and rivalry of businesses

Porter argued that businesses with a nation are largely affected by the country's context, such as its regulation, history, and culture. Only when businesses adopt the strategies that are appropriate to the nation's context, can the country be able to take advantage of the firms and gain competitiveness. Moreover, the industry structure formed by a nation's industry policies will determine the competition between firms. Fierce domestic competition will give rise to competitive companies thought forcing innovation and rapid growth; these companies will finally successfully internationalize and compete in the global market and contributing to the nation's competitiveness (Porter, 1998).

The Peruvian financial system is regulated and supervised by the Peruvian Banking, Insurance, and Pension Fund Agency (SBS by its Spanish acronyms). It is composed of banking companies, financial companies, non-banking microfinance institutions and financial leasing companies. At the same time, the non-banking microfinance institutions are composed of rural saving and credit institution (CRAC), municipal saving and credit institution (CMAC) and development entity for small microenterprise (EDPYME). The

regulations are complex and high demanding, which created high entering barrier, allow only the best financial institutes to survive and prosper.

Banks within the Peruvian Banking system are: Banco de Crédito del Perú BBVA Banco Continental, Scotiabank Perú Interbank, Banco Interamericano de Finanzas, MiBanco, Banco Financiero, Banco GNB, Banco Santander Perú Citibank, Banco Falabella Perú Banco Ripley, Banco de Comercio, Banco ICBC Peru, Banco Cencosud and Banco Azteca Perú. From all banks within the Peruvian Banking System, 83.6% of the total assets are focused on the main four top banks up to March 2018. Furthermore, 83.4% of the total loans are focused on these four main banks, as shown in Figure 18. It is an industry with intense competition, which means that once ICBC Peru survives, it will likely succeed as well when entering other South American countries.

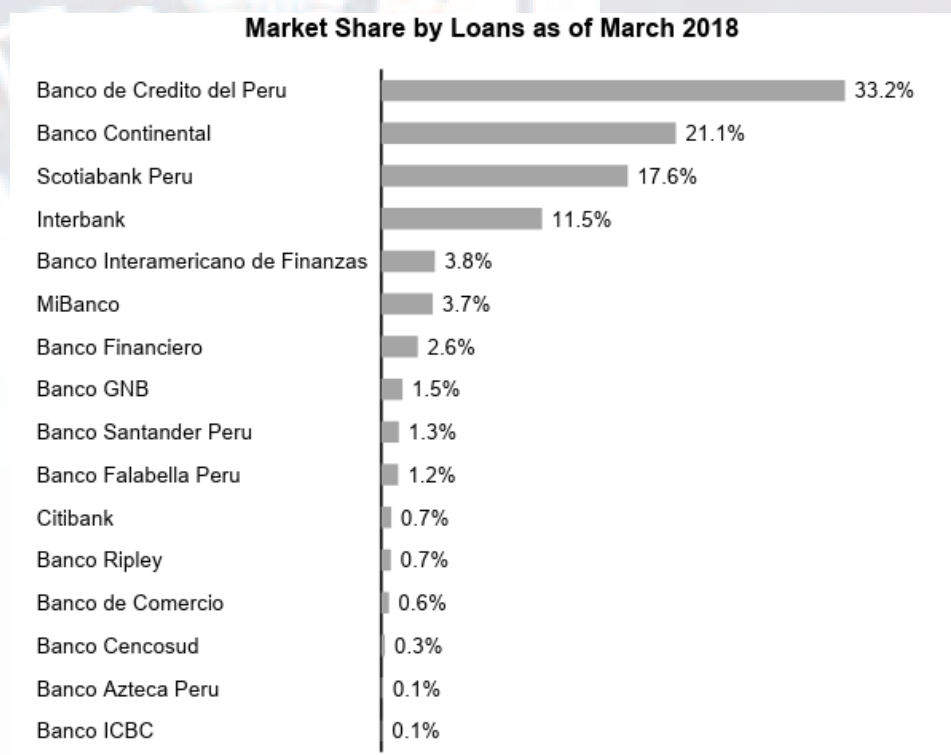


Figure 18. Market share by loans as of march 2018

Taken from “Data Superintendencia de Banca,” by Seguros y AFP (SBS), 2018 (http://www.sbs.gob.pe/app/stats_net/stats/EstadisticaBoletinEstadistico.aspx?p=1#).

3.2.4 Related and supporting sectors

Related and supporting industries in the nation can provide local businesses with high quality input along the industry chain. A competitive supplier can empower downstream companies through cost-effective input, granting advantages for innovation and internalization.

Certain sectors in Peru do present the aforementioned characteristics. The mining industry in Peru has an array of localized world class suppliers of equipment and technology: as for engineering companies, there are Bechtel, Fluor, KBR, and so on; for equipment OEMs, there are Caterpillar, Komatsu, Metso, FLSmith, Sandvik, and so on (Bamber, Fernandez-Stark, & Gereffi, 2016). These suppliers provide mining companies in Peru with the best equipment and technology services in the world, which enables Peru's mining industry to become a global benchmark. The production and quality of products of Peru's mining industry is well recognized. This in turn enforced Peru's national competitiveness. In this regards, we would argue that, Peru should consider to capture more value in the mining industry by promoting downstream business, such as refinery and related manufacturing to take advantage of its world class miners, to transform them also into competitive suppliers.

However, Peru's financial service industry is a special one. The suppliers for banks are depositors, or peripheral suppliers such as information technology, telecommunication service suppliers, and other logistics services. The related sectors are main sub-sectors within the financial industry, such as the insurance sector, the third party clearance businesses, and the payment companies, and so on. In this sense, Peru does not seem to be equipped with competitive suppliers in financial industry. As for ICBC Peru, a better strategy is to become a competitive financial service supplier itself.

3.2.5 The influence of the analysis to ICBC Peru

After analyzing Peru's competitiveness, we realize that national context and the

banking industry of Peru pose both threat and opportunity for ICBC Peru. From the factor conditions' point of view, Peru has one of the best basic factors one could aspire for, but lacks the advanced factors, which require more sophisticated policy elaboration; but this also leaves opportunity for ICBC Peru to close the development gap. Regarding the demand, the outlook is quite positive because of the increasing investment in infrastructure, mining industry, and so on, which will require a lot of capital. This also means that the infrastructure related financial services should be taken in more consideration. As for the strategy, structure and rivalry of business, ICBC Peru should be ready for fierce competition. The supporting and related sectors are not mature in the financial industry, ICBC Peru will on its own for a while.

Generally speaking, the opportunities for ICBC Peru are as obvious as the challenges. The demand is good, the support of more finance liquidity and new forms and differentiated target focus will well complement the existing Peruvian financial system. We should consider all the factors mentioned above before we really try to elaborate the strategic plan for ICBC Peru.

3.3 The PESTE Analysis of Financial Industry in Peru

This is a classic model to generalize the country's situation for a certain industry, which will consider the influences from politics, economy, society, technology, and environment. The analysis has been carried out as below.

3.3.1 Political, governmental, and legal influence

Political, governmental, and legal influence may be the main factors to the banking industry, since the banking is highly regulated. The general look of the politics in Peru is that the government type is a presidential republic; the Chief of State and the Head of Government is the President. Peru has a mixed economic system, which includes a variety of private freedoms combined with centralized economic planning and government regulations.

Government Direction. After 2017, as the scandal of Odebrecht' s continuing fermentation, the national reputation and competitiveness of Peru has been affected and in the ranking of Global Competitiveness Report 2018, Peru positioned in 72 behind five positions to 2016 (World Economic Forum, 2018) . In the meantime, due to the commercial tension that happened in 2018 between US and China and the uncertainty of EU, the commodity demands and prices and an international market moderation, Peru is facing an uncertainty and a decline risk of economy. According to the current President Martin Vizcarra, Peru is targeting to remain as a stable and clean environment for investors and businesses (Andina, 2019).

Stability. To prove the above determination as well, the Peruvian government, via ProInversion (the Private Investment Promotion Agency of Peru) offers to foreign investors to sign a stability assignment, which means that foreign investors can reinforce and secure their business and investment by signing a legal stability agreement with the Peruvian government, in which several advantages will be promised for a ten-year period only if their investment is over \$ 5 million in any economic sectors despite a requirement of \$10m in mining and hydrocarbons sectors. Including: (a) Stability of the income tax regime in force at the time the agreement is entered into, with respect to dividends and profit distribution, (b) Stability of the Peruvian government monetary policy, according to which there is a complete absence of exchange controls, foreign currency can be freely acquired or sold at whatever exchange rate the market offers, and funds can be remitted abroad without any previous authorization, and (c) Right of non-discrimination between foreign and local investors. (PwC, 2018)

Fiscal Policy. Since 2017, in order to cushion the impact of the Coastal El Niño weather event, the Peruvian Economy and Finance Ministry (MEF) have been implemented an expansionary fiscal policy with a 24.893% public debt over GDP in 2017, which

represented the highest record since 2010, but a very secured percentage in comparison with the majority of other countries (following Chile's by 23.6%) in the region (presenting an average of 48.3%) and an average of 67.9% among OECD country members (Ministry of Economy and Finance, 2018). And according to MEF, the fiscal strategy for the year 2019, 2020 and 2021 is to expand the public debt into 25.6%, a step of moderate expansion (Ministry of Economy and Finance, 2018).

Monetary Policy. Despite a continuous increase of interest rate of FED, BCRP (the Central Reserve Bank of Peru) insists to continue an expansive monetary policy for the second period of 2018 with a reference interest rate in 2.75%, controlling an interannual inflation rate around 2.1%, which is also the second lowest level in the region after Ecuador (Central Reserve Bank of Peru, 2018).

Taxation Policy. the Peruvian government has enacted several reforms in its tax framework since 2017, and for the general corporate tax rate, it has been reaching 29.5%, but in order to promote CSR and a balanced development for the society, there are several deductible for calculating the net income of a firm, containing: social benefits provision, donation, etc (Oxford Business Group, 2018). And in the financial sector, a financial transactions tax rated of 0.005% is charged for applying in general to deposits and withdrawals to and from accounts of financial institutions in Peru, but the taxpayers are targeted in clients not the financial entities.

Peru, in order to avoid double taxation, has signed Double Taxation Treaties with a list of several countries, in which it is also able to negotiate with other countries in order to facilitate and promote mutual investments. Countries that signed treaties with Peru are: Brazil, Chile, Canada, Portugal, South Korea, Switzerland and Mexico. In addition, as a member of the Andean Community (formed by Colombia, Ecuador, Bolivia and Peru), Peru is also a beneficiary from double taxation and from tax evasion with these neighbouring

countries (Oxford Business Group, 2018).

Trade relation. Until 2019, 14 countries and 6 organizations have signed trade agreement with Peru and 6 countries and four organizations are in process or under negotiation. Among those partner countries, China is the first in terms of trading amount (27.9%) followed by Latin America and Caribe Area (21.6%), United States (Ministry of Economy and Finance, 2018) (20.2%) and Eurozone (12.8%) (Central Reserve Bank of Peru , 2018).

Bribery legislation. After the corruption scandal of Chinchero Airport project and Odebrecht, in 2018, Peru enact Law No. 30424 and Legislative Decree No. 1352 claiming with tough sanction and extended administrative responsibility for legal persons in order to revitalize the governmental environment.

Labor structure in Financial Sector. Until 2019, the working participation of women in the banking sector is 57.1%, increasing 2.9% in recent years and 36.5% in management, which represents an increase of 5.7% in recent years (“Women representing the major labor force in Banking of Peru,” 2019).

TRADE AGREEMENTS		
In force		
<ul style="list-style-type: none"> • Canada • Chile • China • Andean Community- CAN • South Korea • Costa Rica 	<ul style="list-style-type: none"> • Cuba • European Free Trade Association - EFTA • Unites States • Japan • MERCOSUR • Mexico • Honduras 	<ul style="list-style-type: none"> • World Trade Organization (WTO) • Panama • Singapore • Thailand • European Union • Venezuela • Pacific Alliance
To be in force		
<ul style="list-style-type: none"> • Brazil • Trans -Pacific Partnership (TPP) • Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) 	<ul style="list-style-type: none"> • Guatemala • Australia 	
Under negotiation		
<ul style="list-style-type: none"> • Trade in Services Agreement (TISA) • DOHA programme for the development • India 	<ul style="list-style-type: none"> • El Salvador • Turkey 	

Figure 19. Trade agreements signed by Peru.

Taken from “Trade Agreements,” by ProInversión, 2019

(<https://www.investinperu.pe/modulos/JER/PlantillaStandard.aspx?are=1&prf=0&jer=5756&sec=48>).

Investment Promotion. The government determine to promote the Public and Private Sector Infrastructure Investment in order to solve the economic setback in 2017, increase the employment and stimulate the internal consumption (Oxford Business Group, 2018).

By 2019, in order to address the regional development disparities, ProInversion and ANGR (the National Assembly of Regional Governments) signed a Framework Agreement for Inter-institutional Collaboration with the purpose of providing technical assistance and promoting public-private investment for the benefits of the regional governments (ProInversion, 2018).

Financial Regulations. Peru's banks are regulated by SBS (Superintendency of Banking and Insurance), and bank deposits are protected from the risk of institutional failure by a deposit insurance fund (Oxford Business Group, 2018).

And Peru, according to Rating Agency Fitch, has largely been in compliance with Basel standards since 2012. And with Chile, this Inca nation is ready to move from Basel to Basel, the latter international regulations introduce a set of reforms to improve the regulation, supervision and risk management within the banking sector (Investopedia, 2018).

The system is composed of banking companies, financial companies, non-banking microfinance institutions and financial leasing companies. At the same time, the non-banking microfinance institutions are composed of rural saving and credit institution (CRAC), municipal saving and credit institution (CMAC) and development entity for small microenterprise (EDPYME). The structure is shown in Figure 20.

In conclusion, Peru is intending to present an expansive and stable environment for investment and consumption. And for the financial sector, Peru is applying standardizing regulations in terms of strong management of risk, liquidity, solvency and efficiency.

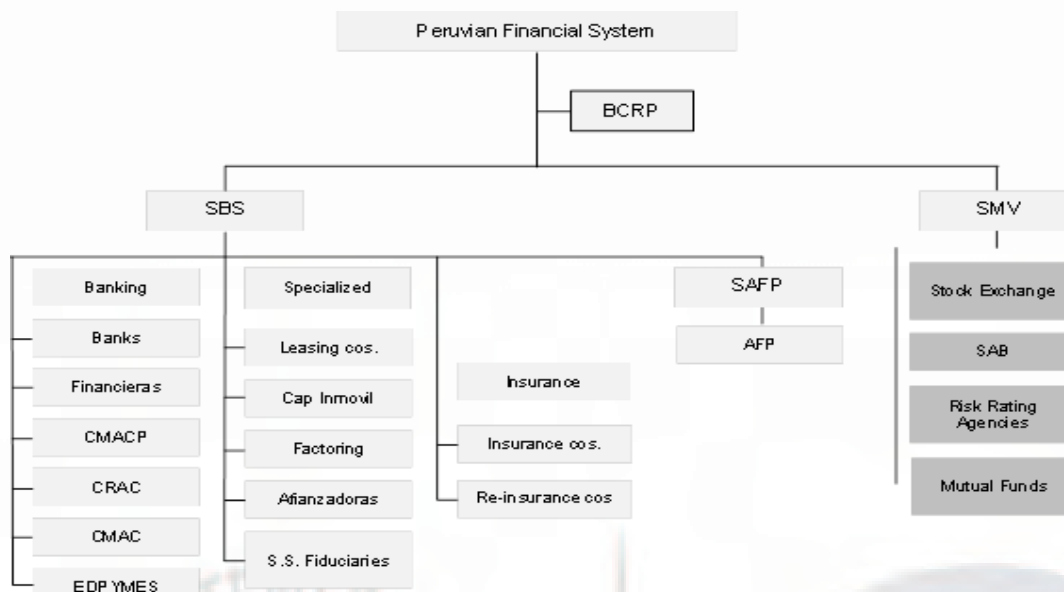


Figure 20. Peru financial system structure

Data from “Reglamento de Organización y Funciones,” Superintendencia de Banca, Seguros y AFP (SBS), (http://www.sbs.gob.pe/Portals/0/jer/REGLORGANIZYFUNC/DNI_SBS-ROF-SBS-010-20.pdf).

3.3.2 Economic and financial influence

GDP Growth Pattern. The Peruvian economy growth is in average higher than the Latin American and Caribbean area and the world’s growth rate in the last decade, according to the statistics result from the World Bank. For 2018, the Peruvian GDP growth rate reached to 4% in average (Central Reserve Bank of Peru, 2018). And according to the President and BCRP, the targeted growth rates of 2019 and 2020 are both around 4% (Andina, 2019). The driving factors for economic growth are depending on an export portfolio, infrastructure investment and consumption stimulate (see Figure 21).



Figure 21. GDP annual growth rate of Peru, LAC & world.

Taken from the World Bank Database. 2019

(<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2017&locations=PE-ZJ&start=1990&view=chart>).

The Inflation Rate. According to the statistics result of the World Bank, until 2017, Peru has been remaining a lower inflation rate than the world average for more than a decade. Since an unpleasant historical memory in the 1990s, the Peruvian Central Bank has been taking the responsibility to control the internal inflation rate targeting a rate between one to three percentages. By the end of 2018, Peru's Inflation rate has been controlled to 2.17%, higher than the 1.36% of 2017. And for the year of 2019 and 2020, an objective around 2% only if the external and internal risks and uncertainty will not rise significantly, including a Fed's interest rate policy, a wicked climate, or a decline of external demand due to a possible high level of severity of the commercial conflict between China and US (Central Reserve Bank of Peru, 2018) (see Figure 22).



Figure 22. The inflation rate between Peru and the world average up to 2017.

Taken from the World Bank Database. 2019

(<https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?end=2017&locations=PE-1W&start=1994>).

The Interest Rate. Since March 2018, the reference interest rate in Peru regulated in 2.75%, the lowest level after the 2009 when global crisis was influencing and the Central Bank of Peru turned down the interest rate to a 1.25% and the current rate reflects an expansive policy of this country in terms of monetary (Central Reserve Bank of Peru, 2018).

The central bank also claimed that the reference interest rate is targeted to take control of a coming inflation issue. Therefore, it will be adjusted according to other economic factors both internationally and domestically.

The Unemployment Rate. The national unemployment rate manifests a seasonal pattern, since in the summer, the rate is relatively higher than in other seasons. On the other hand, after 2014, the annually average rate has been gradually increasing according to statistics offered by Trading Economics.



Figure 23. The nominal and real interest rate pattern in Peru.

Taken from “Inflation report 2018 diciembre,” by Banco Central de Reserva del Perú [BCRP], 2018 (<http://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2018/diciembre/reporte-de-inflacion-diciembre-2018.pdf>).

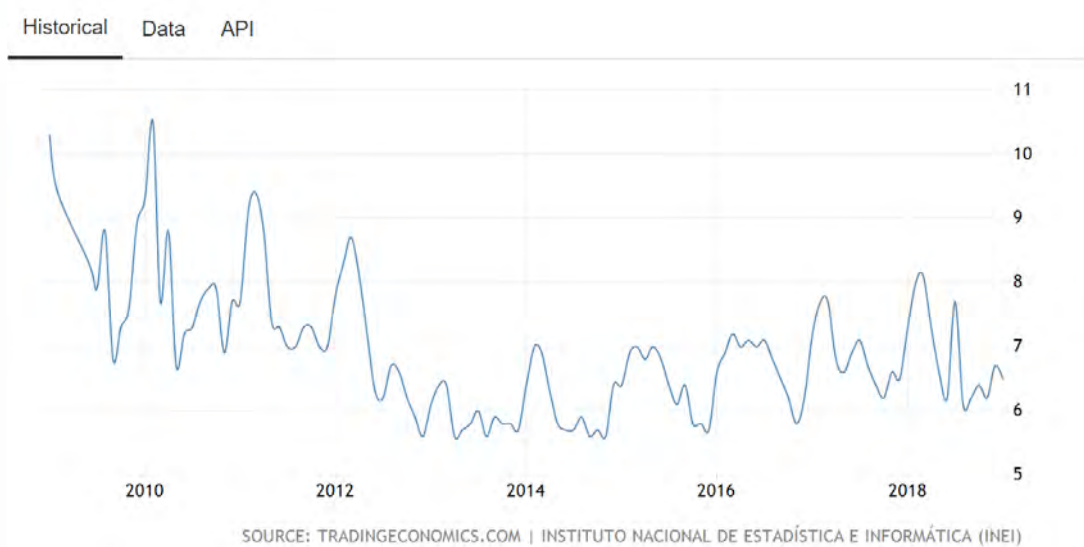


Figure 24. Unemployment rate of Peru.

Taken from “Unemployment of Peru,” by Trading Economics & Instituto Nacional de Estadística e Informática of Peru [INEI], 2018 (<https://tradingeconomics.com/peru/unemployment-rate?source=patrick.net>).

3.3.3 Social, cultural and demographical influence

Population Growth Prediction. The estimated top population quantity of Peru will reach more than 43 million by 2070 (Population Pyramid, 2017), and the current population with highest purchasing power (aged from 20 to 54) is about 60% of the globe (see Figure 25).

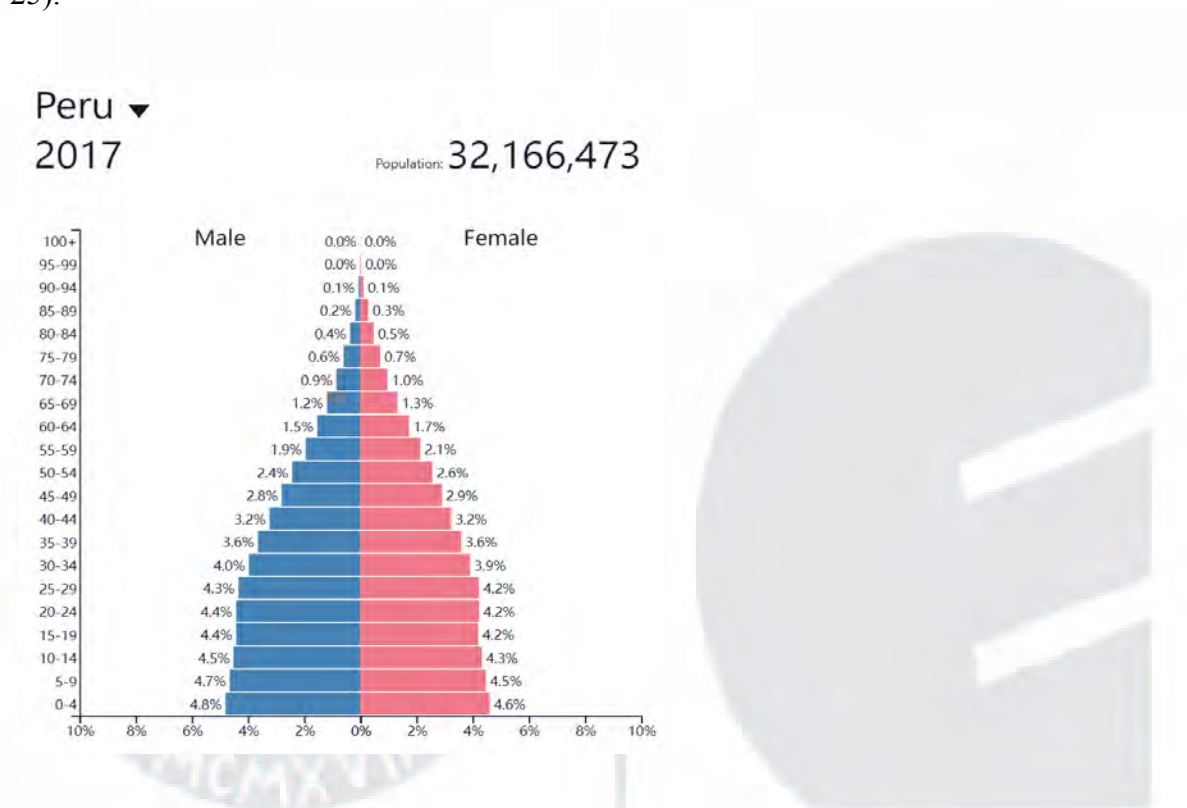


Figure 25. The population pyramid of Peru in 2017. Taken from “the Populationpyramid of Peru,” by Populationpyramid.net, 2018 (<https://www.populationpyramid.net/peru/2017/>).

However, according to the Development Bank of Latin America (CAF), the demographic bonus of Peru will be extended until 2038, in which Brazil and Mexico, the largest population countries in Latin America, will end their demographic bonus in 2025 and 2033, respectively (“The demographic bonus of Peru will be extended,” 2016). A younger population with low dependency rates indeed creates substantial development opportunities and this will synergize a sustainable economic growth as well.

Culture and Lifestyle. The lifestyle in Peru is more joyous with no high cultural barriers, but the general career attitude is more casual. The reasons that may explain this are:

(a) the seasonal change of Unemployment rate and (b) a cultural manifestation evidenced by the Hofstede six-dimension Model, which can be found in Figure 26. In conclusion, the Peruvian economic growth is in a trend of stability thanks to a prudent policy support and a relatively population growth benefit.

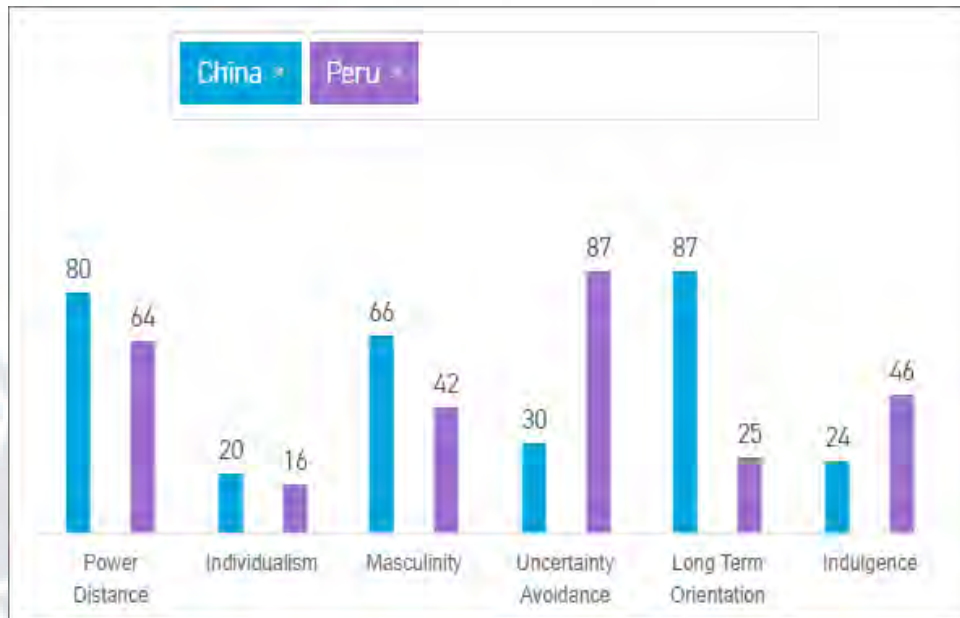


Figure 26. Peruvian & chinese cultures comparison.

Taken from “Country Comparison,” a webpage culture comparison tool developed based on work of Prof. Geert Hofstede by Hofstede Insights, 2016 (<https://www.hofstede-insights.com/country-comparison/china, peru/>)

3.3.4 Technological and scientific influence

Technology in general. According to the 2017-2018 Global competitiveness Report issued by the World Economic Forum, the whole Latin America and Caribe Area manifested a weak position in the 12 pillars of GCI (Global Competitiveness Index) (See Figure 27).

On the other hand, a special deduction regime for projects related to scientific research, technological development and technological innovation has been established in Peru, which means, by this incentive, taxpayers investing directly in these projects will be able to deduct 175% (for taxpayers domiciled in Peru) or 150% (for taxpayers non-domiciled in Peru) of the expenses incurred in them (PwC, 2018).

Technology in Financial Sector. Latin America represents a market with high potential for FinTech due to the significant percentage of people and SMEs (Small and Micro Enterprises) that still do not have access to the financial system. And since 2010, there are about 47 FinTech sprouted in Peru, staying in the third place within Andean regions after Colombia (70) and Chile (67) (“Five Peruvian FinTech who take the revolution in the financial system,” 2018).

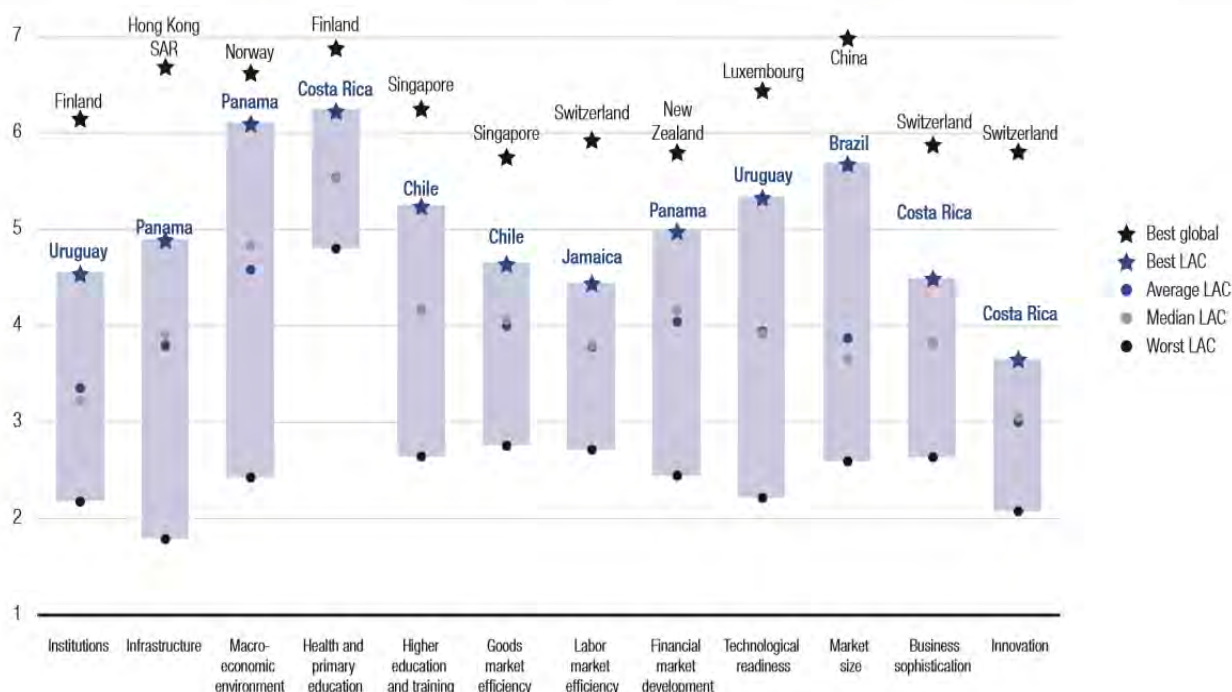


Figure 27. GCI score range for LAC across the 12 pillars 2017-2018. Taken from “The Global Competitiveness Report 2017,” the World Economic Forum, 2018 (<https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018>).

The technology part is indeed a short slab of Peru, although the government is in full awareness of new potential opportunities, seeking and establishing external collaboration and alliances, there is still a further development and exploration to do.

3.3.5 Ecological and environmental influence

The Peruvian territory is formed by the Jungle (Selva), Mountains (Sierra) and the Coastal (Costa) Region. The climate in the coast is generally delightful while the temperature in the highlands (la sierra) is radically changeable by seasons, and the Jungle is usually very

rainy. These are the natural resources of the country, which is one of the seven mega diverse countries in the world. But despite the fortune, there are some climate or environmental uncertainties as well, such as the phenomenon of el Niño, earthquakes, and so on, which can drag the abundance into losses; a recent example is the El Niño, which brought debris flow and impacted a whole year of economic performance.

Another fact is that residents of the globe are stakeholders to environmental undertaking: an earthquake in China may relate to a strong rainfall in South America, “el Niño” may also influence the Northern Hemispheres with a colder and longer winter. Therefore, there are several international environment incentives or treatments for subscription by numbers of countries (Organization for Economic Co-operation and Development, 2016).

Peru is one of them, and has been implementing sanctions and sustainable proposals for investors and enterprises. Environmental and sustainability development regulators (like SENACE, OEFA) are authorized by the Environmental Ministry. And individual or community has a widely open channel for complains and remarks. The regulators have the total rights to implement sanction and punishment even a production halts. In conclusion, Peru has a strong supervision for ecology compliance, especially for industries.

3.4 The External Factor Evaluation Matrix (EFEM)

The External Factor Evaluation Matrix evaluates the main opportunities and threats of a company, after analyzing from different perspectives the business environment where ICBC Peru is operating under, and the existed competition faced by the Bank, we have defined 17 factors that may affect ICBC Peru, including eight opportunities and nine threats, and the weights and scores assigned to them are shown in the Table 5 below.

The final result is 3.09, which is significantly above the average score of 2.5. This means that ICBC Peru is already in a relatively attractive external environment, and it is

possible to improve significantly the Bank's current situation by managing "opportunities" and "threats". The Bank should especially consider how to deal with "threats".

As we mentioned in the previous part, sometimes, threats can also become opportunities. For example, the weak science, technology and innovation system in the external environment may give ICBC Peru more business opportunities if they can have a thorough and comprehensive analysis and make the first move to finance technological innovation in the Peruvian market. We will explore this topic more in the following chapters.

Table 5

ICBC Peru External Factor Evaluation Matrix

Factors Determine Success	Weight	Value	Score
Opportunities			
1. Future GDP growth	0.10	3	0.30
2. Good Population structure, stable labor & future market	0.10	3	0.30
3. Strategic geographic location	0.05	3	0.15
4. Good basic factor conditions (natural resources, biodiversity)	0.05	3	0.15
5. Good regional politics, tax and commercial environment	0.05	3	0.15
6. Increasing investment in infrastructure, mining and public services	0.10	3	0.30
7. A relatively good outlook of home demand in the future	0.05	3	0.15
8. China is the biggest trading partner of Peru	0.08	4	0.32
Subtotal	0.58		1.82
Threats			
1. Trade war between China and US	0.03	2	0.06
2. Fierce domestic competition	0.05	3	0.15
3. Natural disasters (Earthquakes, tsunami, El niño)	0.06	3	0.18
4. Lack of Government guiding policies	0.06	3	0.18
5. Weak science, technology and innovation system	0.03	3	0.09
6. Infrastructure gap	0.04	4	0.16
7. Corruption	0.06	3	0.18
8. The inefficiency of the financial system	0.05	3	0.15
9. Development disparity between regions and ethnics	0.04	3	0.12
Subtotal	0.42		1.27
Total	1.00		3.09

Note. Value: 4 Responds very well, 3 Responds well, 2 Average response, and 1 Responds Badly

3.5 ICBC Peru and Its Competitors

According to the latest data published by SBS, by the end of 2018, the banking sector financial report result was as following: see Table 6. Four of the biggest banks in Peru we selected as well as two foreign banks as a reference for the competitiveness analysis, and it is obvious that ICBC Peru is in a very embarrassing situation for 2018.

In this section, we will also adopt the famous Porter five forces model to analyze the competitors of ICBC Peru. Through his model, Porter classified five main competitive forces that affect any market and all industries. It is these forces that determine how much competition will exist in a market and consequently the profitability and attractiveness of this market for a company. By means of sound corporate strategies, a company will aim to shape these forces to its advantage to strengthen the organization's position in the industry.

Table 6

Peru Major Banks Financial Performance Comparison

Statement Result Comparison of Several Banks in Peru 2018			
Bank	Profit after Tax	ROA(%)	ROE(%)
BCP	760.91	2.57	21.3
BBVA Continental	313.11	1.89	18.68
Scotiabank	293.72	2.2	15.84
Interbank	235.45	2.33	21.83
CITI Bank Peru	37.16	2.66	14.12
Santander Peru	16.11	1.46	11.49
ICBC Peru	-1.76	-1.1	-4.95

Note. Taken from “Balance General y Estado de Ganancias y Pérdidas,” and “Indicadores Financieros,” Superintendencia de Banca, Seguros y AFP (SBS), 2018 (<http://intranet2.sbs.gob.pe/estadistica/financiera/2018/Diciembre/B-2201-di2018.XLS>).

For the purpose of this model, industry attractiveness is the overall profitability potential of the industry. An attractive industry will be one where the combined power of the competitive forces will increase the profitability's potential; where an unattractive industry will be one where the collective impacts of the forces will drive down profitability potential.

The Five Forces analysis is basically a qualitative analysis, where the analyst describes and explains if each power is high or low. It's hard to reach to an overall result of the industry's attractiveness. To solve this problem, we created a score chart that has important indicators to be considered for each sector. By giving quantitative grade of each indicator, we will get a quantitative result about the industry's attractiveness. The five forces will be analyzed below.

3.5.1 The bargaining power of the suppliers

Banking sector belongs to service, the capital is the essential asset on any bank (Adamkasi, 2017), besides, the employees who present the banking services to the clients, and the hardware and software of system, technological support for services efficiency and security are the suppliers of the banking sector as well.

According to Adamkasi's statement, there are 4 main capital suppliers for banks: (a) Customer deposit, (b) Advance and loan, (c) Mortgage-backed securities, and (d) Advances from other monetary organizations. And from this point of view, we can see that this group of suppliers while still buy the services offered by the bank, provide also the main asset for the bank to develop and gain business opportunities.

The truth is the power of capital suppliers is higher for ICBC Peru, as it is a small, not well known and young, foreign capital financial institution in Peru. The capital suppliers for ICBC are mainly Peruvian and local companies or Chinese parented and local registered companies and most of them have already had a very rooted preference to local banks and financial institutes. Also, the cost of exchange to another bank is usually high, and in particular ICBC does nothing to drag them into their client category.

Regarding labour supplier bargaining power, banking industry has specific requirement on employees. To ensure banks' compliance and prudence and protect the interest of depositors, the SBS (Superintendencia de Banca, Seguros y AFP) has established requirements on professionalism and ethic of employees in principal positions. Strict regulatory requirement reduce the number of qualified candidates and by this way, increase the labour suppliers' bargaining power. In the case of ICBC Peru, in addition to all other common requirements, employees for ICBC Peru should also speak fluent English and be willing to work in a cross-cultural company. It's not easy for the Bank to find good candidates, it's even harder for the Bank to negotiate salaries or other employment conditions

when hiring, as an emergency, one person.

Other types of suppliers for ICBC Peru are technologies, systems, including hardware and software providers. These suppliers are aimed to provide more complemented, advanced and competitive products and services for banks in order to attract more clients (who are also the suppliers of the main assets for the Bank).

In terms of the power of these groups of suppliers (listed in Table 7), they have a relatively advantaged power to bargain with ICBC Peru since technology and perceived services for the clients are the core competitive advantages for banks and ICBC Peru just occupied a small market share locally. In conclusion, the power of suppliers of ICBC Peru is relatively high.

Table 7

Suppliers of ICBC Peru

Suppliers types	Level of Power
Capital Provider	<i>High</i>
Hardware and Software suppliers	<i>Relatively High</i>
Employees	<i>Relatively High</i>

3.5.2 The bargaining power of the buyers

The buyers for banking industry are basically clients who use banking product or services. Generally speaking, the threat of buyers in the Peruvian banking industry is low, in other words, the bargaining power of buyers is low. The reasons are the following:

The buyers in the banking industry are clients who use banking product or services. For a retail banking client, since the bank is more powerful than an individual person, the client can only accept the price offered by banks. However, for corporate banking clients, since corporations have more access to other substitutes and they are more important for a bank's revenue, banks are willing to negotiate with a corporate client and offer a better price.

In the case of ICBC Peru, whose target clients are Chinese companies and big local companies who trade with China. By analysing the main companies exporting and importing to China, it can be known which companies are ICBC Peru's buyers. As it can be observed on the Table 8, that 72.13% of exports belong to the mining sector, which is high concentrated.

Table 8

Main Exporting Companies to China - 2017

No°	Company	Industry	FOB (USD MM)	Market Share (%)
1	Compañía Minera Antamina S.A.	Mining	2,082.49	17.97
2	Minera Las Bambas S.A.	Mining	1,831.20	15.80
3	Sociedad Minera Cerro Verde S.A.A.	Mining	1,305.26	11.26
4	Southern Peru Copper Corporation	Mining	969.23	8.36
5	TraFigure Peru S.A.C.	Commerce	772.81	6.67
6	Compañía Minera Antapaccay S.A.	Mining	518.36	4.47
7	Glencore Peru S.A.C	Mining	500.26	4.32
8	Shougang Hierro Peru S.A.A.	Mining	415.81	3.59
9	Hudbay Peru S.A.C.	Mining	344.88	2.98
10	Tecnología de Alimentos S.A.	Fishing	306.24	2.64
11	Pesquera Hayduk S.A.	Fishing	233.25	2.01
12	Louis Dreyfus Company Metals Trading S.A.C.	Mining	223.08	1.92
13	Minera Chinalco Peru S.A.	Mining	168.89	1.46
14	Pesquera Exalmar S.A.A.	Fishing	164.93	1.42
15	Andina Trade S.A.C	Commerce	159.33	1.37
		Rest	1,593.39	13.75
Total			11,589.41	100.00

Note. Data taken from: "Consulta por Importador/Exportador," Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT), 2017 (http://www.aduanet.gob.pe/cl-ad-itconsultadwh/ieITS01Alias?accion=consultar&CG_consulta=1), and "PERÚ: PRINCIPALES PARTIDAS ARANCELARIAS IMPORTADAS DESDE CHINA 2017," Cámara De Comercio Peruano China (CAPECHI), 2017. (<http://www.capecti.org.pe/comerchi16.htm>).

On the other hand, Table 9 shows that most of the imports come from the telecommunications and technology industry. All those companies' bargaining power is relatively high. A few companies can choose from It will be hard for ICBC Peru to increase price. In conclusion, although the general bargaining power of buyers is low for the Peruvian Banking industry, for ICBC Peru, whose target clients are those big companies with important market share, their bargaining power will be much higher than others.

3.5.3 Threats of substitutes

The Peruvian financial system has been developing during the last decade. The access

and use of financial services are still increasing. According to SBS's survey, Peruvian financial access, use and depth have steadily improved from 2010 to 2015. The number of service points per 100,000 inhabitants increased from 109 by June 2010 to 443 by June 2015, and the number of service channels per 1,000 Km² rose from 13 to 61 during the same period. Similarly, the number of borrowers per 1,000 adults increased from 237 to 311 (Talledo, 2015).

Table 9

Main Importing Companies from China - 2017

No°	Company	Industry	FOB (USD MM)	Market Share (%)
1	Huawei del Peru S.A.C.	Telecommunications	319.46	3.61
2	America Movil Peru S.A.C.	Telecommunications	286.95	3.24
3	Grupo Deltron S.A.	Technology	169.86	1.92
4	Telefonica del Peru S.A.A.	Telecommunications	160.46	1.81
5	Saga Falabella S.A.	Commerce	158.09	1.78
6	LG Eletronics Peru S.A.	Technology	150.76	1.70
7	Ingram Micro S.A.C	Technology	144.21	1.63
8	Ripley S.A.	Commerce	125.24	1.41
9	Samsung Electronics Peru S.A.C.	Technology	118.82	1.34
10	Enel Green Power Peru S.A.	Technology	109.36	1.23
11	Entel Peru S.A.	Telecommunications	102.07	1.15
12	Sodimac Peru S.A.	Commerce	96.54	1.09
13	Automotriz Latinoamericana S.A.C.	Automotive	76.34	0.86
14	Intcomex Peru S.A.C.	Technology	76.34	0.86
15	Hipermercados Tottus S.A.	Commerce	75.78	0.86
		Rest	6,686.25	75.50
Total			8,856.51	100.00

Note. Data taken from: "Consulta por Importador/Exportador," Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT), 2017. (http://www.aduanet.gob.pe/cl-ad-itconsultadwh/ieITS01Alias?accion=consultar&CG_consulta=1), and "PERÚ: PRINCIPALES EMPRESAS IMPORTADORAS DESDE CHINA DESDE CHINA 2017," Cámara De Comercio Peruano China (CAPECHI), 2017. (<http://www.capecti.org.pe/comerchi1d9.htm>).

Second, the same research also showed that, although Peruvians have more access to financial services, 50% of those who have applied for a credit are addressed to informal entities. In regard of credit, formal entities, including banks, always have access barriers. Low income, lack of steady income lack of collateral, lack of credit history is the primary reason for not being granted a loan (Talledo, 2015). Credit access barriers also drive customers to choose a substitute financial method.

In the case of ICBC Peru, considering its target clients are big companies, the main substitute threats for ICBC Peru will be direct financial options, such as insuring bonds, shares, or receiving facilities from international financial entities. For ICBC Peru, the substitute threat will mainly come from a capital market and other international or local financial entities, which are also ranged in the middle. Therefore, the power of substitutes of ICBC Peru is considered to be medium.

3.5.4 Threats of new entrants

The new entrants' threat for Peruvian Banking industry is very low, because of the extremely high initial investment requirement and regulation restriction. Opening a new bank is not as easy as it sounds. It requires a very high initial capital and fixed investment in infrastructures. According to SBS, the minimum social capital for opening a bank is 27, 498, 321 soles. (Superintendencia de Banca, Seguros y AFP, 2018) In addition to that, banks are usually highly regulated all over the world. In Peru, the Superintendencia de Banca, Seguros y AFP supervises daily operations of all the financial institutions, including banks. Anyone who wants to initiate banking business in Peru needs to apply for its authorization and comply with the entire requirement beforehand. It may take months or years to have everything ready. And the supervisor may refuse the application if the applicant cannot satisfy their requirement. In this sense, a new entry threat for the Peruvian Banking industry is relatively low.

3.5.5 Rivalry among competitors

We believe that the rivalry among competitors is medium to high for Peruvian Banking industry. This is because: First, the quantity of competitors is relatively small (16 entities until the end of 2018) and this industry is highly concentrated and segmented. From all banks within the Peruvian Banking System, 82.92% of the total loans are focused on these four main banks, and the remaining 12 banks compete furiously for the rest, which is less than 18%. As shown in the Table 10, the first 4 big banks occupy more than 80% of the local market share of credit and the rest 12 banks, including ICBC Peru, will need to compete among each other for less than 20% market share.

Table 10

Ranking of Total Loan Portfolio (in soles)

No°	Companies	Amount	Percentage (%)	Percentage Accumulated
1	Banco de Crédito del Perú	91,008,617	33.73	33.73
2	BBVA Continental	54,205,749	20.09	53.81
3	Scotiabank Perú	46,015,145	17.05	70.87
4	Interbank	32,518,012	12.05	82.92
5	Banco Interamericano de Finanzas	10,110,221	3.75	86.66
6	Mibanco	9,949,503	3.69	90.35
7	Banco Pichincha	7,401,273	2.74	93.09
8	Banco Santander Perú	3,937,453	1.46	94.55
9	Banco GNB	3,792,447	1.41	95.96
10	Banco Falabella Perú	3,055,620	1.13	97.09
11	Citibank	2,745,048	1.02	98.11
12	Banco Ripley	1,911,402	0.71	98.82
13	Banco de Comercio	1,469,723	0.54	99.36
14	Banco Cencosud	816,226	0.30	99.66
15	Banco ICBC Peru	556,553	0.21	99.87
16	Banco Azteca Perú	353,836	0.13	100.00

Note. Time horizon as to 31st, December, 2018, amount expressed in thousands of soles.

Data from: "Créditos Directos por Sector Económico," Superintendencia de Banca, Seguros y AFP (SBS), 2018 (http://www.sbs.gob.pe/app/stats_net/stats/EstadisticaBoletinEstadistico.aspx?p=1#)

Secondly, according to the report of Gestión, there is a speedy development of Fintechs in recent years. Fintechs companies participate in financial operations as new players. They offer payment platform or alternative financing solutions, competing directly with banks. The newspaper predicted that banks will reduce its interest rate because of the

new competition with Fintechs companies (Ríos, 2018). In the particular case of ICBC Peru, whose target clients are big local and Chinese companies, the competition with other banks is even higher. In the end, based on our 5 forces analysis, we think that the attractiveness of Peruvian Banking Industry is medium. In the end, based on our 5 forces analysis, we think that the attractiveness of Peruvian Banking Industry is medium.

3.6 ICBC Peru and its References

The purpose of this analysis is to benchmark ICBC Peru to Peruvian local market's best performers. According to the Corporate Finance Institute (CFI, 2017), the Top Three banks in Peru are: Banco de Crédito del Perú (BCP), BBVA Continental, and Scotiabank Perú. The results of their performance in 2017, according to each bank's annual report, are as shown in Table 11. It is shown that there is plenty of room for ICBC Perú to improve in order to catch up with its best local competitors in terms of scale and profitability.

Table 11

2017 Top Three Banks in Peru

Name	Local Ranking	Revenue in million Soles	Total Assets in million Soles
BCP	1	3,015	139,542
BBVA Continental	2	1,387	76,610
Scotiabank Perú	3	1,221	57,764

Note. Taken from "BCP Reporte Anual 2017," Banco de Crédito del Perú, 2018 (<https://ww3.viabcp.com/Connect/ViaBCP2018/Personas/Relaciones%20con%20Inversionistas/Memoria%20BCP%20Final.pdf>) "BBVA Continental Memoria Anual 2017," BBVA Continental, (<https://extranetperu.grupobbva.pe/memoria2017/descargas/BBVA-Continental-MA-2017.pdf>) "Memoria Scotiabank Peru 2017," Scotiabank Peru, (<https://scotiabankfiles.azureedge.net/scotiabank-peru/PDFs/acerca-de/2018/informacion-inversionista/memoria-SBP-2017.pdf?t=1538006400062>)

3.7 Competitive Profile Matrix (CPM) and Referential Profile Matrix (RPM)

Competitiveness Profile Matrix (CPM), like its name, is a tool that allows us to further identify the competitiveness of the principle competitors of our company. The CPM analysis will give us a visual comparison of certain aspects between our company and its direct competitors. The certain aspects are the key success factors (KSF), which determine the success in the industry (D'Alessio, 2008).

The Table 12 is the Competitiveness Profile Matrix of ICBC Peru with Banco Santander, and CITI bank del Peru, both of which are banks of foreign capital and focusing on the corporate banking sector, plus Interbank and Scotiabank. The reason we chose these first two banks is because they are not like BCP, BBVA Continental, but have a similar business model as ICBC Peru, which is corporate banking. And Scotiabank is chosen as benchmark since it is a foreign capitalized bank with corporate banking portfolio in high percentage as well.

It seems that as a new comer (Commercial operation started in 2013) to the financial market in Peru, ICBC Peru is still in disadvantage in comparison to its direct competitors. After using the CPM, the Referential Profile Matrix (BPM) will be used to further compare ICBC Peru with the market standard (benchmark) in the Peruvian financial market as well as in the global financial sector. BCP, which is the biggest bank in Peru and Group ICBC, which is the biggest bank in the world, are considered as the benchmark companies in this analysis. These two banks are not only serving corporate clients but also have a huge base of retail customers. For example, BCP has more than 8 million clients (Banco de Crédito del Perú, 2017), which equivalents to almost one third of the Peruvian population.

And the ICBC Group, although the biggest bank in the globe with a record of 5,784 ,000 corporate customers and 530 millions of personal customers (Industrial and Commercial Bank of China, 2019), it does not have rich experiences for Peruvian local financial business. It is assumed that the comparison here should be about their experience in their respective market, so it is obvious that ICBC knows perfectly the Chinese banking market. It is worth mentioning that even so ICBC Peru is being compared to the best banks, both locally and internationally, the realistic goal for ICBC Peru would be to have a small proportion of the premium retail customers for the long term. The Table 13 shows the comparison between ICBC Peru and benchmarks, using the same key success factors (KSF)

as in the CPM. It is expected that the results of the differences in each aspects will be larger than those of CPM.

Table 12

Competitiveness Profile Matrix (CPM) of ICBC Peru

	Key success factors	Weight	ICBC Peru		Banco Santander		CITI Bank Peru		Scotiabank	
			Value	Score	Value	Score	Value	Score	Value	Score
1	Amount of Equity	0.3	1	0.3	2	0.6	2	0.6	3	0.9
2	Cost of Capital	0.3	2	0.6	2	0.6	2	0.6	3	0.9
3	Operational Efficiency	0.2	3	0.6	2	0.4	2	0.4	4	0.8
4	Know-how of the local market	0.1	1	0.1	2	0.2	2	0.2	4	0.4
5	Customer base	0.1	1	0.1	2	0.2	2	0.2	3	0.3
Total		1.00	1.70		2.00		2.00		3.30	

Table 13

Referential Profile Matrix (RPM) of ICBC Peru

	Key success factors	Weight	ICBC Peru		BCP		ICBC China	
			Value	Score	Value	Score	Value	Score
1.	Amount of Equity	0.30	1	0.30	4	1.20	4	1.20
2.	Cost of Capital	0.30	2	0.60	4	1.20	4	1.20
3.	Operational Efficiency	0.20	3	0.60	3	0.60	4	0.80
4.	Know-how of the local market	0.10	1	0.10	4	0.40	4	0.40
5.	Customer base	0.10	1	0.10	4	0.40	4	0.40
Total		1.00	1.70		3.80		4.00	

Note. Value: 4 Great Strength, 3 Minor Strength, 2 Minor Weaknesses, and 1 Major Weakness.

In comparison with local benchmarks and competitors, ICBC Peru has a weak position in terms of normal key success factors; however, it cannot affect its competitive advantage in its specific extent: the resources from the parent company and the synergetic international network of branches around the world.

The resources from the ICBC Group. First, the registered capital of ICBC Peru, which directly represents a capacity of loan for banks, is also an amount of approval from the ICBC Group. This means that whether ICBC Peru's financial capacity has the potential to increase it depends a lot on the Group's authorization and decision. And second, the ICBC

Group has a lot of fintech resource and technological experts, which may provide ICBC Peru a high potential of resources to both improve its operational efficiency and perceived services for the clients.

The synergetic network around the world. Although ICBC Peru is a new entity in the local market, ICBC Group has been for 35 years already in the financial business and it has a fast development and pace in the international field. Right now it has more than 419 branches and offices in more than 45 countries and regions (Xinhua, 2018). This network provides more opportunities for ICBC to react faster with a global wave of changes and needs, and so, settle local loans at a rapid speed, despite a locally limited capital.

The familiarity with Chinese Companies. Since 2014, China has been remaining the position as the biggest trade partner with Peru from the end of 2018, when the bilateral trade volume recorded as US\$ 23,200 million. ICBC Peru, as a subsidiary to ICBC Group in China knows well the way how its fellow companies operate. This familiarity is an advantage of the bank in exploring and gaining more business opportunities in trade finance and services.

3.8 Conclusions

Understanding the external world may shed lights on future roads and possibilities; this provides insights for seizing opportunities and avoid threats. In this chapter, we applied multiple models/methods for external analysis and have gained some information to start ICBC Peru's strategic planning. The tridimensional analysis showed that Peru is likely to have a bright future and ICBC Peru can contribute to and be part of it. The competitiveness analysis reveals that Peru has a good basic factors condition, but need the capacity, the capital to fully take advantage of their wealthy endowments, and that is where ICBC Peru could come into play. The PESTE analysis further proves that Peru is stable, attractive for investments. And finally, the 5 forces analysis showed that the banking industry in Peru is relatively attractive. All these results confirmed that it is worthwhile for ICBC Peru to

commit to this country and seek its position in the Peruvian financial industry. And last but not least, ICBC Peru maintains its competitive advantages of being a branch of a powerful parent company and one in the synergetic network in the globe as well, despite of the high pressure from its local competitors and benchmarks.



Chapter IV: ICBC Peru Internal Analysis

The internal evaluation is focused on finding strategies to capitalize the strengths and neutralize the weaknesses. Based on competitive advantages, a company can design effective strategies to improve its weakness and transfer them into a strength (D'Alessio F. , 2008).

Internal evaluations vary greatly in scope, depth and focus depending on the purpose and the context. A strategic evaluation should focus on activities related to the vision, values and goals (New Zealand Government, 2016). ICBC Peru, as part of the ICBC GROUP, took a similar management structure as it is in China and adjusted to local market according to Peruvian regulations. To have an accurate and comprehensive internal evaluation, we are going to analyze both ICBC Group and ICBC Peru when it's necessary.

4.1 Internal Analysis AMOFHIT

ICBC Peru S.A. was the first bank with Chinese capital in the Peruvian market. According to its Annual Report of 2017 published in the website of Superintendencia de Mercado de Valores (MSV), until December 31, 2017, ICBC Peru S.A. has two shareholders, but only Industrial and Commercial Bank of China Limited (ICBC Group) owns greater than or equal to five percent (5%) of the share capital of ICBC Peru S.A.

ICBC Group is an international financial conglomerate with Chinese capital. It was established on January 1, 1984. Through its continuous and stable development, the Bank has become the leading bank in the world, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness. According to Forbes Global 2000 (2018), ICBC retains its top spot on 2017 as the largest bank in the world on asset value (Sawe, 2018).

The total asset value of ICBC Group in 2017 was 26,087 billion RMB, equivalent to 3730 billion US dollar. By the end of 2017, ICBC Group established 419 institutions in 45 countries and regions and indirectly covered 20 African countries as a shareholder of

Standard Bank. The Bank also established banking relationships with 1,545 overseas banking institutions in 143 countries and regions, making its service network covering six continents and important international financial centers around the world (ICBC, 2018). The success of ICBC Group has provided ICBC Peru with a very strong group support in terms of regional synergy in South America, product innovation, customer base, group network, etc.

4.1.1 Administration and management (A)

The Board of Directors of ICBC Peru is made up of 5 members, of which four are from ICBC Group and have been working in ICBC for more than 20 years. Only one Chinese director works in Peru. This Chinese expatriate, President of the Board, is also the general manager of ICBC Peru. Since the board members are located in different countries, most board meetings need to be carried out through video-conference or other types of virtual meetings. Special committees, including Risk committee, Audit committee and Remuneration Committee, are organized according to local laws to support the Board on the management of the Bank.

Except the independent director, who was hired locally, none of the current board members can speak Spanish. A document submitted to the Board should be translated first. All the board discussion will be carried out in English and, then, the meeting agreements will again be translated into Spanish which should be available for SBS's revision when necessary. The general management office is composed by 4 general managers, including one general manager and 3 deputies. Half of the general management are Chinese expatriates, who hardly had a working experience in Latin America.

Compared with local managers, expatriate managers are more familiar with Group policies and products. But most of them also lack local experience, local contacts, a local network, and local resources. The current general manager of ICBC Peru, Ms. Tao Fenghua was selected as the general manager and president of the Board of Directors in ICBC Peru in

2018. Ms. Tao worked in ICBC Argentina as general deputy manager for three years before being relocated to Peru.

After a quick review of the composition of ICBC Peru's Board of Directors and General Management Office, it can be found that two thirds of the Bank's decision-making body are Chinese. However, Chinese employees only represent less than 20% of the bank's total employees. The contradiction makes cross-cultural management a quite important challenge for the Bank's managers. Cross-cultural and Cross-linguistic communication has been an obstacle for the improvement of the management efficiency for ICBC Peru.

In addition to the cross-cultural management challenge, risk management is another important aspect for the bank's internal management. The Bank has a strong risk management team, from which most team members are hired locally. Among all types of risks, the credit risk is the major risk faced by banks. The credit risk management of ICBC Peru is defined in policies, procedures, limits and methodologies approved by the Risk Committee and the Board of Directors.

Besides of Board of Directors and General Management Office, the Bank also has several different departments. As shown in Figure 28, the Bank has established a strict internal control system, which is composed by the Internal Auditor, and the Legal and Compliance Officer. The Bank has also respected the principles of function segmentation and separated different functions according to its operation characteristics.

The Risk Unit, which is one of the most important units for the Bank's risk control, report independently to the Risk deputy general manager and, at the same time, report to the Risk Committee of the Board. ICBC Peru aims a long-term and sustainable development, for which compliance is always the priority of the Bank's management and operation.

Ever since the Bank opened to the public in 2014, ICBC Peru mainly worked with financial institutions, government and big companies or corporations. ICBC Peru also focuses

on those Chinese investment projects, which are mainly from mining, petrol and infrastructure sectors. In the year 2018, the Bank's headquarter injected 50 millions dollars of capital, in order to implement its strategy of consolidating the bank's local business and turn Peru into a regional hub for business and investment development between China and Latin America. (ICBC Perú Bank refuerza capital con US\$ 50 millones, 2018).

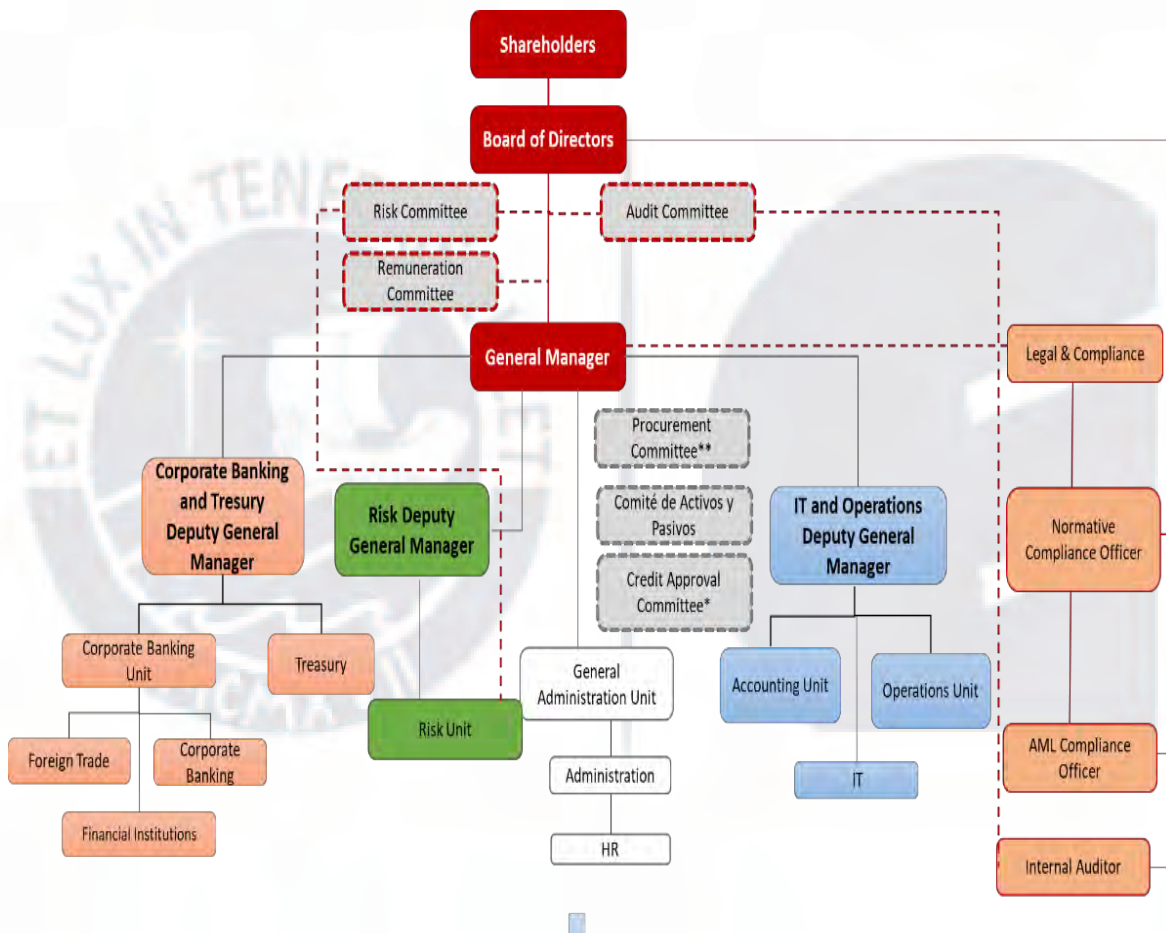


Figure 28. Organization structure of ICBC Peru.
Developed by the authors according to the public information of ICBC Peru.

4.1.2 Marketing and sales (M)

ICBC Group regards service as the foundation to seek further development and has made efforts to build a “bank that is the first choice of customers” while providing a comprehensive range of financial products and services to 6,271 thousand corporate customers and 567 million personal customers (ICBC, 2018), ICBC Group is gaining wide

recognition regarding the promotion of inclusive finances, support of targeted poverty relief, protection of the environment and resources and participation in public welfare undertakings (ICBC, 2018).

The majority of ICBC customers are Chinese individuals or companies. In the last three decades, after the important reform of China in 1978, more and more Chinese companies have been seeking to go abroad and invest abroad. The internationalization process of Chinese companies has been accompanied by Chinese banks, which provide financial services to them and also got return from the loans they granted to those Chinese companies. Similarly than almost all the other Chinese banks, ICBC Group adopted a customer-following expansion strategy: which means they only enter markets where Chinese investments or China-related business are relevant. Those oversea Chinese companies prefer to work with ICBC Group mainly because of the communication efficiency resulted from language advantage, the existed customer relationship with ICBC headquarter and the group network synergy that ICBC can offer to their customers.

It was a competitive advantage for ICBC Peru. The Bank is more likely to win the trust of Chinese customers in comparison with other Peruvian financial institutions. The Bank relied on this advantage and has a very weak local marketing strategy.

We carried out a 4P analysis of ICBC Peru in order to see how the Bank's performance on marketing is. The results are as follows:

Product. ICBC Peru only provides financial products and services of corporate banking, including current deposit, fix-term deposit, financial derived product (spot and forward), trade finance product (letter of credit, guarantees), direct credit products (working capital loan, syndication loan, project loan), etc. ICBC has a comprehensive experience on managing those basic products. But they still need to adjust their know-how to Peruvian market.

Price. Since big companies and corporate usually have a strong bargaining power, ICBC Peru is forced to reduce their interest rate or commissions for their services or products, in order to attract more clients. Although Chinese companies prefer to work with ICBC Peru, if the Bank's price is not at least as competitive as other banks, clients will still go to other banks.

However, in relation to the financial services commissions, the price offered by ICBC is not as competitive as it is supposed to be. For example, according to the public information available in the banks' web site, BCP charges 5% per operation for local transfer through CCE (Cámara de Comercio Empresarial), with a range of 7 to 100 soles (Banco de Crédito del Perú, 2017). Santander Peru charges 1 sol per each transfer made through CCE (Santander Peru, 2018); while ICBC Peru charges 0.55% per operation with a range from 8 to 102 soles. (ICBC Peru, s.f.)

The reason why ICBC Peru adopted a higher commission is because of the Bank's low market share and customer base. The Bank will need to pay CCE for doing interbank clearance. And since the Bank has less operations or transactions than other banks, they have no choice but to increase the price for each transaction in order to cover their cost.

Place. ICBC Peru has only one office located in Calle Las Orquideas 585 - Oficina 501, San Isidro, Lima. The Bank has developed an e-banking platform where the Bank provides basic corporate banking services. However, only some transactions so far could be done through the e-banking platform. It's very inconvenient for the Bank's client to have quick access to the Bank's service or products.

Promotion. The Bank's product promotion has been done directly by each employee who works in the business unit. By being a permanent member of AECOP (Asociación de Empresas Chinas en Perú), ICBC Peru keeps good relationships with Chinese companies. At the same time, ICBC Peru is also a member of ASBANC, where the Bank can establish direct

contact with local banks. In spite of all the above mentioned, the Bank didn't put significant financial resources in advertisement, promotion campaigns or any other promotion method. In conclusion, the Bank's performance in Marketing is weak and unsatisfactory. The Bank mainly depends on its parent Bank and the brand image established ICBC Group during the last decades.

4.1.3 Operations and logistics Infrastructure (O)

ICBC Peru doesn't own any real estate in Peru. The only office of 1000 square meters, where the Bank operates is rented. As a corporate bank, ICBC Peru doesn't need to attend individual clients. So, it's possible for the Bank to keep a relatively small investment in infrastructure. All the Bank's employees work in the same office, which was divided by units.

Most of the Bank's operation process is finished in computer systems. In this sense, The Bank's operation and information system infrastructure are considered as the most important logistic infrastructure owned by the Bank, including IT hardware equipment, software properties, IT room, where the bank's local data processing center is located, and so on.

ICBC Peru outsourced its core system and data processing center to the Bank's Head Office because: first, it can ensure a group synergy regarding operation information, as well as receiving constant assistance from the Bank's Head Office; second, it will allow ICBC Peru to easily apply Group technological innovation to local market without large R&D expenses.

Processes. The Bank has a set of procedures approved to by the Board to define and guide all the operation and administration processes of the Bank. One of the most important operation processes is the credit approval process, which, according to the Bank's internal procedure, includes five stages: Client evaluation, Client Risk Evaluation, Product

assessment, Product risk evaluation and Disbursement. At least four of the Bank's departments need to be involved: Corporate banking department, Risk management department, AML compliance officer, Accounting and Operation department, Credit Approval Committee, General Management Office and Board of Directors. Although ICBC Peru has tried to save time and improve the credit approval efficiency, the risk control requirement limits the possibility of reducing the client's waiting period.

Capacity. The Bank's business capacity is strictly limited by the Bank's effective equity. Peruvian laws limit banks' capacity of granting credit to customers by setting restrictions to the credit volume. According to the article number 206 of Peruvian Law N° 26702: Companies from the financial system cannot grant to the same natural or legal person, directly or indirectly, credits, investments or contingencies that exceed the equivalent to ten percent (10%) of their effective equity.

By the end of 2018, the Bank's effective equity was of 315 million soles, of which 10% is only 31.5 million soles, equivalent to about 10 million dollars. The Bank's credit capacity is limited, especially when the Bank's target clients are big companies. Such a small credit capacity has limited the Bank's expansion.

Inventory. By December 2018, the Bank's real estate furniture and equipment inventory is of 3 million soles, of which most are IT related equipment or furniture at the Bank's office.

4.1.4 Finance and accounting (F)

ICBC Peru uses its capital as the resource of finance. According to the monthly report of SBS (Superintendencia de Banca, Seguros y AFP) on December 2018, the Bank's total effective equity until 2018 is 315 million soles, increasing 109% compared to 2017 (Superintendencia de Banca, Seguros y AFP, 2018). The increasing of social capital was done by ICBC Group through cash contribution during 2018. However, in comparison with other

local banks, ICBC Peru is still small in regards of capital.

In addition to financial resources, we also analyzed ICBC Peru's financial performance. In order to have an overall understanding of the Bank's financial situation, it has been compared the Bank's financial indicators from the last 3 years. As shown in Table 14, the Bank's financial situation is not stable and is full of challenges. In 2017, the Bank's income from financial services increased 560%, which makes the year 2017 the first year of positive EBIDA for ICBC Peru. ROE and ROA also turned to positive in this year. However, in 2018, the Bank's provision for direct credit increased considerably, so did the Bank's expenses in financial services, which makes ICBC Peru close the year with losses again. ICBC Peru achieved to have positive revenue by the end of 2017. However, until the end of 2018, the Bank again registered negative revenues of 8.2 million soles and a negative ROA of -0.75, negative ROE of -3.07.

Table 14

Financial Statement of ICBC Peru

	2016	2017	2018
FINANCIAL INCOMES	14,516,371	20,005,888	26,087,866
FINANCIAL EXPENSES	6,244,467	10,308,155	10,838,672
GROSS FINANCIAL MARGIN	8,271,904	9,697,733	15,249,194
PROVISIONS FOR DIRECT CREDITS	397,003	421,694	2,484,225
NET FINANCIAL MARGIN	7,874,900	9,276,038	12,764,969
INCOME FROM FINANCIAL SERVICES	2,468,788	16,293,678	6,601,474
EXPENSES FOR FINANCIAL SERVICES	75,798	80,187	169,188
OPERATIONAL MARGIN	10,267,891	25,489,530	19,197,255
ADMINISTRATIVE EXPENSES	17,689,883	21,170,030	22,961,436
EBITDA	-7,421,992	4,319,500	-3,764,182
PROVISIONS, DEPRECIATION AND AMORTIZATION	871,924	439,807	3,110,862
OTHER INCOME AND EXPENSES	0	-3,000	-1,420,089
EBIT	-8,293,916	3,876,693	-8,295,132
INCOME TAX	440,047	-43,334	-1,765,815
NET RESULT	-8,733,963	3,920,027	-6,529,318
ROE	-9.05	4.04	-3.30
ROA	-2.03	0.62	-0.84

Note. In soles, Until December 31. Taken from "Información Estadística de Banca Múltiple", Superintendencia de Banca, Seguros y AFP (SBS), http://www.sbs.gob.pe/app/stats_net/stats/EstadisticaBoletinEstadistico.aspx?p=1#

4.1.5 Human resource (H)

ICBC GROUP has Human Resources Management Policies that cover the entire employability process. ICBC Peru followed the standards, rules and guidelines defined in the Human Resources Management policies of ICBC's Head Office and adapted them according to Peruvian laws and regulations. These policies and procedures developed by ICBC Peru clearly define the hiring procedures, code of conduct, internal work rules, organizational structure and functions of each unit. In addition, they include the regulation of health and safety at work and the procedures of entry and exit, among others.

All the operations are carried out in the Bank's only one main office. Human resources inputs are the most relevant direct input for ICBC Peru operation process. The professionalism and ethic of employee, especially those who are responsible for main positions, are requested by law. ICBC Peru has followed the requirement and hired local high-qualified employees to be in charge of the internal audit, risk management, regulatory compliance and AML compliance. Besides, the Bank has also established a set of policies, procedures, guidelines and manuals for both operational and administrative processes. Employees are requested to follow strictly related policies or procedures and be responsible for the operation results.

ICBC Peru's employees include Chinese expatriates and local employees. Chinese employees were selected from China; most of them take manager positions in the bank, being head or deputy head of different units. They are familiar with the Bank's product, operation system and internal process. Chinese expatriates are also good at maintaining relationship with Chinese customers. However, they are not so familiar with local practice and regulations.

In order to ensure the compliance with local regulations and speed up the localization of the Bank, some important positions, such as regulatory compliance officer and AML

compliance officer, general accountant, internal auditor, treasurer, and so on, need to be hired from the local market. The Bank now has in total 54 employees, including five directors. During 2018, the Bank spent 16.6 million soles in issues related to Human Resources, which represent 72.4% of the Bank's Administration expenses (ICBC Peru, 2018). In contrast, Santander Peru has 111 employees until the end of 2018, with Human Resources expenses of 45.05 million soles. In this sense, the labour cost of ICBC Peru is relatively low. (Santander Peru, 2018). Employees who decide to work in ICBC, no matter Peruvian or Chinese, need to deal with a cross-cultural working environment. Chinese expatriates come and go and very few of them will stay in Peru for more than five years. In this sense, the Bank will continue to face challenges from those new Chinese expatriates, who lack local experience.

4.1.6 Information and communications systems (I)

As we have described in the operation and logistics infrastructure section, ICBC Peru has an information system infrastructure. The Bank's operation and administration are all supported by information systems. ICBC Peru outsourced its core system and data processing center to the Bank's Head Office, which was developed and maintained by ICBC Head Office. ICBC Peru carried out a series of adjustment and improvement in order to make the Group information system applicable to local practice, including language adjustment, pattern adjustment or development.

Regarding business continuity and information security, ICBC Peru has hired one alternative processing center in case of disaster or emergency. In China, ICBC Group has built a main data processing center and more than one Disaster Recovery Center. The IT department of ICBC Head Office is in charge of the operation and maintenance of IT systems, safeguarding the infrastructure and physical environment that support the IT systems, as well as the management of operations from the global working network. The

Head Office will also support ICBC Peru on the management of business continuity and information security by providing necessary resources and guidelines.

The information and communication system used by ICBC Peru was created, implemented and improved by ICBC Group. It cannot only meet all the operational and administrative requirements according to the Bank's policies and procedures, but it also can provide support on risk assessment, key indicator monitoring, AML sanction list check, and so on. However, the system was designed mainly according to Chinese regulations and business practices, in order to have system effectivity and efficiency regarding information provision and operation support, ICBC Peru needs to perform regular adjustments.

The biggest challenge for the information system of ICBC Peru is to realize the direct connection with local entities, such as SBS, BCRP, CCE, and so on, and the automation of generation of regulatory reports. The Bank took more than three years to establish the direct connection with LBTR (the liquidation and clearance system of Central Bank of Peru) and four years to realize automatic clearance with local banks. Besides that, until now, ICBC Peru is still in the process of adjusting the Group's core system in accordance with local requirements, such as, the automation of generation of some regulatory reports.

4.1.7 Technology and research and development (T)

Considering the equity and operating size of ICBC Peru, the technology, research and development of ICBC Peru will depend on the Head Office. ICBC Group as one of the biggest banks in China invests millions of dollars every year in the research and development, especially in the sector of Fintech and product innovation.

In recent years, under the furious competition between traditional financial institutions and high-tech companies like Alibaba and Tencent, Chinese financial institutions switched its focus from increasing asset to leading financial innovation.

“Leading in innovation” has been included as one of ICBC Group's organizational

principles. ICBC Group has accelerated the innovation of FinTech, established the Internet Finance Department, and implemented the e-ICBC 3.0 strategic upgrading and established the “Seven Innovative Laboratories”, which embodied the new image of the development of internet finances. In 2017, ICBC Group strengthened product innovation in accordance to the reliance on internet, enriched scenario-based risk control and credit approval models, achieved online and intelligent credit review and approval, researched and developed online mortgages and online petty loan products (ICBC, 2018).

4.2 Internal Factors Evaluation Matrix of ICBC Peru (IFEM)

The internal factor evaluation matrix allows, on one hand, to summarize and evaluate the main strengths and weaknesses in the functional areas of a business, and, on the other hand, offers a basis to identify and evaluate the relationships between those areas (D'Alessio, 2008). Table 15 shows the main internal factors of ICBC Peru, including 11 factors in total, five strengths and six weaknesses.

Table 15

ICBC Peru Internal Factors Evaluation Matrix

Factors Determining Success	Weight	Value	Score
Strengths			
1. Group Customer base	0.10	3	0.30
2. Diversity of product portfolio	0.10	4	0.40
3. ICBC China support	0.15	4	0.60
4. Experienced human resources (expats)	0.05	3	0.15
5. Information system and technology innovation	0.10	4	0.40
6. Brand value	0.05	3	0.15
Subtotal	0.55		2.00
Weaknesses			
1. Small equity	0.10	1	0.10
2. Lack of local market knowledge	0.10	1	0.10
3. Low market share	0.05	1	0.05
4. Only one office in Peru	0.05	2	0.10
5. Lack of local customer base	0.10	1	0.10
6. Less experience in cultural diversity management	0.05	2	0.10
Subtotal	0.45		0.55
Total	1.00		2.55

Note. Values: 4 = Great Strength, 3 = Normal Strength, 2 = Normal weakness, 1= Important weakness.

According to the analysis of ICBC Peru internal factors, support from ICBC China is the most important strength of ICBC Peru. The support is from various sectors, including financial support, know-how support, global network support, technology support, and so on. In addition to that, ICBC Group's worldwide customer base is another relevant strength for the Bank's business in specific sectors. Through integrated marketing strategy, for those companies with whom ICBC Group has established a customer relationship, they may prefer to work with ICBC Peru if they consider business expansion in Peru.

Information system and technology innovation offered by ICBC China is another inner strength of ICBC Peru. China is in the leading position regarding financial technology innovation and ICBC China has decided to strengthen the group's technology capability by developing Fintech. ICBC Peru outsourced information system to ICBC China, which will allow ICBC Peru to deploy any technology innovation made by ICBC China.

At the same time, the bank has its own weaknesses. A small equity restricts the Bank's operation size and the small market share and small local customer base make ICBC Peru's operations even harder to perform. The Bank was targeted to Chinese customers, with whom ICBC Peru maintain excellent relationships. However, the majority of Chinese investments are highly demanded in Capital. On one hand, Chinese clients need a big credit line, which exceed ICBC Peru's limit. On the other hand, Peruvian customers whose credit demands can be satisfied by ICBC will not choose ICBC Peru. In addition to what have been mentioned previously, ICBC Peru also lacks local market experience and cultural diversity management experiences.

4.3 Conclusions

According to the internal evaluation of ICBC Peru, the support given by ICBC China, the Group customer base, the diversity of product portfolio and the technology innovation capacity of the Group are important strengths for ICBC Peru. Among others, technology and

innovation capacity could be sustainable competitive advantages for the Bank's future development and expansion in Peru.

At the same time, the Bank must admit the existence of various weaknesses. The bank's equity cannot match with its target clients' demand, which results into operational difficulties and financial difficulties for the Bank. Besides that, lack of local experience and local customer base are also relevant factors that restrict the Bank's business development.



Chapter V: ICBC Peru's Interests and Long-Term Objectives

The organizational interests and the cardinal principles established in the three-dimensional analysis (Hartmann, 1978), like the vision proposed in Chapter II, allow to establish the long-term objectives for the ICBC Peru. With respect to the objectives for the long term, the Bank indicated that they achieve the expected results after developing certain strategies, are disaggregated and must include indicators that finally carry to the fulfillment of the established vision. For this reason, it is necessary to make a comprehensive analysis of the interests and potentials of the Bank, as well as cardinal principles, in order to determine the degree of intensity of the competitors that may have opposite and common interests.

5.1 Interests of ICBC Peru

As a commercial bank, profitability is the final result and the comprehensive reflection of operation and management, and its improvement mainly comes from the following Table 16 aspects, which represent ICBC Peru's interests.

Table 16

ICBC Peru Organization Interest

NO.	Interests of ICBC Peru	Description
1	Risk control & Compliance	The Bank strictly guards the bottom line risk and the compliance line set by the regulators, shareholders and its internal governance. ICBC Peru can achieve vision and objectives under such pre-condition.
2	Higher Market share of loans and trade finance products portfolios	Based on the stable and continuous growth of Peru's economy, Peru and China's strong trade relationship, ICBC Peru focuses on achieving higher market share of the total banking loans and trade finance products' portfolios by providing competitive, customized and diversified products and services.
3	Introduce Fintechs to the focal country to improve the business	With the quick development of Fintechs in China and strong R&D capability of the ICBC Group, ICBC Peru can introduce high end Fintechs to the focal country in order to achieve the goal that most of its transactions can be processed via online.
4	Diversify its business and asset structure	Currently, ICBC Peru's products and services portfolio only focuses on the commercial business. With further understanding of the focal market, ICBC Peru can enter into the retail banking sector to diversify its business and asset structure so that to expand its business coverage.
5	Be profitable by providing high end integrated products	By providing high end integrated products like finance consulting and structuring to increase the commission revenue proportion to 40% in order to reach a ROE 12% by the year 2030.

In general, the Bank's interests are focusing on risk control, business growth, increasing efficiency, diversify its clients and products' portfolios, reduce costs in order to increase benefits for shareholders and employees, and comply with the commitment to the communities and society in terms of environment, health and safety in order to help to sustainable development.

5.2 Potential of the Organization

Peru is currently one of the fastest growing and emerging economies in Latin America. Despite the economic slowdown due to natural disasters and corruption scandals, it is expected that private investment will continue to grow and become the main driver for development of the country in the coming years.

Considering the need to promote infrastructure development, which is a key driver for growth, the Peruvian Government has established a project plan, not only in infrastructure but also to support key sectors of the economy such as mining, telecommunications, among others. This plan is expected to boost the economy even more and begin to close the infrastructure gap, which amounts to USD 159 billion. For that reason, the financial sector will need to be strengthened to finance those projects.

Peru's development outlook offers a window of opportunity for the ICBC - given its size (first in terms of assets worldwide), its prestige (one of the global systematically important banks (G-SIBs) according to the Financial Stability Board), its worldwide presence (currently in 45 countries and regions), and its vast experience and knowledge- to support the execution of the project plan as well as the growth of the Peruvian and Chinese companies involved in the foreign trade between these countries with China being Peru's main trading partner.

Description of Target Market. During the first years of activity, the strategy applied by ICBC Peru, was to use their know-how and experience to focus on sectors such as mining,

agriculture and fishing, energy among other important sectors within the Peruvian market, as well as supporting the development of the country's infrastructure. Within these sectors, ICBC Peru expects to work with the biggest companies, local companies that trade with China, Chinese companies established in Peru, local companies interested in starting to trade with China and other regional and local companies that can be served by ICBC Peru. Table 8 and table 9 showed the target potential market of ICBC Peru. They are detailed per client, sectors and their respective market share.

As it is shown on Table 8, 72.13% of exports belong to the mining sector. On the other hand, Table 9 shows that most of the imports that Peru receives from China come from the telecommunications and technology industry and there are several players in those sectors and some of them are Chinese companies, such as Huawei, who occupies more than 3% of market share. Some of them have already been clients of ICBC Peru. All of them could be important target clients for ICBC Peru.

Peru – China Commercial Development. In April of 2009, Peru and China signed a free trade agreement in which both countries established the rules and processes for local businesses to access the market from the other economy. The goal for this deal was for Peru to have access to a market with 20% of the world population and for China to have access to a growing emerging economy.

In 2017, Peru exported USD 11,589.41 MM (26.30% of total exports) to China. The main products exported were copper ore and minerals (61.79%), fish & fish derivatives (10.16%) and copper cathodes (8.94%). On the other hand, Peru imported goods valued in USD 8,850.10 MM from China. The main product imported was mobile phones (10.46%). It is shown in Table 17 that over the last eight years, exports to China have grown, on average, 12.4% per year while imports from China have grown, on average, 8.6% per year. In 2017, Peru and China traded a total of USD 20,439.51 MM.

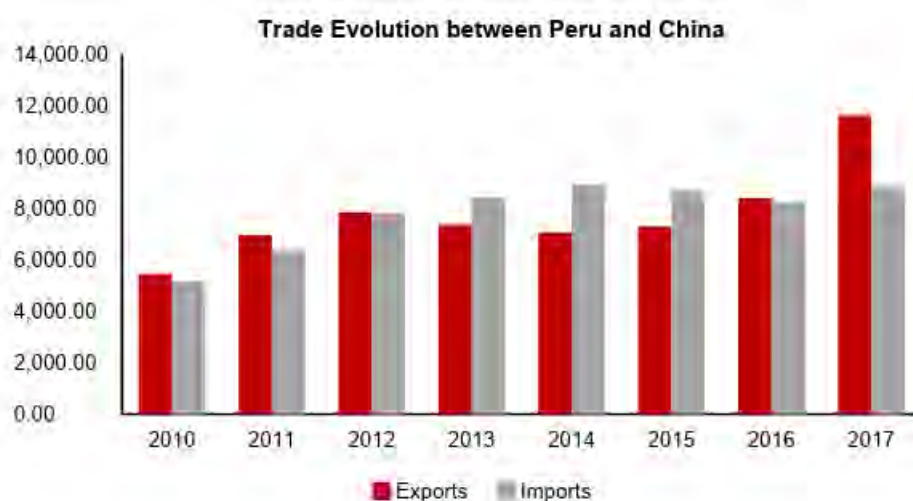


Figure 29. Trade evolution between Peru and China.

Data from: “Consulta por Importador/Exportador,” Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT), (http://www.aduanet.gob.pe/cl-ad-itconsultadwh/ieITS01Alias?accion=consultar&CG_consulta=1), and “Evolución Comercial Perú China 2010 - 2017,” Cámara De Comercio Peruano China (CAPECHI), (<http://www.capecti.org.pe/comerchi08.htm>).

Table 17

Trade Evolution between Peru and China (USD MM)

Description	2010	2011	2012	2013	2014	2015	2016	2017
Exports	5,436	6,957	7,840	7,354	7,052	7,284	8,382	11,589
Imports	5,140	6,365	7,815	8,413	8,915	8,658	8,227	8,850
Trade Balance	295	591	25	-1,059	-1,862	-1,373	155	2,739
Total Trade	10,576	13,322	15,655	15,767	15,968	15,943	16,610	20,439

Note. Data from “Consulta por Importador/Exportador,” Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT), (http://www.aduanet.gob.pe/cl-ad-itconsultadwh/ieITS01Alias?accion=consultar&CG_consulta=1), and “EVOLUCIÓN COMERCIAL PERÚ CHINA 2010 - 2017,” Cámara De Comercio Peruano China (CAPECHI), (<http://www.capecti.org.pe/comerchi08.htm>).

Economic Sectors and Market Segments. As mentioned before, ICBC Peru will focus its operations and products in the market in corporate, large and medium size company loans. Regarding loans, their classification by sectors can be observed in Figure 30, where 51.81% of the total business loans are services, industrial manufacturing and commerce sectors as of March 2018.

Commercial Loans by economic sector, % as of March 2018

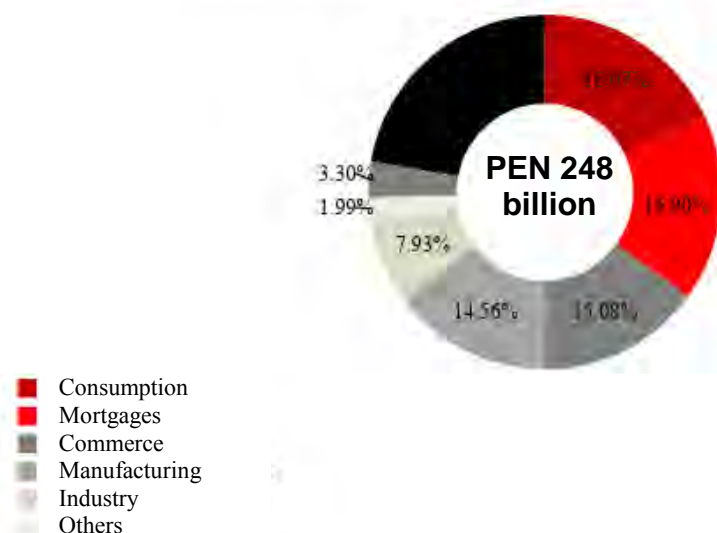


Figure 30. Commercial Loans by sector as of March 2018.

Data from: “Créditos Directos por Sector Económico,” Superintendencia de Banca, Seguros y AFP (SBS), (http://www.sbs.gob.pe/app/stats_net/stats/EstadisticaBoletinEstadistico.aspx?p=1#).

Loans to corporate companies are characterized by being aimed at entities with sales exceeding PEN 200 MM per year. Thus, we have identified potential clients in Peru, by economic sectors that meet this requirement:

Table 18

Companies with sales > PEN 200mm by sector

Sector	N° Companies	Sales > PEN200k	Sales Sector 2016 PEN	Sales Sector 2016 USD
Commerce	148		96,859'499,926	28,699'111,037
Mining	50		65,669'499,975	19,457'629,605
Industrial Manufacturing	69		46,238'999,966	13,700'444,410
Energy, gas, and water	27		24,200'999,987	7,170'666,653
Construction	27		13,924'499,987	4,125'777,764
Agriculture	32		13,920'499,984	4,124'592,577
Fishing	8		4,623'999,996	1,370'074,070

Note. Data from “Peru: The Top 10,000 Companies, 2016,” Peru Top Publications, 2017, Lima; Peru: Peru Top Publications.

5.3 Core Principles of ICBC Peru

It has been almost 40 years since China began its reforms and openness, and large projects were crucial for China's growth. The ICBC played an essential role financing those projects and increased its trade partnerships; this extensive experience in the sector and loan products will be instrumental in closing the infrastructure gap in Peru. This huge knowledge will let ICBC have a differentiation in many aspects.

ICBC is the one of the largest banks in terms of syndication loans in the Asian Pacific region and will use this experience and global support to help local companies to grow, as well as Chinese companies in Peru to support the development of the country, offering value added products that represents a competitive advantage: syndication and project finance loans.

To leverage ICBC Group's advantages of domestic and overseas operations' integration, ICBC Peru will have a range of products for the Peruvian market with optimal financing methods and competitive interest rates, supported by the ICBC's presence in the main financial centers around the world. ICBC will also provide financial service schemes based on a global operational network, diversified business platforms and rich experiences in international finance.

Drawing on the strength of its globally integrated operations, ICBC Peru provides a diversified business platform, focusing on clients' specific requirements and assessing their risks while providing a comprehensive list of diversified products and services that will allow them to accelerate their development processes.

ICBC currently has strong relationships with most Chinese companies operating in Peru. This knowledge will allow ICBC Peru to reduce exposure to risks associated to the products' assignment in order to cover their financing needs. The Risk Management

methodology globally aligned to Basel II of ICBC and the large experience of our local work team are essential aspects that will help to properly manage those risks.

5.4 Interest Matrix of ICBC Peru (OIM)

Organizational interests are goals that the organization tries to achieve to be successful in the banking industry and in the markets where it competes (D'Alessio F. , 2008). In an organization, these interests are aligned with the vision and mission established. OIM is useful to analyse deep and influence of the organizational interest, contrasting the company with its most relevant stakeholders, such as competitors like CITI Bank & Santander Bank, with whom they have similar business, shareholder Group Office, Employees, clients, major local regulators like SBS, MEF, BCRP, CONFIEP, ASBANC, which are represented in table below.

Table 19

ICBC Peru Organizational Interests Matrix

Organizational Interest	Interest intensity		
	Vital	Important	Peripheral
1. Protection of the shareholders' capital	Group Office*, SBS*, MEF*, BCRP*, CONFIEP*, ASBANC*,SUNAT*,SMV*	Clients*	CONFIEP*
2. Increase of the return on investment	Group Office*& Employees*	CITI Bank*& Santander Bank* Clients*	
3. Contribute to social development		Employees* Clients*	
4. Risk control & compliance management	Group Office*, SBS*, MEF*, BCRP*, ASBANC*,SUNAT*,SMV*	Clients* CONFIEP*	

Notes: Common (*), Opposite (**)

SBS: Superintendencia de Banca, Seguros y AFP

BCRP: Banco Central de Reserva del Perú

MEF: Ministerio de Economía y Finanzas

CONFIEP: Confederación Nacional de Instituciones Empresariales Privadas

ASBANC: Asociación de Bancos del Perú

SUNAT: Superintendencia Nacional de Aduanas y de Administración Tributaria

SMV: Superintendencia del Mercado de Valores

5.5 Long-Term Objectives

We have defined the vision of ICBC Peru as: By 2030, ICBC Peru will become a preferred, profitable, secure, and innovative financial institution offering integrated financial solutions to our clients, with the focus on bilateral business between Peru and China.

The objective of the ICBC Peru is to add value to the country by providing its wide experience and resources to cater to existing business opportunities in key economic sectors, aiming to contribute with Peru's economic development. Meanwhile, the bank's incorporation will establish a strong base for local and Chinese clients, as well as the supply of products to them, and finally, strengthen the ICBC brand in Latin America in order to obtain the following:

Long-term objective 1 (LTO 1): By 2030, reach 1.5% of the market share of commercial loans in Peru. ICBC Peru started operations in 2014 with an initial market share of 0.09%, and grew to 0.32% by the end of 2018.

Long-term objective 2 (LTO 2): By 2030, reach 30% of the market share of Trade-related finance products & services between China and Peru. The current trade volume between Peru and China is around US\$23 billion per annum. And since ICBC Peru has only a moderate market share, estimated to be less than 5% of the current trade volume between Peru and China in 2018.

Long-term objective 3 (LTO 3): By 2030, diversify the Bank's income resources. For now, the Bank's income comes only from business of corporate banking and trade finances and more than 95% of the Bank's customers are companies from Lima.

Long-term objective 4 (LTO 4): By 2030, having already applied innovative Fintechs to ICBC Peru's 80% transactions and processes.

Long-term objective 5 (LTO 5): By 2030, establish a profitable and compliance-oriented financial institution with 12% or above ROE. As of December 2018, ICBC Peru's ROE was -3.3%.

5.6 Conclusions

ICBC Peru's organization interests consider the bank's set vision. Currently, ICBC Peru is in a market with stable and continuous growth. As a part of this context, we will use our knowledge and experience to focus on: Infrastructure, Mining, Fishing, Agriculture, Energy and other important sectors within the Peruvian market, considering the big demand of the top companies in the country, in order to understand their context and needs, introducing ICBC Peru's services and products, and offer them these services and products accordingly.

ICBC Peru's long-term objectives are aimed at seeking to become a preferred, profitable, secure, and innovative financial institution offering integrated financial solutions for our clients, with the focus on bilateral business between Peru and China. In this way, ICBC Peru will also be able to consolidate itself as an integrated financial supplier with added value and will achieve its long-term objectives, according to the organization's interests.

Chapter VI: The Strategic Process

6.1 Strength, Weakness, Opportunities and Threats Matrix (SWOT Matrix)

SWOT Matrix is one of the most important matrices to do the institutional analysis and generate possible strategies. To build the SWOT matrix, the opportunities and threats registered in the EFE matrix are copied directly in it, as well as the strengths and weaknesses registered in the EFI matrix; with this, the four inputs for the four mentioned quadrants are created and external strategies are mainly generated, and eventually internal; exploiting, searching, confronting, and avoiding the combination of critical factors of success, respectively (D'Alessio, 2008). The proposed matrix for ICBC Peru is in Table 20, on the next page.

6.2 Strategic Position & Action Evaluation Matrix (SPACE Matrix)

The matrix of the strategic position and action evaluation (SPACE) of Dickel (1984) is used to determine the appropriate strategic position of an organization or its units of deal. The SPACE matrix has two axes that combine factors related to the industry (strength of industry and environmental stability) and two axes that combine factors relative to the organization (financial strength and competitive advantage) and under which they form a framework of four quadrants, each associated with a strategic position: aggressive, conservative, defensive, or competitive (D'Alessio, 2008).

Each one of the internal and external factors in the SPACE matrix has its own specific measures. Financial strength factors are measured by: Return on investment, leverage, liquidity, capital required, cash flow, ease of exit from market and risk involved in business. Competitive advantage factors are measured by: market share, product quality, product life cycle, customer loyalty, technological know-how and vertical integration. Industry Strength factors are measured by: growth capital, profit potential, financial stability, technological know-how, resource utilization, capital intensity, eases of entry into market. Environmental

stability factors are measured by: technological change, rate of inflation, demand variability, barriers to entry into market, competitive pressure, price range of competing products (Khodadad Hosseini, 2009).

Table 20

ICBC Perus' SWOT Matrix

<p style="text-align: center;">ICBC Extended SWOT Matrix</p> <p>Opportunities – O</p> <p>O1. Future GDP growth O2. Good population structure, stable labour & future market O3. Strategic geographic location O4. Good basic factor conditions (natural resources, biodiversity) O5. Good regional politics, tax, and commercial environment O6. Increasing investment in infrastructure, mining and public services O7. A relatively good outlook of home demand in the future O8. China is the first partner in terms of the trading amount</p>	<p>Strengths – S</p> <p>S1. Group Customer base S2. Diversity of group products portfolio, S3. ICBC China Support S4. Experienced human resources (expats) S5. Information system and technology innovation S6. Brand value</p> <p>SO Strategies - EXPLOIT</p> <p>S1 Concentric Differentiation: Personalized service to Chinese & Peruvian companies. (S1, S2, S3, S6, O1, O3, O5, O6, O7, O8) S2 Conglomerate Differentiation: To develop insurance, fund, leasing products and services for local customers. (S2, S4, S5, O1, O2, O6, O7, O8) S3 Market Penetration: To increase market share by 1% (S1, S2, S6, O1, O6, O7, O8) S4 Regional Market Development: To develop market in Bolivia, Ecuador and Colombia (S1, S2, S3, O3, O5)</p>	<p>Weaknesses – W</p> <p>W1. Small equity W2. Lack of local market knowledge W3. Low market share W4. Only one office W5. Lack of local customer base W6. Less experience in cultural diversity management</p> <p>WO Strategies – SEARCH</p> <p>S5 Strategic Alliance: Develop syndication loan with local bank to access large scale projects. (W1, W2, W3, W5, O1, O2, O6, O7) S6 Product Development: Introduce and/or develop Fintechs to promote efficiency and innovation in business model to lead the future market (W3, W4, W5, O1, O2, O7) S7 Domestic Market Development: Develop products and service for top ten provinces in Peru. (W3, W4, W5, O1, O2, O4, O6, O7, O8)</p>
	<p>Threats – T</p> <p>T1. China and US trade war T2. Fierce domestic competition T3. Natural disasters (Earthquakes, tsunami, El Niño) T4. Lack of Government's guiding policies (institution) T5. Weak science, technology and innovation system T6. Infrastructure gap T7. Corruption T8. The inefficiency of the financial system T9. Development disparity between regions and ethnics</p>	<p>ST Strategies - CONFRONT</p> <p>S8 Diversification Strategy: Developing retail banking for Premium customers. (S1, S2, S4, S5, T2) S9 Integration Strategy: M&A with local financial institutions (horizontal integration). (S2, S4, S6, T2, T5, T8, T9)</p>

The analysis results show that ICBC Peru is doing business in a stable and profitable industry. The bank has also some competitive advantage but the financial strength of ICBC Peru still can't support an aggressive expansion. The result shows that ICBC Peru should adopt competitive strategies, which includes: market penetration, product development, and differentiation.

Table 21

ICBC Peru's SPACE Matrix

Internal strategic position			External strategic position		
Determinants of Financial Strength (FS)			Determinants of the Environment Stability (ES)		
1	Investment return	3	1	Technological changes	-2
2	Leverage	3	2	Inflation rate	-2
3	Liquidity	4	3	Demand variability	-2
4	Required capital versus available capital	3	4	Price range of competitive products	-2
5	Cash Flow	3	5	Barriers to market entry	-5
6	Easy exit from the market	2	6	Rivalry / Competitive pressure	-4
7	Risk involved in the business	2	7	Elasticity of demand prices	-5
8	Rotation of inventories	3	8	Pressure of substitute products	-3
9	Economies of scale and experience	3			
Average		2.89			-3.13
Determining factors of the Competitive Advantage (CA)			Determining factors of the Industry Strength (IS)		
1	Market share	-1	1	Growth potential	6
2	Product quality	-4	2	Potential for profits	6
3	Product life cycle	-3	3	Financial stability	5
4	Product replacement cycle	-3	4	Technological knowledge	4
5	Consumer loyalty	-4	5	Use of resources	4
6	Utilization of competitors' capacity	-4	6	Intensity of capital	6
7	Technological knowledge	-5	7	Ease of entry to the market	6
8	Vertical integration	-3	8	Productivity / Capacity utilization	4
9	Speed of introduction of new products	-5	9	Producer's bargaining power	2
Average		-3.56			4.78
X Axis = CA + IS		1.22	Y Axis = FS + ES		-0.24

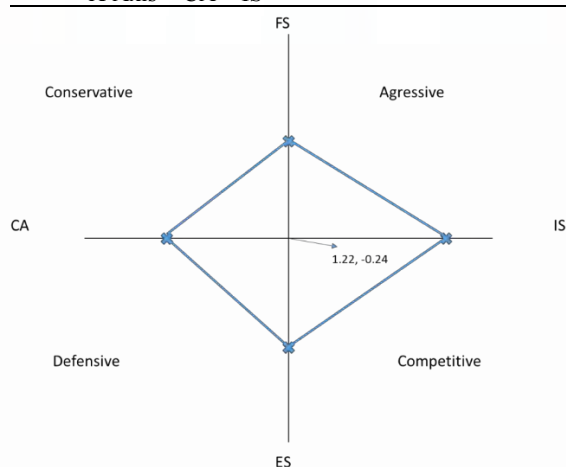


Figure 31. ICBC Perú SPACE Matrix

6.3 Boston Consulting Group Matrix (BCG Matrix)

The matrix developed by the Boston Consulting Group (BCG) is based on the close relationship between market share and cash generation with the rate of sales growth in the industry and the use of cash. It has been designed to help formulate strategies of multidivisional organizations (D'Alessio, 2008).

ICBC Peru is not a multidivisional organization. According to the Bank's financial report of 2018, the same as all other banks, the revenue of ICBC Peru mainly comes from the investment in securities, credit granted to clients or interbank borrowing. Revenues are mainly from direct credit, investment in securities derivative product and interbank borrowing. (SBS, 2018)

According to Profit and Loss Statement published by SBS, until the end of 2018, the market share of revenues from direct credit is 0.05%, while the market share of the Bank's biggest competitor, Banco Santander Peru, in revenues from direct credit is 0.91%. The market share and market growth rate of each product could be found the table 22.

Table 22

ICBC Peru BCG Matrix Calculation

No.	Product	ICBC market share (revenue as %)	Santander market share (revenue as %)	Relative market share in %	Market growth rate in %
1	Direct Credit	0.05	0.91	0.05	3.20
2	Investment in securities	0.63	0.27	2.35	-7.80
3	Derivative Product	0.08	1.91	0.04	-52.30
4	Interbank borrowing	1.55	13.08	0.12	-0.30

Note. Data from "Información Estadística de Banca Múltiple", Superintendencia de Banca, Seguros y AFP (SBS) 2018, (http://www.sbs.gob.pe/app/stats_net/stats/EstadisticaBoletinEstadistico.aspx?p=1#).

According to the BCG Matrix, ICBC Peru should reduce the two dog products, which are derivative product and interbank borrowing, where the bank has low market share and the market is also decreasing. The Bank has one question mark product, which is the direct credit.

According to the methodology of BCG Matrix, the company should analyse the question mark product and decide if they are going to put effort to strengthen it or no. However, the reason why ICBC Peru's direct product is in question mark area is because the Bank was limited by its capital and restricted by high competition in the Market. They couldn't have increased their market share in credit.



Figure 32. ICBC Peru's BCG Matrix

As a bank, direct credit is the fundamental and crucial product, ICBC Peru should quickly adopt applicable strategies to strengthen its credit product and increase market share. They can work by diversifying its products, developing the market by expanding to other areas or attracting clients through financial innovation, etc.

The Bank has a cash cow operation, which is the investment in securities. However, since security investment is not a sustainable business for a bank, it is recommended that the Bank develops another product, which could provide a sustainable growth for the business. Currently, ICBC Peru doesn't have a star product. The Bank can invest more to make cash cow product become stars. However, as mentioned previously, the current cash cow product is not recommendable for the bank. ICBC Peru should keep the same investment level in security before finding a more efficient investment channel and keep developing direct credit, deriving

product, increasing its market share, and, at the same time, adopting measures to diversify the Bank's product portfolio according to the markets' demand.

6.4 Internal External Matrix (IEM)

The IE matrix is also a portfolio matrix, because each one of the divisions or the products of the organization is plotted, placing them in one of the nine cells by means of two dimensions, corresponding to the weighted scores resulting from the development of the EFE and EFI matrices for each division. (D'Alessio F. , 2008) IE matrix was developed by Mckinsey & Company for strategic analysis of GE company in order to help companies to decide if they should invest in a product.

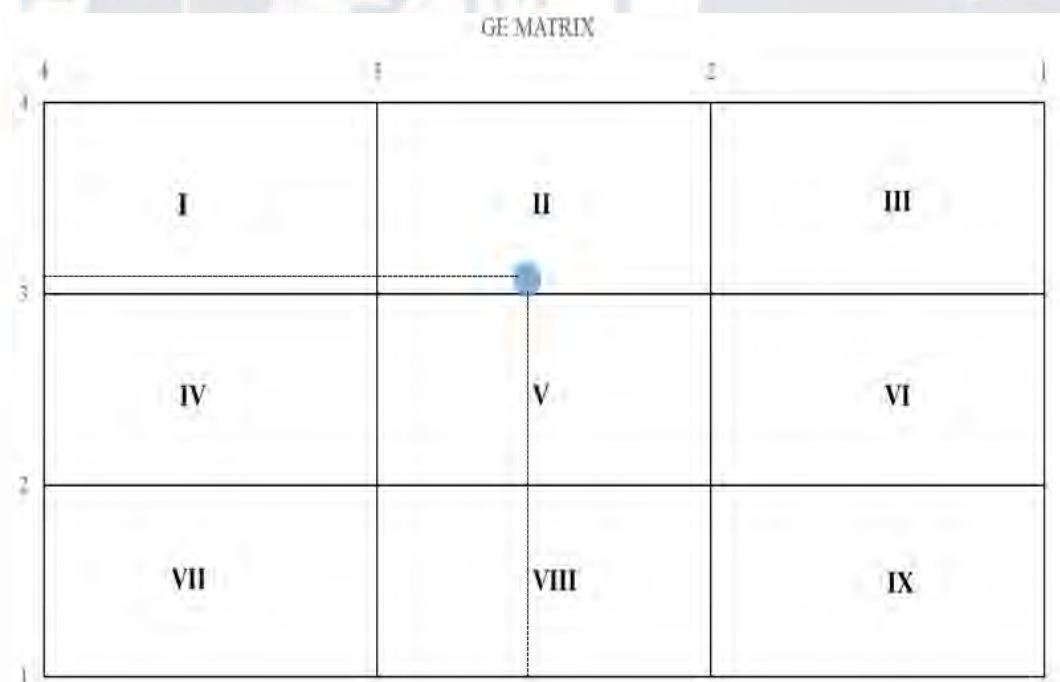


Figure 33. ICBC Perú Internal-External Matrix (IEM) (QUADRANT II)

As shown in Figure 33, ICBC Peru is located in the second cell of the matrix, belonging to the first region (including cells I, II and IV), the organization has to dedicate to selective investment and construction strategy for the improvement and optimization of the

business. ICBC Peru is operating in a relatively stable and favourable business environment, where the Bank should take full advantage of opportunities to achieve better performance. However, the Bank's internal strengths are not competitive enough. The Bank should take an intense strategy or an integration strategy, selectively, and focus on product and market development and market penetration. In some cases, it will also be a good option for the Bank to carry out an integration strategy and acquire other competitors.

Options for ICBC Peru to expand in the Peruvian market according to IE matrix are:

Option 1: diversity in products and services.

Option 2: increase client category, except for corporate accounts and clients, open accounts for personal with large capital or issue pay cards to employees from companies in contract.

Option 3: increase the market penetration of current products from ICBC Peru.

Option 4: reduce external competition by M&A.

6.5 The Grand Strategy Matrix (GSM)

The grand strategy matrix is one of the most used tools for strategy analysis. There are two evaluated dimensions in this matrix: the competitive position of the organization and the market growth rate. The growth rate of the market and the position of competitiveness are divided into four quadrants of X and Y axis, from slow to quick, and from weak to strong. In the case of ICBC Peru, according to the characteristics of the local market and the position of competitiveness analysed of the particular, ICBC Peru's GS position located as follows:

The distance existing between BCP, Continental and ICBC Peru, is attributed to the capital scale and the retail sector as well. ICBC Peru has been dismissing the retail business since its business start-ups in Peru. The reason for ICBC not opening the retail business is that this operation is usually the least profitable sector for banks, and ICBC as a new entrant in the Peruvian market has been very prudent in choosing its operational business, although it

has already been licensed for all kinds of banking operations but it decided to focus first on the Corporate banking sector. Hence, BCP and Continental are much bigger than ICBC Peru in both capital and business scales, and their competitiveness is obviously more advanced than ICBC Peru.

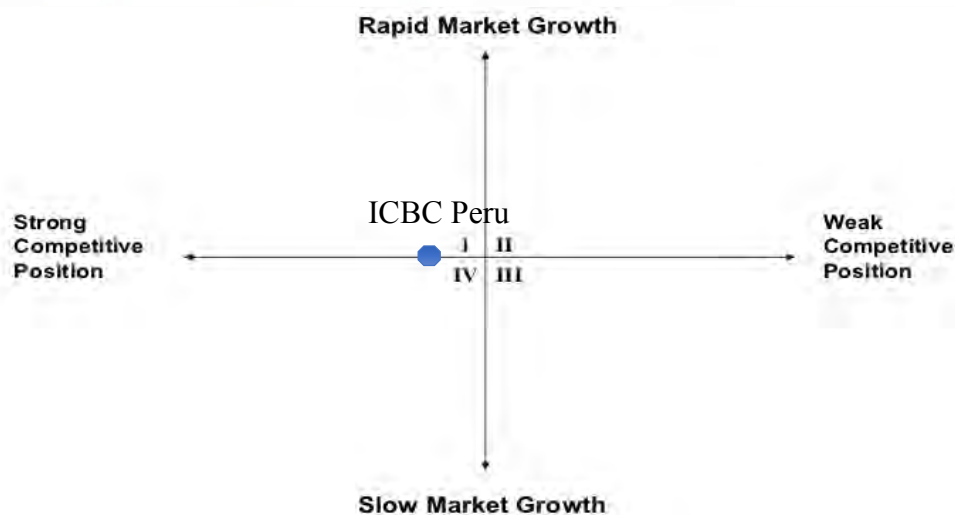


Figure 34. ICBC Peru's Grand Strategy Matrix (GSM)

According to D'Alessio (2008), organizations located in the second quadrant of GS matrix should consider: 1) development of market, 2) penetration in market, 3) development of products, 4) horizontal integration, or in worse case scenario 5) dispossession and 6) liquidation.

In the case of ICBC Peru, regarding to its profitability and the year 2017, it had already reached the profit covering the loss of the previous year and it is suggested that ICBC Peru could take the 2), 3) and 4) as options for development:

Option 1: Number 2), ICBC Peru could issue salary payment cards to employees who belong to companies or people that are ICBC's clients.

Option 2: Number 3), to increase the product category, ICBC Peru could take the real estate into account, as a loan product.

Option 3: Number 4), a horizontal integration for ICBC Peru, is to partner with other banks in Peru, either local or international.

6.6 Strategic Decision Matrix (SDM)

All strategies generated in the SWOT analysis will be examined through the remaining 4 matrices, SPACEM, BCGM, IEM, and GSM, all the information will be reflected in the following Table 23, the Strategic Decision Matrix (SDM).

The strategies that match with the most matrices will be ones to be retained, and the remaining ones will be the contingency strategies. The ones that have less than or equal to two matches will be discarded. The table shows that strategies 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 are retained strategies, which will be implemented in the ICBC Peru's business operations. Meanwhile, strategies 12 and 12 will be contingency strategies.

6.7 Quantitative Matrix of Strategic Planning (QMSP)

In this section, the strategies obtained in the strategic decision matrix (SDM) will be analysed. These strategies are evaluated according to EFEM and EFIM, assigning a value for each factor corresponding to each strategy. In this way, the strategies can be further evaluated to retain the best ones. Please, refer to Table 24 in the following page for the detailed evaluation.

6.8 Rumelt's Matrix (RM)

After qualifying the retained strategies for attractiveness, it is convenient to make a final evaluation in the decision stage with the four criteria proposed by Rumelt: Consistency, where the strategy should not present inconsistencies between its objectives or policies; consonance, since the strategy must adapt to the environment; advantage; the creation or maintenance of competitive advantages should be promoted; and feasibility, should not generate cost overruns or problems (D'Alessio, 2008). Please, refer to Table 25 for the Rumelt's Matrix (RM).

Table 23

ICBC Peru's Strategic Decision Matrix (SDM)

Strategies			SWOT	SPACE	BCG	IEM	GSM	Total
S1	SO1	Concentric Differentiation: Tailor service to Chinese & Peruvian companies. (S1, S2, S3, S6, O1, O3, O5, O6, O7, O8)	x	x	x	x		④
S2	SO2	Conglomerate Differentiation: Develop insurance, fund, leasing products and services for local customers. (S2, S4, S5, O1, O2, O6, O7, O8)	x	x	x	x		④
S3	SO3	Market Penetration: Increase market share by 1%. (S1, S2, S6, O1, O6, O7, O8)	x	x	x	x	x	⑤
S4	SO4	Regional Market Development: Develop market in Bolivia, Ecuador and Colombia. (S1, S2, S3, O3, O5)	x	x		x	x	④
S5	WO1	Strategic Alliance: Form syndication loan with local bank to access large scale projects. (W1, W2, W3, W5, O1, O2, O6, O7)	x	x	x	x	x	⑤
S6	WO2	Product Development: Introduce and/or develop Fintechs to promote efficiency and innovation in business model to lead the future market (W3, W4, W5, O1, O2, O7)	x	x	x	x	x	⑤
S7	WO3	Domestic Market Development: Develop products and service to top ten provinces in Peru. (W3, W4, W5, O1, O2, O4, O6, O7, O8)	x	x		x	x	④
S8	ST1	Diversification Strategy: Develop retail banking to Premium customers. (S1, S2, S4, S5, T2)	x	x	x	x		④
S9	ST2	Integration Strategy: M&A with local financial institutions (horizontal integration). (S2, S4, S6, T2, T5, T8, T9)	x	x	x	x	x	⑤
S10	WT1	Market Development: Diversify customer portfolio to avoid concentration in certain sectors and/or geographic area. (W1, W2, T1, T3, T7, T9)	x		x	x	x	④
S11	WT2	Defensive Strategy: Divest or liquidate all or a part of the bank's uncompetitive operations to avoid further loss. (W1, W2, W3, T1, T2, T3, T7)	x				x	2
S12	WT3	Defensive Strategy: Create joint venture of Fintechs with Banco Santander del Peru (W1, W2, W6, T1, T2, T5, T8)	x				x	2

Note. Strategies that have had a result equal to or greater than three are retained.

6.9 Ethics Matrix (EM)

This matrix evaluates that retained strategies do not violate aspects related to rights and justice, and that they are also good for practical purposes. This matrix is very important

because it allows the company to verify that its strategies are in accordance with social ethics, without violating the rights of others involved.

6.10 Retained and Contingency Strategies

For all strategies that are qualified into the criteria, Table 27 shows the final result: retained strategies and contingency strategies.

6.11 Strategies Matrix Versus Long-Term Objectives

This matrix relates the vision and interests of the organization with the long-term objectives and the proposed strategies. It helps to visualize which strategy aims at which long-term strategy. Please, refer to Table 28 for detailed information.

6.12 Competitors' Possibilities Matrix

This matrix analyses the possibility of competitors reacting against the strategies that ICBC Peru implements. This is important since, in addition to implementing the strategies, one must verify how the environment will respond to the changes (See Table 29).

Table 24

ICBC Peru's Quantitative Matrix of Strategic Planning (QMSP)

Critical factors	Weight	S1		S2		S3		S4		S5		S6		S7		S8		S9		S10	
		Value	Score	Value	Score	Value	Score	Value	Score	Value	Score	Value	Score	Value	Score	Value	Score	Value	Score	Value	Score
Opportunities																					
O1	0.09	4	0.36	4	0.36	4	0.36	4	0.36	4	0.36	4	0.36	4	0.36	4	0.36	3	0.27	4	0.36
O2	0.07	3	0.21	4	0.28	3	0.21	3	0.21	4	0.28	4	0.28	4	0.28	4	0.28	4	0.28	3	0.21
O3	0.05	3	0.15	3	0.15	3	0.15	4	0.20	3	0.15	3	0.15	3	0.15	3	0.15	3	0.15	3	0.15
O4	0.05	3	0.15	4	0.20	3	0.15	3	0.15	3	0.15	3	0.15	4	0.20	4	0.20	4	0.20	4	0.20
O5	0.05	3	0.15	4	0.20	3	0.15	3	0.15	3	0.15	3	0.15	3	0.15	4	0.20	3	0.15	3	0.15
O6	0.08	4	0.32	3	0.24	4	0.32	2	0.16	4	0.32	3	0.24	4	0.32	3	0.24	4	0.32	3	0.24
O7	0.05	3	0.15	3	0.15	4	0.20	3	0.15	4	0.20	4	0.20	3	0.15	3	0.15	3	0.15	3	0.15
O8	0.08	4	0.32	4	0.32	4	0.32	3	0.24	3	0.24	3	0.24	4	0.32	4	0.32	3	0.24	3	0.24
Threats																					
T1	0.05	3	0.15	2	0.10	2	0.10	2	0.10	2	0.10	2	0.10	2	0.10	3	0.15	2	0.10	4	0.20
T2	0.05	3	0.15	3	0.15	3	0.15	3	0.15	2	0.10	2	0.10	2	0.10	4	0.20	3	0.15	2	0.10
T3	0.06	2	0.12	2	0.12	1	0.06	1	0.06	1	0.06	2	0.12	1	0.06	2	0.12	2	0.12	4	0.24
T4	0.06	3	0.18	2	0.12	1	0.06	1	0.06	1	0.06	1	0.06	2	0.12	2	0.12	1	0.06	1	0.06
T5	0.05	3	0.15	2	0.10	2	0.10	2	0.10	1	0.05	1	0.05	3	0.15	3	0.15	2	0.10	2	0.10
T6	0.05	3	0.15	3	0.15	3	0.15	2	0.10	3	0.15	3	0.15	3	0.15	2	0.10	3	0.15	3	0.15
T7	0.06	3	0.18	3	0.18	3	0.18	2	0.12	2	0.12	2	0.12	2	0.12	2	0.12	2	0.12	4	0.24
T8	0.05	3	0.15	2	0.10	3	0.15	2	0.10	2	0.10	3	0.15	3	0.15	3	0.15	2	0.10	2	0.10
T9	0.05	3	0.15	3	0.15	2	0.10	2	0.10	3	0.15	3	0.15	3	0.15	3	0.15	2	0.10	4	0.20
Strengths																					
S1	0.10	4	0.40	3	0.30	4	0.40	4	0.40	4	0.40	4	0.40	3	0.3	3	0.30	3	0.30	3	0.30
S2	0.10	4	0.40	4	0.40	4	0.40	4	0.40	4	0.40	3	0.30	4	0.4	3	0.30	4	0.40	3	0.30
S3	0.15	4	0.60	4	0.60	4	0.60	4	0.60	4	0.60	4	0.60	4	0.6	4	0.60	4	0.60	4	0.60
S4	0.05	3	0.15	4	0.20	4	0.20	4	0.20	4	0.20	3	0.15	4	0.2	3	0.15	3	0.15	3	0.15
S5	0.10	4	0.40	4	0.40	4	0.40	4	0.40	3	0.30	4	0.40	4	0.4	4	0.40	4	0.40	3	0.30
S6	0.05	4	0.20	3	0.15	4	0.20	4	0.20	4	0.20	4	0.20	4	0.2	4	0.20	4	0.20	3	0.15
Weaknesses																					
W1	0.01	2	0.02	3	0.03	2	0.02	4	0.04	4	0.04	4	0.04	3	0.03	3	0.03	3	0.03	4	0.04
W2	0.01	4	0.04	3	0.03	2	0.02	2	0.02	4	0.04	3	0.03	3	0.03	4	0.04	4	0.04	4	0.04
W3	0.05	4	0.20	3	0.15	3	0.15	4	0.20	4	0.20	4	0.20	4	0.2	4	0.20	4	0.20	3	0.15
W4	0.05	3	0.15	2	0.10	2	0.10	4	0.20	3	0.15	4	0.20	4	0.2	3	0.15	4	0.20	2	0.10
W5	0.01	3	0.03	3	0.03	3	0.03	3	0.03	4	0.04	4	0.04	4	0.04	3	0.03	4	0.04	3	0.03
W6	0.05	3	0.15	2	0.10	2	0.10	3	0.15	3	0.15	3	0.15	3	0.15	3	0.15	3	0.15	3	0.15
Score			5.93		5.56		5.53		5.35		5.46		5.48		5.78		5.71		5.47		5.40

*4= Very attractive, 3= Attractive, 2= Somewhat attractive, 1= Not attractive

Table 25

ICBC Peru's Rumelt Matrix

N.	Strategies	Consistency	Consonance	Feasibility	Advantage	It is accepted
S1	SO1. Concentric Differentiation: Tailor service to Chinese & Peruvian companies. (S1, S2, S3, S6, O1, O3, O5, O6, O7, O8)	x	x	x	x	Yes
S2	SO2. Conglomerate Differentiation: Develop insurance, fund, leasing products and services for local customers. (S2, S4, S5, O1, O2, O6, O7, O8)	x	x	x	x	Yes
S3	SO3. Increase market share by 1%. (S1, S2, S6, O1, O6, O7, O8)	x	x	x	x	Yes
S4	SO4. Develop market in Bolivia, Ecuador and Colombia. (S1, S2, S3, O3, O5)	x	x	x	x	Yes
S5	WO1. Strategic Alliance: Form syndication loan with local bank to access large scale projects. (W1, W2, W3, W5, O1, O2, O6, O7)	x	x	x	x	Yes
S6	WO2. Product Development: Introduce and/or develop Fintechs to promote efficiency and innovation in business model to lead the future market (W3, W4, W5, O1, O2, O7)	x	x	x	x	Yes
S7	WO3. Domestic Market Development: Develop products and service to top ten provinces in Peru. (W3, W4, W5, O1, O2, O4, O6, O7, O8)	x	x	x	x	Yes
S8	ST1. Diversification Strategy: Develop retail banking for Premium customers. (S1, S2, S4, S5, T2)	x	x	x	x	Yes
S9	ST2. M&A with a local financial institutions (horizontal integration). (S2, S4, S6, T2, T5, T8, T9)	x	x	x	x	Yes
S10	WT1. Market Development: Diversify customer portfolio to avoid concentration in certain sectors and/or geographic area. (W1, W2, T1, T3, T7, T9)	x	x	x	x	Yes

Table 27

ICBC Peru's Retained and Contingency Strategies

Type	N.	Strategies
Retained strategies	S1	Concentric Differentiation: Tailor service to Chinese & Peruvian companies. (S1, S2, S3, S6, O1, O3, O5, O6, O7, O8)
	S2	Conglomerate Differentiation: Develop insurance, fund, leasing products and services for local customers. (S2, S4, S5, O1, O2, O6, O7, O8)
	S3	Market Penetration: Increase market share by 1%. (S1, S2, S6, O1, O6, O7, O8)
	S4	Develop market in Bolivia, Ecuador and Colombia. (S1, S2, S3, O3, O5)
	S5	Form alliance with local bank to have quick access to more aspects of the market (W2, W6, O3, O4, O6, O7)
	S6	Product Development: Introduce and/or develop Fintechs to promote efficiency and innovation in business model to lead the future market (W3, W4, W5, O1, O2, O7)
	S7	Domestic Market Development: Develop products and service to top ten provinces in Peru. (W3, W4, W5, O1, O2, O4, O6, O7, O8)
	S8	Diversification Strategy: Develop retail banking for Premium customers. (S1, S2, S4, S5, T2)
	S9	ST2. Integration Strategy: M&A with local financial institutions (horizontal integration). (S2, S4, S6, T2, T5, T8, T9)
	S10	Market Development: Diversify customer portfolio to avoid concentration in certain sectors and/or geographic areas. (W1, W2, T1, T3, T7, T9)
Contingency strategies	S11	WT2. Defensive Strategy: Divest or liquidate all or part of the bank uncompetitive operations to avoid extra loss. (W1, W2, W3, T1, T2, T3, T7)
	S12	WT3. Defensive Strategy: Create joint venture of Fintechs with Banco Santander del Per?(W1, W2, W6, T1, T2, T5, T8)

Table 28

ICBC Peru's Strategies Matrix Versus Long-Term Objectives

Vision					
The proposed vision of ICBC Peru is: By 2030, ICBC Peru will become a preferred, profitable, secure, and innovative financial institution offering integrated financial solutions to our clients, with the focus on bilateral business between Peru and China.					
Organizational Interests	LTO 1:	LTO 2:	LTO 3:	LTO 4:	LTO 5:
1 Risk control & Compliance					
2 Higher Market share of loans and trade financial products portfolios					
3 Introduce Fintechs to the focal country to improve the business					
4 Diversify its business and asset structure					
5 Be profitability by providing high end integrated products					
Strategies					
S1 SO1. Concentric Differentiation: Tailor service to Chinese & Peruvian companies. (S1, S2, S3, S6, O1, O3, O5, O6, O7, O8)	x	x	x	x	x
S2 SO2. Conglomerate Differentiation: Develop insurance, fund, leasing products and services for local customers. (S2, S4, S5, O1, O2, O6, O7, O8)	x	x	x	x	x
S3 SO3. Increase market share by 1%. (S1, S2, S6, O1, O6, O7, O8)	x	x	x	x	x
S4 SO4. Develop market in Bolivia, Ecuador and Colombia. (S1, S2, S3, O3, O5)	x			x	x
S5 WO1. Strategic Alliance: Form syndication loan with local bank to access large scale projects. (W1, W2, W3, W5, O1, O2, O6, O7)	x	x			x
S7 WO3. Domestic Market Development: Develop products and service to top ten provinces in Peru. (W3, W4, W5, O1, O2, O4, O6, O7, O8)	x	x	x	x	x
S6 WO2. Product Development: Introduce and/or develop Fintechs to promote efficiency and innovation in business model to lead the future market (W3, W4, W5, O1, O2, O7)	x	x	x	x	x
S8 ST1. Diversification Strategy: Develop retail banking for Premium customers. (S1, S2, S4, S5, T2)	x		x	x	x
S9 ST2. Integration Strategy: M&A with local financial institutions (horizontal integration). (S2, S4, S6, T2, T5, T8, T9)	x	x	x	x	x
S10 WT1. Market Development: Diversify customer portfolio to avoid concentration in certain sector and/or geographic area. (W1, W2, T1, T3, T7, T9)	x	x	x	x	x
	10	8	8	9	10

Table 29

ICBC Perus' Competitor Possibilities Matrix

	Strategies	Santander	CITibank
S1	SO1. Concentric Differentiation: Tailor service to Chinese & Peruvian companies. (S1, S2, S3, S6, O1, O3, O5, O6, O7, O8)	Low	Low
S2	SO2. Conglomerate Differentiation: Develop insurance, fund, leasing products and services for local customers. (S2, S4, S5, O1, O2, O6, O7, O8)	Low	Low
S3	SO3. Increase market share by 1%. (S1, S2, S6, O1, O6, O7, O8)	Medium	Medium
S4	SO4. Develop market in Bolivia, Ecuador and Colombia. (S1, S2, S3, O3, O5)	Low	Low
S5	WO1. Strategic Alliance: Form syndication loan with local bank to access large scale projects. (W1, W2, W3, W5, O1, O2, O6, O7)	High	High
S6	WO2. Product Development: Introduce and/or develop Fintechs to promote efficiency and innovation in business model to lead the future market (W3, W4, W5, O1, O2, O7)	Medium	Medium
S7	WO3. Domestic Market Development: Develop products and service to top ten provinces in Peru. (W3, W4, W5, O1, O2, O4, O6, O7, O8)	Medium	Medium
S8	ST1. Diversification Strategy: Develop retail banking to Premium customers. (S1, S2, S4, S5, T2)	Low	Low
S9	ST2. Integration Strategy: M&A with local financial institutions (horizontal integration). (S2, S4, S6, T2, T5, T8, T9)	Low	Low
S10	WT1. Market Development: Diversify customer portfolio to avoid concentration in certain sector and/or geographic area. (W1, W2, T1, T3, T7, T9)	Medium	Medium

6.13 Conclusions

In this chapter, the proposed strategies are derived from the reflective analysis of SWOT. The SPACE, BCG, Internal External, and Grand Strategy Matrices analysis provide different perspectives, such as positioning, targets, company characteristics, and so on, to further develop the existing strategies. Then, all the strategies are evaluated and verified through various matrices, such as the Strategy Decision Matrix, Quantitative Matrix, Rumelt's Matrix, and Ethics Matrix.

After the analysis, evaluations, and verifications, four main kinds of retained strategies for ICBC Peru are determined: (a) integration strategy which means ICBC Peru can choose M&A with local banks, (b) intensive strategy which include market development and products development, (c) diversification strategies which includes concentric differentiation and conglomerate differentiation and (d) strategic alliance which means to cooperate with local banks in some big projects. These four-category strategies are interdependent to each other: the integration strategy is a quick access to the market; the intensive strategy is to secure the future potentials, while strengthening the relationship with the clients; diversification strategies can help the bank leverage on its strength to achieve its objectives; and finally, the strategic alliance is to cooperate with local banks to further guarantee the first three strategies by increasing market influence and innovative financial business models.

Chapter VII: Strategic Implementation

The purpose of this Chapter is to analyse and define how ICBC Peru will achieve the strategic objectives by means of the strategic implementation. According to D'Alessio (2008), strategic implementation is the process about turning strategic plans into actions and then, into results.

This process includes seven points that the Bank should takes into consideration: (a) to establish short-term objectives, (b) to develop policies, (c) to allocate resources, (d) to develop the necessary organizational structure, (e) social responsibility, environmental and ecological management, (f) to develop human resources functions and (g) to change management.

Meanwhile, as D'Alessio (2008) explained, organization structure is always following up the strategy. Therefore, a successful strategic implementation involves two essential aspects: leadership and organizations structure. Leadership is more about changing the management, while organization's structure is to support the strategy. ICBC Peru started its operations in Lima on February 5, 2014. According to Ma Xiangjun, Chairman of ICBC Peru, the development plan of ICBC Peru is to focus on the business scope of a full-licensed bank. In the initial stage, it will focus on the commercial clients business, actively carrying out trade finances and syndicated loan business, and striving to provide comprehensive financial services to Chinese companies and Peruvian companies in Peru. In order to implement this strategy in the business development process, ICBC Peru has established a consolidated organizational structure.

7.1 Short-Term Objectives

It is known that the strategy is generally long-term and determines the direction of the company's development. However, the implementation of the strategy is gradually advanced. It must be achieved with one goal and one goal until the final goal is achieved. Therefore, there are long-term goals and short-term goals. As mentioned by D'Alessio (2015), the role of managers consists of having equilibrium between the vision, mission, long-term objectives, short-term objectives and the strategy. In that sense, according to the five long-term objectives (LTOs) mentioned in chapter five, we establish the short-term objectives (STOs) accordingly in the followings:

Long-term objective 1 (LTO 1): By 2030, reach 1.5% of the market share of commercial loans in Peru. ICBC Peru started operations in 2014 with an initial market share of 0.09%, and grew to 0.32% by the end of 2018.

Short-term Objective 1.1 (STO 1.1). By 2030, increase the number of corporate clients from 24 in 2018 to 48 by increasing 2 or more per year, starting on 2019.

Short-term Objective 1.2 (STO 1.2). By 2030, increase the number of large firm clients from 2 to 50 by increasing at least 4 or more per year starting on 2019.

Short-term Objective 1.3 (STO 1.3). By 2030, increase the number of medium size companies from 4 in 2018 to 100 by increasing 8 or more per year starting on 2019.

Short-term Objective 1.4 (STO 1.4). In 2020, launch corporate credit card product to commercial banking clients (corporate, large, and medium companies). By 2030, increase

corporate credit card clients to 150 by increasing 15 or more per year. Currently, the Bank has no corporate credit card product.

Short-term Objective 1.5 (STO 1.5). By 2030, have 4 more regional offices. Open one new office in 2021 in Cusco; 2024 in Arequipa; 2027, in Trujillo, and 2030 in Chimbote. Currently, the Bank has only one Head Office in Lima.

Long-term objective 2 (LTO 2): By 2030, reach 30% of the market share of Trade-related finance products & services between China and Peru. The current trade volume between Peru and China is around US\$23 billion per annum. And since ICBC Peru has only a moderate market share, estimated to be less than 5% of the current trade volume between Peru and China in 2018.

Short-term Objective 2.1 (STO 2.1). By 2030, increase trade-related clients in mining sector to 20 by establishing a customer relationship with 2 or more mining companies each year starting on 2019. Currently, the Bank has no fixed trade-related mining client, only ad-hoc businesses.

Short-term Objective 2.2 (STO 2.2). By 2030, increase the number of trade-related clients in telecommunication or IT industry to at least 5 by increasing 1 or more new customers every two years starting on 2019, Currently, the bank has no fixed trade-related telecommunication or IT companies.

Short-term Objective 2.3 (STO 2.3). By 2030, increase the number of trade-related clients in the agriculture industry to 20 by increasing 2 or more companies, who have

significant market share in the export of fruits and vegetables between China and Peru each year starting on 2019. Currently, the bank has no fixed agriculture trading company clients.

Short-term Objective 2.4 (STO 2.4). By 2030, increase the Bank's number of clients in fishery sector to 20 by increasing 2 or more clients, who have significant market share in the export of fishmeal and seafood between China and Peru each year starting on 2019.

Currently, ICBC has no fixed trade-related fishery clients.

Short-term Objective 2.5 (STO 2.5). By 2030, increase to at least 10 types of trade financial products and services, by launching factoring, Chinese RMB settlement, supply chain management, and bill advance every three years, starting on 2019. Currently, the bank has only 6 trade financial products and services.

Long-term objective 3 (LTO 3): By 2030, diversify the Bank's income resources. For now, the Bank's income comes only from business of corporate banking and trade finances and more than 95% of the Bank's customers are companies from Lima.

Short-term Objective 3.1 (STO 3.1). By 2030, provide at least 20 corporate clients with salary payment services by increasing at least 2 clients per year starting on 2019.

Currently, ICBC Peru has no salary payment services.

Short-term Objective 3.2 (STO 3.2). By 2020, launch the consumer credit card product for premium retail banking clients. By 2030, increase the number of consumer credit card clients to 5,000 by increasing 500 or more per year starting on 2020. Currently, the Bank has no consumer credit card product.

Short-term Objective 3.3 (STO 3.3). By 2020, launch mortgage loans products and services for the bank's retail banking clients. Increase mortgage loans to \$50 million US dollar by increasing \$5 million US dollar per year starting on 2020. Currently, the Bank has no mortgage loan services.

Short-term Objective 3.4 (STO 3.4). By 2020, launch vehicle loans products and services to the bank's retail banking clients. Increase vehicle loans to \$20 million US dollar by increasing \$2 million US dollar per year starting on 2020. Currently, the Bank has no vehicle loans services.

Short-term Objective 3.5 (STO 3.5). By 2020, launch wealth management service for premium retail banking clients. By 2030, increase the number of clients to 500 by increasing 50 per year. Currently, ICBC Peru has no wealth management service.

Long-term objective 4 (LTO 4): By 2030, having already applied innovative Fintechs to ICBC Peru's 80% transactions and processes.

Short-term Objective 4.1 (STO 4.1). In 2020, implement the Bank's mobile banking services in the Peruvian Market. By 2030, increase mobile banking clients' rate (both corporate and retail banking) to 80% by increasing 8% per year starting on 2020. Currently, ICBC Peru has no mobile banking services.

Short-term Objective 4.2 (STO 4.2). In 2020, launch the digital platform for 24/7 immediate inter-bank transactions. By 2030, having already covered all Top 10 banks in Peru by connecting at least one major bank per year starting on 2020. Currently, the bank has no such cooperation with other banks.

Short-term Objective 4.3 (STO 4.3). In 2020, introduce an A.I. and big-data credit assessment and approval platform. By 2030, to perform 80% of clients' (both corporate and retail banking) credit assessment and approval process through this platform by increasing at least 8% clients per year starting on 2020. Currently, ICBC Peru has no intelligent credit assessment and approval platform.

Short-term Objective 4.4 (STO 4.4). In 2020, launch the Intelligent Teller services for all types of clients (both retail and corporate clients). By 2030, increase the proportion of Intelligent Teller operations to 80%, by transferring 8% of operations of the bank per year. By 2018, the Bank has not yet introduced Intelligent Teller services.

Short-term Objective 4.5 (STO 4.5). In 2020, introduce remote banking services. By 2030, having implemented remote banking services in all top 10 Peruvian cities by establishing at least 1 remote banking terminal in 1 city per year. Currently, ICBC Peru has no remote banking in service yet.

Long-term objective 5 (LTO 5): By 2030, establish a profitable and compliance-oriented financial institution with 12% or above ROE. By December 2018, ICBC Peru's ROE was -3.3%.

Short-term Objective 5.1 (STO 5.1). By 2030, increase the Bank's Gross financial Margin by 300%. The Bank's current financial margin of 2018 is 15.25 million soles. The Bank should increase its financial income by 30% every year.

Short-term Objective 5.2 (STO 5.2). By 2030, maintain the non-performing loan ratio in level zero. The Bank does not have a non-performing loan until 2018.

Short-term Objective 5.3 (STO 5.3). By 2030, increase the Bank's income from financial services by 300%, by leveraging on the bank's professionals in Syndication Loan and project finances, the Bank should maintain an annual commission revenue increase rate of 30% or more starting on 2019. The Bank's current income from financial services is of 6.60 million soles.

Short-term Objective 5.4 (STO 5.4). By 2030, reduce the annual growth rate of administrative expenses to less than 3%. In 2018, the Bank increased its administrative expenses in 7%. The Bank should gradually reduce the Bank's administrative expenses growth rate by 0.4% per year until 2030.

Short-term Objective 5.5 (STO 5.5). By 2030, reduce the percentage of term-deposit in the Bank's deposit structure to 50%, from 79% in 2018, by decreasing 2.9% annually.

7.2 Resources Assigned to the Short-Term Objectives

It is known that the core function of the strategy is to point out the development direction for the enterprise. On the other hand, it is also important to clarify the resource allocation principle and resource allocation scheme based on the strategy implementation, from the resource allocation between the services to the resource allocation in the business value chain. Be clear. The relevant resources directly related to ICBC Peru's implementation of strategic objectives mainly include two aspects, financial resources and human resources.

ICBC Peru's financial resources are the capital it owns, the future predictable profits, the deposits available, and so on. Financial resources are mainly used to achieve short-term goals, such as: information technology investment, hardware construction, and so on;

financial resources are the most critical resources to support the development of enterprises.

Human resources are mainly invested in key positions to achieve various short-term goals.

The amount of human resources and the level of matching up human resources and business will greatly affect the strategic implementation of ICBC Peru (Table 30, 31).

7.3 Policies of each Strategy

Policies play an important role in the strategy implementation since they are the established controls of assessments, process procedure and decision-making. They can not only be associated to strategy implementation but also can be for strategy supporting purposes. As D'Alessio (2008) concluded, these policies should be aligned with the values of the company, which are the top policies of ICBC Peru. Table 32 shows ICBC Peru's policies.

7.4 Structure of ICBC Peru

According to D'Alessio (2008), organization structure always follows up the strategy; five steps can be followed to adapt the organizational structures to the strategies. This process consists of: (1) defining key activities to execute the strategy, (2) understanding the relationship between key, support and the operational activities, (3) putting into groups the

Table 30

ICBC PERU Short-Term Objectives' Resource Allocation

N° LTO	N° STO	Short-term objective	Resources			
			Financial	Physical	Human	Technological
LTO 1		By 2030, reach 1.5% of the market share of commercial loans in Peru.				
	STO 1.1	By 2030, increase the number of corporate clients from 24 in 2018 to 48 by increasing 2 or more per year starting on 2019;	Investment & operational budget	Office-tools & furniture	Marketing Professionals	Operating Systems
	STO 1.2	By 2030, increase the number of large firm clients from 2 to 50 by increasing at least 4 or more per year starting on 2019;	Investment & operational budget	Office-tools & furniture	Marketing Professionals	Operating Systems
	STO 1.3	By 2030, increase the number of medium size companies from 4 in 2018 to 100 by increasing 8 or more per year starting on 2019;	Investment & operational budget	Office-tools & furniture	Marketing Professionals	Operating Systems
	STO 1.4	In 2020, launch corporate credit card product to commercial banking clients (corporate, large, and medium companies). By 2030, increase corporate credit card clients to 150 by increasing 15 or more per year. Currently, the Bank has no corporate credit card product.	Investment & operational budget	Cards & furniture	Product managers	Operating Systems
	STO 1.5	By 2030, having already opened 4 more regional offices. Open by 2021, one new office in Cusco; by 2024, one in Arequipa; 2027, in Trujillo, and in Chimbote by 2030. Currently, the Bank only has one Head Office in Lima.	Investment & operational budget	Infrastructure & equipment	Managers & Professionals	Software & Operating Systems
LTO 2		By 2030, reach 30% of the market share of Trade-related financial products & services between China and Peru.				
	STO 2.1	By 2030, increase trade-related clients in mining sector to 20 by establishing a customer relationship with 2 or more mining companies each year starting on 2019.	operational budget	Vehicles & Printers	Marketing Professionals	Operating Systems
	STO 2.2	By 2030, increase the number of trade-related clients in telecommunication or IT industry to at least 5 by increasing 1 or more new customers every two years starting on 2019.	operational budget	Vehicles & Printers	Marketing Professionals	Operating Systems
	STO 2.3	By 2030, increase the number of trade-related clients in the agriculture industry to 20 by increasing 2 or more companies who have significant market share in the export of fruits and vegetables between China and Peru each year starting on 2019.	operational budget	Vehicles & Printers	Marketing Professionals	Operating Systems
	STO 2.4	By 2030, increase the Bank's number of clients in fishery sector to 20 by increasing 2 or more clients, who have significant market share in the export of fishmeal and seafood between China and Peru each year starting on 2019.	operational budget	Vehicles & Printers	Marketing Professionals	Operating Systems
	STO 2.5	By 2030, increase to at least 10 types of trade finance products and services, by launching factoring, Chinese RMB settlement, supply chain management, and bill advance every three years starting on 2019.	Investment & operational budget	Infrastructure & equipment	Managers & Specialists	Software & Operating Systems
LTO 3		By 2030, diversify the Bank's income resources. For now, the Bank's income only comes from business of corporate banking and Trade finance and more than 95% of the Bank's customers are companies from Lima.				
	STO 3.1	By 2030, provide at least 20 corporate clients with salary payment services by increasing at least 2 clients per year starting from 2019. Currently, ICBC Peru has no salary payment services.	Investment & operational budget	Infrastructure & equipment	Marketing Professionals	Software & Operating Systems
	STO 3.2	By 2020, launch consumer credit card product to premium retail banking clients. By 2030, increase the number of consumer credit card clients to 5,000 by increasing 500 or more per year starting on 2020. Currently, the Bank has no consumer credit card product.	Investment & operational budget	Cards & furniture	Marketing Professionals	Software & Operating Systems
	STO 3.3	By 2020, launch mortgage loans products and services to the bank's retail banking clients. Increase mortgage loans to \$50 million US dollar by increasing \$5 million US dollar per year starting on 2020. Currently, the Bank has no mortgage loan services.	Investment & operational budget	Infrastructure & equipment	Marketing Professionals	Software & Operating Systems
	STO 3.4	By 2020, launch vehicle loans products and services to the bank's retail banking clients. Increase vehicle loans to \$20 million US dollar by increasing \$2 million US dollar per year starting on 2020. Currently, the Bank has no vehicle loans services.	Investment & operational budget	Infrastructure & equipment	Marketing Professionals	Software & Operating Systems
	STO 3.5	By 2020, launch, diversify and increase the Bank's retail banking products and services by providing wealth management service for premium retail banking clients. By 2030, increase the number of clients to 500 by increasing 50 per year. Currently, ICBC Peru has no wealth management service.	Investment & operational budget	Vehicles & Printers	Managers & Specialists	System & equipment

Table 31

ICBC PERU Short-Term Objectives' Resource Allocation (Continuation)

N°LTO	N° STO	Short-term objective	Resources			
			Financial	Physical	Human	Technological
LTO 4		By 2030, having applied innovative Fintechs to ICBC Peru's 80% transactions and processes.				
	STO 4.1	In 2020, implement the Bank's mobile banking services in Peruvian Market. By 2030, increase mobile banking clients' rate (both corporate and retail banking) to 80% by increasing 8% per year starting on 2020. Currently, ICBC Peru has no mobile banking services.	Investment & operational budget	Equipment	IT Professionals	System & equipment
	STO 4.2	In 2020, launch the digital platform for 24/7 immediate inter-bank transactions. By 2030, having covered all Top 10 banks in Peru by connecting at least one major bank per year starting on 2020. Currently, the bank has no such cooperation with other banks.	Investment and operational budget	Equipment	Managers & Specialists	System & equipment
	STO 4.3	In 2020, introduce an A.I. and Big-data credit assessment and approval platform. By 2030, have 80% of clients (both corporate and retail banking) credit assessment and approval process realized through this platform by increasing at least 8% clients per year starting on 2020. Currently, ICBC Peru has no intelligent credit assessment and approval platform.	Investment & operational budget	Equipment	Knowledge & Professional	System & equipment
	STO 4.4	In 2020, launch the Intelligent Teller services for all types of clients (both retail and corporate client). By 2030, increase the proportion of teller operations to 80%, by transferring 8% of operations of the bank to the Intelligent Teller per year. In 2018, the Bank has not yet introduced Intelligent Teller services.	Investment & operational budget	Teller Equipment	Knowledge & Professional	System & equipment
	STO 4.5	In 2020, introduce remote banking services. By 2030, having implemented remote banking services in all top 10 Peruvian cities by establishing at least 1 remote banking terminal in 1 city per year. Currently, ICBC Peru has no remote banking in service yet.	Investment & operational budget	Equipment	Managers & Specialists	System & equipment
LTO 5		By 2030, establish a profitable and compliance-oriented financial institution with 12% or above ROE.				
	STO 5.1	By 2030, increase the Bank's Gross financial Margin by 300%. The Bank's current financial margin of 2018 is 15.25 million soles. The Bank should increase its financial income by 30% every year.	Investment & operational budget	Equipment	Managers & Specialists	System & Software
	STO 5.2	By 2030, maintain non-performing loan ratio in level zero. The Bank does not have a non-performing loan until 2018.	Investment & operational budget	Equipment	Knowledge & Professional	System & Software
	STO 5.3	By 2030, increase the Bank's income from financial services by 300%, by leveraging on the bank's professionals in Syndication Loan and project finance, the Bank should maintain an annual commission revenue increase rate of 30% or more starting 2019. The Bank's current income from financial services is of 6.60 million soles.	Investment & operational budget	Equipment	Marketing Professionals	System & Software
	STO 5.4	By 2030, reduce the annual growth rate of administrative expenses to less than 3%. In 2018, the Bank increases its administrative expenses in 7%. The Bank should gradually reduce the Bank's administrative expenses growth rate by 0.4% per year until 2030.	Investment & operational budget	Equipment	Managers & Specialists	System & Software
	STO 5.5	By 2030, reduce the percentage of term-deposit in the Bank's deposit structure to 50% from 79% in 2018, by decreasing 2.9% annually.	Investment & operational budget	Equipment	Marketing Professionals	System & Software

Table 32

ICBC Peru's Policies

N°	Policies
P1	Reinforce risk identification and risk management
P2	Implement green channel mechanism for significant credit approval and assessment
P3	Pursue compliance-oriented culture in ICBC Peru's operations
P4	Encourage innovation and professionalism at work
P5	Implement incentive mechanism for All Employee Marketing
P6	Strengthen cooperation with the major financial institutions in the market
P7	Implement dynamic HR management and performance assessment mechanism
P8	Lead product and service innovation in the Market
P9	Explore business opportunities actively and aggressively
P10	Seek for transparency and flexible pricing with the public
P11	Comply with the anti-money laundering and financing terrorism for all businesses
P12	Apply new fintech in the target market
P13	Maintain a balanced bank's assets and liabilities to achieve a comprehensive development
P14	Implement the green credit concept to support sustainable development in Peru

activities in organizational units, (4) determine the degree of authority that each unit will have and, (5) coordination of unit organization.

Establishing a suitable organizational structure is the basic premise for the effective operation of commercial banking operations. Different business strategies can be matched by different organizational structures. As we discussed above, we know that ICBC Peru is focused on the commercial clients at the beginning.

Regarding the first step, the business activity from ICBC Peru is the business development. It is a business process operation system consisting of marketing, front-end processing and background processing.

The corporate banking unit's responsibility is to expand the market, sell banks, service and maintain old customers, attract new customers, and directly create profits for banks. Regarding the second step, there is a strong relationship between the marketing activities (key) and the risk assessment and control activities. This step includes public relations, financial management, risk management, auditing, law, anti-money laundering compliance and other units.

Regarding the third step, it includes activities such as information technology, human resources, and integrated management. Regarding the fourth step, we define that ICBC Peru needs to set up some special committees according to the superintendent's requirements. Finally, the fifth step, beyond these above activities, ICBC Peru actually has a decision-making system, namely the bank's board of directors and the executives for daily management.

As discussed above, we have defined the strategy to develop retail banking, introduce new fintechs. In order to support the new strategies' implementation, ICBC Peru's organization structure has been adjusted accordingly. Therefore, the new structure is as displayed in the Figure 35.

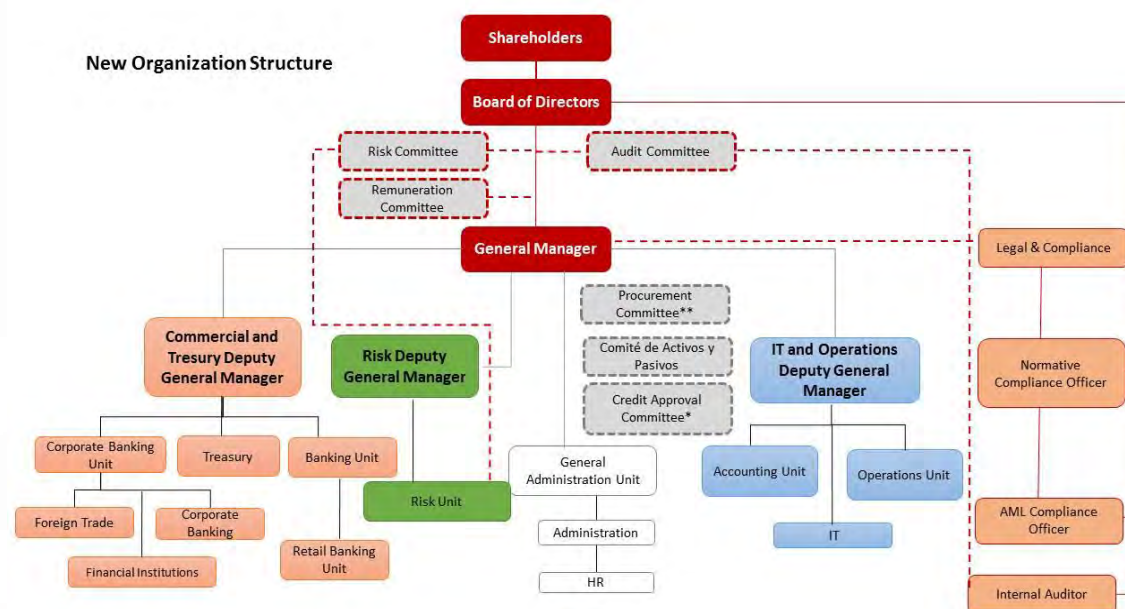


Figure 35. ICBC Peru's New Organizational Structure

7.5 Environment, Ecology, and Social Responsibility

Banking activities do not have direct impact on the environment, ecology, and social responsibility; however, banking activities will generate significant indirect impact.

Therefore, the strategy implementation of ICBC Peru could affect the environment, ecology and have an impact in the social responsibility. It is known that mining, energy, fishing, agriculture and infrastructure are the key economic sectors in Peru. ICBC Peru's target clients will mainly be in these sectors. Thus, ICBC Peru should establish a mechanism to ensure the clients to use the facility properly, regarding the Environmental, Ecological, and Social Responsibility. For example, in the mining industry, the local communities are against it because mining activities will impact the other economic activities, like agriculture and they will pollute the water. These issues are more related to the sustainability development of the business, which will in turn, affect the on-time payment of the facilities.

ICBC Peru should implement policies and operational procedures in accordance with international treaties, practices and industrial standards, and optimize resource allocation

under the premise of compliance with Peru's regulatory laws and conditions, in accordance with Peru's national industrial policies and environmental protection policies, and support the sustainable development of the society, economy and environment.

Regarding social responsibility, ICBC Peru should be guided by the business philosophy of meeting social ethics and public welfare requirements, actively protect the social public interests of consumers, employees and the community; promote charitable responsibility, actively participate in social welfare activities, and build a harmonious society and promote social development.

At the same time, ICBC Peru should establish correct values and business philosophy, build a corporate culture with a sense of social responsibility, advocate for corporate ethical management, create a harmonious society, and promote sustainable social development.

7.6 Human Resources and Motivation

Human resources are an important part of the implementation of corporate strategy. Based on ICBC Peru's business areas, strategic objectives and regulatory requirements, its human resource allocation needs to focus on corporate banking, risk management, compliance and operations. At the same time, because the banking business is very professional, the bank needs to recruit employees with professional knowledge because they must know how to process the business. In addition, ICBC Peru, as a foreign bank, faces differences in market, anti-money laundering compliance requirements, regulatory environment and language culture. ICBC Peru needs to recruit professionals who are familiar with the local market and regulations.

Meanwhile, regarding the management of human resources, leadership and management are very important. At the same time, in the implementation of the strategy, it is necessary to establish a corresponding evaluation and incentive mechanism, and implement effective reforms in regards of personnel, post-planning and design, recruitment and

screening, training and development, performance evaluation, and incentives. Also, an objective oriented organizational culture should be developed in order to facilitate the achievement of the objectives.

7.7 Change Management

The implementation of the strategy is a process of managing change. In the case of ICBC Peru, it faces a dynamic environment. In order to achieve the long-term and short-term objectives, it needs to adjust its management accordingly. In the external environment of today's world, enterprises can only achieve long-term development vitality only when they are ready to adapt to change. High-tech, high-speed, global competition has created an external environment for the dynamic changes of modern enterprises. For example, one of the bank's objectives is to control the non-performance loan ratio to 1%. In this case, a change of this figure could bring a series of changes about the different working units. Additionally, most of the people don't like changes because changes carry different requirements and tasks. Therefore, a sound change in the management should be carried out properly, in order to improve the strategy implementation.

7.8 Conclusions

In general, strategy implementation is the process of putting a company's strategy into practice. The process involves defining short-term objectives, allocating resources, establishing policies, adjusting the organizational structure, managing human resources and managing change. The ICBC Peru's strategy implementation is a top-down dynamic management process, mainly because the strategic objectives are communicated to the middle and lower levels after the company's top management has reached an agreement, and can be decomposed and implemented in all work.

Chapter VIII: Strategic Evaluation

Based on the strategy of ICBC Peru described in the previous chapters, and those objectives established in the last session, it's time for ICBC Peru to implement the new strategy. However, nowadays, the internal and external environments of the organizations are dynamic, for that reason the best conceived and implemented strategies become quickly obsolete. In this sense, the internal and external strategic review becomes critical (D'Alessio F. , 2008).

8.1 Control Perspectives

In order to realize an overall control of the implementation of the whole strategy, ICBC Peru will need to go into every aspect of its operation and management and evaluate if the strategy is going well and correctly. In order to set up the reliable base of the strategy implementation, the strategy evaluation process should include the following steps: (1) Start a question regarding management about expectations and assumptions, (2) Perform a review of objectives and values, and (3) Stimulate creation and innovation in the definition of alternatives and evaluation criteria (D'Alessio F. , 2008).

8.1.1 Financial

ICBC needs to improve its financial performance. ICBC Peru had a negative profit until 2017. It's urgent for ICBC Peru to go from question mark to cash cow for the ICBC Group. Scaling up the total asset and improving the revenue contribution from SME clients will be ICBC Peru's business goal. At the same time, considering the regulatory limit based on the capital amount, ICBC Peru will increase their registered capital by receiving investment from ICBC Group and then, to improve its business capacity and improve financial performance.

8.1.2 Clients

Client's level of satisfaction should be improved. ICBC Peru will set goals for each

customer's segmentation. Both corporate clients and institution clients' level of satisfaction should be at least 99%. Retail banking services will be given a lower goal, considering that individual customers are more likely to complain for different reasons and ICBC Peru has no experience on retail banking business in Peru. The internet banking service should also be promoted. ICBC Peru will set a level of satisfaction for Internet banking clients to more than 95%.

8.1.3 Processes

Process control is the key point to improve ICBC Peru's operation efficiency. For now, credit approval in ICBC Peru will take months. Customers are tired of waiting for so long to have a credit line, especially when ICBC Peru turn to SME business, those companies normally have a smaller margin and need money more urgently than big companies. Reducing credit approval time is essential for ICBC Peru to attract more clients.

A new process design should be conducted and approved by the board of directors and shareholders. The risk management department should take the responsibility of improving their working efficiency. At the same time, in order to increase the market shares of the bank, ICBC Peru should make sure that Internet banking and mobile banking development is on progress. Keep tracking the development of IT system and relate the progress to employee assessment. AML report mechanism will assign more responsibility to the AML compliance officer. All the suspicious transactions will be reported to executive managers and AML Compliance officer will take the responsibility to eliminate AML risk faced by ICBC Peru. This kind of risk may increase after ICBC Peru launches the retail banking services. The number of transactions will increase a lot, so the internal control mechanism will be redesigned accordingly.

8.1.4 Internal learning

As a bank, ICBC Peru needs to deal with lots of different risks, such as credit risk,

operational risk, market risk, and so on. In order to reduce risk exposure, ICBC Peru needs to hire experienced staff and train them frequently, in order for them to improve their professional skills. An efficient hiring process will be essential for ICBC Peru to find the right person for important positions. HR department should set up clear criteria of recruitment and ensure enough human resources for the development of the bank. Code of conduct training should be given by the compliance officer to all employees. ICBC Peru will give a great importance of the risk management performance to the assessment of employee performance.

The expansion to the retail banking business will require ICBC Peru to train their employees and make them understand how to conduct those products in a proper and correct way, how to manage possible risks from retail banking business and also, how to maintain customer relationship with personal clients.

It is extremely important for ICBC Peru to have an internal learning before initiating new business. Since retail banking business will have more daily transactions than only corporate banking service, operational risk will then be a major risk that ICBC Peru will face, other than credit risk and market risk. Basel Committee on Banking Supervision defines operational risk by the following sentence: “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events”. To avoid any inadequate or failed internal processes and people, ICBC Peru should prepare itself better and continue training employees in the future.

8.2 Balanced Scorecard

In the following page is Table 33, the Balanced Scorecard of ICBC Peru, it facilitates the strategy evaluation through the indicators to measure the short-term objectives. During the governance process of these indicators, ICBC Peru can achieve its long-term objectives by carrying out all short-term objectives.

Table 33

ICBC Peru's Balanced Scorecard

LTO	Short-Term Objectives	Indicators	Units	Responsible	
Financial Perspectives					
LTO 5	STO 5.1	By 2030, increase the Bank's Gross financial Margin by 300%. The Bank's current financial margin of 2018 is 15.25 million soles. The Bank should increase its financial income by 30% every year.	300 & 30	%	Corporate & Retail Banking, and Finances & Treasury
LTO 5	STO 5.2	By 2030, maintain non-performing loan ratio in level zero. The Bank did not have non-performing loan until 2018.	0	#	Corporate & Retail Banking, Risk, and Finances & Treasury
LTO 5	STO 5.3	By 2030, increase the Bank's income from financial services by 300%, by leveraging on the bank's professionals in Syndication Loan and project finance, the Bank should maintain an annual commission revenue increase rate of 30% or more starting 2019. The Bank's current income from financial services is of 6.60 million soles.	300 & 30	%	Corporate & Retail Banking, and Finances & Treasury
LTO 5	STO 5.5	By 2030, reduce the percentage of term-deposit in the Bank's deposit structure to 50% from 79% in 2018, by decreasing 2.9% annually.	50 & 2.9	%	Corporate & Retail Banking, and Finances & Treasury
Client Perspectives					
LTO 1	STO 1.1	By 2030, increase the number of corporate clients from 24 in 2018 to 48 by increasing 2 or more per year starting on 2019.	48 & 2	#	Corporate banking & Risk
LTO 1	STO 1.2	By 2030, increase the number of large firm clients from 2 to 50 by increasing at least 4 or more per year starting on 2019.	50 & >=4	#	Corporate banking & Risk
LTO 1	STO 1.3	By 2030, increase the number of medium size companies from 4 in 2018 to 100 by increasing 8 or more per year starting on 2019.	100 & >=8	#	Corporate banking & Risk
LTO 1	STO 1.4	In 2020, launch corporate credit card product for commercial banking clients (corporate, large, and medium companies). By 2030, increase corporate credit card clients to 150 by increasing 15 or more per year. Currently, the Bank has no corporate credit card product.	150 & >=5	#	Corporate banking & Risk
LTO 2	STO 2.1	By 2030, increase trade-related clients in mining sector to 20 by establishing a customer relationship with 2 or more mining companies each year starting on 2019. Currently, the Bank has no fixed trade-related mining client, only ad-hoc businesses.	20 & >=2	#	Corporate banking & Risk
LTO 2	STO 2.2	By 2030, increase the number of trade-related clients in telecommunication or IT industry to at least 5 by increasing 1 or more new customers every two years starting on 2019. Currently, the bank has no fixed trade-related telecommunication or IT companies.	>=5 & >=1	#	Corporate banking & Risk
LTO 2	SOT 2.3	By 2030, increase the number of trade-related clients in the agriculture industry to 20 by increasing 2 or more companies who have significant market share in the export of fruits and vegetables between China and Peru each year starting on 2019. Currently, the bank has no fixed agriculture trading company clients.	20 & >=2	#	Corporate banking & Risk
LTO 2	SOT 2.4	By 2030, increase the Bank's number of clients in fishery sector to 20 by increasing 2 or more clients, who have significant market share in the export of fishmeal and seafood between China and Peru each year starting on 2019. Currently, ICBC has no fixed trade-related fishery clients.	20 & >=2	#	Corporate banking & Risk
LTO 3	STO 3.1	By 2030, provide at least 20 corporate clients with salary payment services by increasing at least 2 clients per year starting on 2019. Currently, ICBC Peru has no salary payment services.	20 & >=2	#	Corporate & Retail Banking, and Finances & Treasury
LTO 3	STO 3.2	By 2020, launch consumer credit card product for premium retail banking clients. By 2030, increase the number of consumer credit card clients to 5,000 by increasing 500 or more per year starting on 2020. Currently, the Bank has no consumer credit card product.	5,000 & >=500	#	Retail Banking, Risk, Finances & Treasury, HR, and IT
LTO 3	STO 3.3	By 2020, launch mortgage loans products and services to the bank's retail banking clients. Increase mortgage loans to \$50 million US dollar by increasing \$5 million US dollar per year starting on 2020. Currently, the Bank has no mortgage loan services.	50 million & >= 5 million	\$	Retail Banking, Risk, Finances & Treasury, HR, and IT
LTO 3	STO 3.4	By 2020, launch vehicle loans products and services to the bank's retail banking clients. Increase vehicle loans to \$20 million US dollar by increasing \$2 million US dollar per year starting on 2020. Currently, the Bank has no vehicle loans services.	20 million & >= 2 million	\$	Retail Banking, Risk, Finances & Treasury, HR, and IT
LTO 3	STO 3.5	By 2020, launch diversified retail banking products and services by providing wealth management service for premium retail banking clients. By 2030, increase the number of clients to 500 by increasing 50 per year. Currently, ICBC Peru has no wealth management service.	500 & >= 50	#	Retail Banking, Risk, Finances & Treasury, HR, and IT
LTO 5	STO 5.4	By 2030, reduce the annual growth rate of administrative expenses to less than 3%. In 2018, the Bank increased its administrative expenses in 7%. The Bank should gradually reduce the Bank's administrative expenses growth rate by 0.4% per year until 2030.	3 & 0.4	%	Administrative & HR
Processes Perspectives					
LTO 1	SOT 1.5	By 2030, having opened 4 more regional offices. Open by 2021, one new office in Cusco; by 2024, one in Arequipa; 2027, in Trujillo, and in Chimbote by 2030. Currently, the Bank only has one Head Office in Lima.	4	#	Corporate banking, Administrative, HR, and IT
LTO 2	SOT 2.5	By 2030, increase to at least 10 types of trade financial products and services, by launching factoring, Chinese RMB settlement, supply chain management, and bill advance every three years starting on 2019. Currently, the bank has only 6 trade financial products and services.	>=10	#	Corporate banking, Risk, Administrative, HR, and IT
LTO 4	SOT 4.1	In 2020, implement the Bank's mobile banking services in Peruvian Market. By 2030, increase mobile banking clients' proportion (both corporate and retail banking) to 80% by increasing 8% per year starting on 2020. Currently, ICBC Peru has no mobile banking services.	80 & 8	%	Corporate & Retail Banking, and IT
LTO 4	SOT 4.5	In 2020, introduce remote banking services. By 2030, having implemented remote banking services in all top 10 Peruvian cities by establishing at least 1 remote banking terminal in 1 city per year. Currently, ICBC Peru has no remote banking in service yet.	10 & >=1	#	Corporate & Retail Banking, Risk, Finances & Treasury, Administrative, HR, and IT
Internal learning Perspectives					
LTO 4	STO 4.2	In 2020, launch the digital platform for 24/7 immediate inter-bank transactions. By 2030, having covered all Top 10 banks in Peru by connecting at least one major bank per year starting on 2020. Currently, the bank has no such cooperation with other banks.	10	#	Corporate & Retail Banking, Risk, Finances & Treasury, HR, and IT
LTO 4	STO 4.3	In 2020, introduce an A.I. and big-data credit assessment and approval platform. By 2030, have 80% of clients (both corporate and retail banking) credit assessment and approval process performed through this platform by increasing at least 8% clients per year starting from 2020. Currently, ICBC Peru has no intelligent credit assessment and approval platform.	80 & >=8	%	Corporate & Retail Banking, Risk, Finances & Treasury, Administrative, HR, and IT
LTO 4	STO 4.4	In 2020, launch the Intelligent Teller services for all types of clients (both retail and corporate client). By 2030, increase the proportion of teller operations to 80%, by transferring 8% of operations of the bank to the Intelligent Teller per year. In 2018, the Bank has not introduced Intelligent Teller services yet.	80 & >=8	%	Corporate & Retail Banking, Risk, Finances & Treasury, Administrative, HR, and IT

8.3 Conclusion

By elaborating the Balance Scorecard, the traditional performance management goes from the personnel assessment tools into strategy implementation tools. Short-term objectives are specified in the form and lead to the long-term objectives. Every objective has its responsible department and assessment indicators to be monitored.

However, the Balance Scorecard can't ensure any results. In short-term, leaders of responsible department should keep tracking the performance and compared it with indicators settled in Balance Scorecard. In long terms, the president of the bank should evaluate the result and compared it with the bank's long-term objective. This evaluation and comparison should be continuous to ensure the implementation of chosen strategy. And when the organizational strategy or structure changes, the Balanced Scorecard should also be adjusted accordingly.

Chapter IX: Competitiveness of ICBC Peru

9.1 Competitive Analysis of ICBC Peru

In comparison with local peers and competitors, although ICBC Peru has a longer time in the Peruvian Banking sector than other Chinese banks but it is still a new entrant in the industry after other foreign and local banks, the adaptation process, the limited local customer base, the limited initial capital authorized by the Group, the learning process of local market and regulation rules are ICBC Peru's challenges.

In Chapter III of this thesis, five key success factors have been defined, which are: the amount of equity, the cost of capital, the operational efficiency, the know-how of local market and the customer base. The Bank is in a weak position for all those factors. However, due to the Corporation's abundance of capital and resources, the linkage of the global network and its familiarity of Chinese companies, ICBC Peru, taking the opportunities derived from the promotion of investment from the Peruvian Government for infrastructure and construction project, the strong bilateral trade record per year between Peru and China, still has a chance to deepen its development and bloom its business in the Peruvian local market.

9.2 Identification of the Competitive Advantages of ICBC Peru

ICBC Peru is located in a wide industry; the banking industry of Peru is one of the most stable among Latin American countries. According to our previous analysis, using Porter's five force models, ICBC Peru as the new entrant, encounters larger and more profitable rivals in the field; the bargain power, in comparison, is lower for both the power with suppliers and the power with customers. Therefore, ICBC Peru should focus on its strengths and competitive advantages in order to survive and expand its business in Peru.

The competitive advantages of ICBC Peru exist mainly in its familiarity of Chinese trade and investors, its global network for business and the capital and resources support from

the ICBC Group. Based on its competitive advantages, ICBC Peru can leverage on the ICBC Group's strong experience in financing large public infrastructure projects, as well as its knowledge and experience in Mining, Fishing, Agriculture, and Energy, to obtain a significant growth in market share. In addition to that, among other support provided by ICBC Group, support on the development of Fintech can give the Bank a very important competitive advantage in comparison with other local banks.

9.3 Identification and Analysis of the Potential Cluster of ICBC Peru

The potential cluster could involve other local or international banks with larger capital in Peru, full knowledge and experience to local market and regulation. According to our previous analysis and the conclusion of 5 forces analysis in Chapter III, the banking industry in Peru is relatively attractive and it is worthwhile for ICBC Peru to commit to this country and seek its position in the Peruvian financial industry. In this sense, ICBC Peru could consider a horizontal strategy in order to expand, which means, ICBC Peru could take an alliance with other local banks as a corporate option, a potential approach could connect with other local or international banks with larger capital in Peru, full knowledge and experience of the local market and regulations.

With this connection and communication, ICBC Peru could reinforce the communication with peers, exchange experiences with each other, form banking consortium and manage operational and services diversity. ICBC Peru and its partner banks must comply with the local regulation as well.

The objective of the potential cluster is to reinforce the advantages from each part, synergize the effectiveness in order to advance into a higher level of operation, services and market scale. And the result benefits from a health cluster would contribute to clients, society, and the national industry competitiveness.

9.4 Identification of the Strategic Aspects of These Potential Clusters

ICBC with the potential cluster of local and international banks in Peru, could reinforce its operation capacity in the Peruvian market, increase its international market, provide added value to its targeted clients, deepen its business in the local market and contribute its social responsibility in Peru.

Other local banks under the cluster effectiveness with ICBC Peru, could broaden their client category with a Chinese company, find with more probability of business in the Asian market, establish the global vision and reinforce the internationalization process.

Also, the Peruvian banking industry will improve its competitiveness with distinct participants from different origins, competence and strength in the field.

The client and the society will benefit from this potential cluster for having active players in this industry: the application of technology, the balanced resources with high productivity and efficiency of industrial activity, the lower cost with product of high quality and values, the mutual corporation and shared social responsibility within peers and partners are contributing to the prosperity of the banking industry in Peru and it is a huge competitiveness, not only for the national industry but also for the state (government?).

9.5 Conclusion

In this chapter, the characteristics and competitive advantages of ICBC Peru have been identified, such as the strong group background, products and services, technology, global synergy and familiarity with Chinese companies. All these serve to develop a strategic planning and to develop the competitive advantages of ICBC Peru. Therefore, ICBC's entrance into the Peruvian market is a valuable process for both the biggest Chinese bank and other local or international banks in Peru. The win-win perspective is a vision and strategic target for all related in the potential cluster and the country.

Chapter X: Conclusions and Recommendations

Although ICBC Group is one of the largest commercial banks in the world, as a newcomer in Peru, ICBC Peru is facing significant challenges along with opportunities. To achieve its vision and mission, a comprehensive strategic plan for the Bank is proposed. In this chapter, after all the analysis and evaluation, the resulted conclusion is going to be described along with the recommendations suggested to the Bank.

10.1 Comprehensive Strategic Plan

This strategic plan has proposed several strategies for ICBC Peru based on its external and internal analysis, to direct the Bank to rely on its strengths and catch external opportunities to achieve the Bank's proposed vision.

ICBC Peru's managers should consider adopting the following strategies: (a) *integration strategy*, which means ICBC Peru can choose M&A with local banks, (b) *intensive strategy*, which include market development and product development, (c) *diversification strategies*, which includes concentric differentiation and conglomerate differentiation and (d) *strategic alliance*, which means to cooperate with local banks in certain big projects.

These four categories of strategies are interdependent to each other: the integration strategy is a quick access to the market; the intensive strategy is to secure the future potentials, while strengthening the relationship with the clients; diversification strategies can help the bank leverage on its strength to achieve its objectives; and finally, strategic alliance is to cooperate with local banks to further guarantee the first three strategies through increased market influence and innovative financial business models.

We have set short-term objectives for each retained strategy, which are result-oriented and time-bound. The Bank should relocate its resources to ensure the fulfillment of the proposed strategic plan.

10.2 Final Conclusions

After the analysis, the following conclusions are given:

1. The stable future GDP growth in Peru, rising investment in infrastructure, mining and public services and a good population structure, as well as a strengthened commercial and economic relationship with China, provide opportunities for ICBC Peru to achieve business development.
2. However, the trade war between China and US, the fierce domestic competition, natural disasters, corruption events, weak science, technology and innovation system, the inefficiency of the financial system and a weak government guiding policy constitute also major threats to the Bank's operations.
3. ICBC Peru should take advantage of the brand image of ICBC Group and establish a secure connection with Chinese companies in Peru. The constant support received from the Head Office in China regarding customer base, product development, and technological innovation constitute a fundamental strength of ICBC Peru.
4. ICBC Peru should be aware of its weaknesses and avoid it in operations. Its small equity restricts the Bank's business expansion. ICBC Peru has a small customer base in Peru, which leads to a limited local market share. The Bank also needs to accumulate more experience about the local market and the management of cultural diversity in a multinational team.
5. The analysis of key success factors shows that the amount of equity, the cost of capital, the operational efficiency, the know-how of the local market and the customer base are crucial for the Peruvian Banking industry. ICBC Peru doesn't have strengths regarding all the aspects mentioned above, especially in the amount of equity, the know-how of local market and customer base; and therefore, the

Bank should learn from benchmark companies and improve as soon as possible its performance in these aspects.

6. Both the buyers and the suppliers of ICBC Peru have a relatively advantaged power to bargain with the Bank. The substitute threat of ICBC Peru ranged in the middle level, while the new entry threat is relatively low. However, the competition between current players is furious because of the high concentration on the top 4 banks. The results of five forces analysis shows that inspite of the existed competition, the Peruvian banking industry is still relatively attractive because of the stable market growth resulting from the economic development.

7. ICBC Peru has three competitive advantages, which are (1) the familiarity of Chinese trade and investors, (2) the global network for business and (3) the capital and resources support from the ICBC Group.

8. Ten retained strategies have been defined after overall analysis:

- Concentric Differentiation: Tailor service to Chinese & Peruvian companies
- Market Penetration: Increase marketing to occupy more substantial market share
- Ally with the local banks to have quick access to more aspects of the market
- Regional Market Development: Develop market in Bolivia, Ecuador, and Colombia
- Strategic Alliance: Form syndication loan with local banks to access large scale projects
- Product Development: Introduce and/or develop Fintechs to promote efficiency and innovation in the business model to lead the future market
- Domestic Market Development: Develop products and services to the top ten provinces in Peru.
- Diversification Strategy: Develop retail banking to Premium customers

- Integration Strategy: M&A with local financial institutions (horizontal integration)
- Market Development: Diversify customer portfolio to avoid concentration in a particular sector or geographic area

10.3 Final Recommendations

Based on the analysis and evaluation, it is suggested to the Board, and the general manager of ICBC Peru to consider the following recommendations:

1. Implement the strategic plan proposed in this thesis, following the short-term objectives settled by the authors to ensure the fulfillment of long-term objectives and the proposed vision.
2. Implement the recommended organization structure and allocate financial and human resources accordingly to strengthen the Bank's credit capability and increase its market share.
3. Follow the proposed policies for each strategy implementation and make sure every employee knows it, understand it and recognize it in daily work.
4. Keep updating external and internal analysis; keep an eye on changes or emerging trends of related industries.
5. Reevaluate the results of strategies implementation periodically. Using this strategic plan to direct the Bank's operation and administration, ensuring a correct direction towards the proposed vision.
6. Reevaluate this strategic plan based on updated external and internal evaluation results and make adjustments when necessary.

10.4 Future of ICBC Peru

This proposed strategic plan has carefully designed the ambitious long-term objectives, along with the corresponding short-term objective with readily actionable plans,

guided by policies, which are derived from the proposed vision, mission, values, and code of ethics. The bright future of ICBC Peru will gradually materialize while this strategy is being carried out:

By 2030, whenever people in Peru talk or think about any China-related investments, trading, and projects, ICBC Peru will always be the first bank that appears in their mind. While one percent share of total bank loans in Peru may seem insignificant, the bank's presence in almost every major bilateral trading reveals its true, decisive economic influences.

With greater power comes greater responsibility, ICBC Peru will abide by Peruvian laws and regulations, setting the role model for newcomers in the financial industry. Thanks to its bold application of cutting-edge Fintechs of mobile banking, remote banking terminals and intelligent tellers, the bank will be able to reach out to Peruvian entrepreneurs in remote areas such as the Amazon jungle and the Andean plateau to provide them with convenient banking services. This will also enable ICBC Peru to achieve sustainable growth with a diversified portfolio of customers from various regions around the country. By that time, ICBC Peru will be a preferred, profitable, secure, and innovative financial institution offering integrated financial solutions for its clients. And this future is believed to be attainable with this strategic plan.

Table 34

ICBC Peru Comprehensive Strategic Plan

		Vision							
		The vision of ICBC Peru is, by 2030, to become a preferred, profitable, secure, and innovative financial institution offering integrated financial solutions for our clients, with the focus on bilateral business between Peru and China.							
Organizational Interests		LTO 1:	LTO 2:	LTO 3:	LTO 4:	LTO 5:	Cardinal Principles	Values	
1	Risk control & Compliance	By 2030, reach 1.5% of the market share of commercial loans in Peru. Its current share is 0.32% by the end of 2018.	By 2030, reach 30% market share of Trade related finance products & services between China and Peru. Its current market share is estimated to be less than 5% of the current trade volume between Peru and China in 2018.	By 2030, diversify the Bank's income resources. Current income only comes from corporate banking and Trade finances and more than 95% of its customers are from Lima.	By 2030, having applied innovative Fintechs to ICBC Peru's 80% transactions and processes.	By 2030, establish a profitable and compliance-oriented financial institution with 12% or above ROE. Its ROE as of December 2018, was -3.3%.	1 Influence of third parties 2 Past and present ties 3 Counterbalance of interests 4 Conservation of enemies	1 Responsibility 2 Integrity 3 Professionalism 4 Innovation 5 Prudence 6 Performance	
Strategies							Policies	Code of Ethics	
S1	SO1. Concentric Differentiation: Tailor service to Chinese & Peruvian companies. (S1, S2, S3, S6, O1, O3, O5, O6, O7, O8)	x	x	x	x	x	P1	Reinforce risk identification and risk management	The Bank continued to adopt the "three lines of defence" mechanism for internal control. The first line of defence consists of business departments and all banking outlets. They are the owners, and are accountable for, local risks and controls. They undertake self-directed risk control and management functions in the course of their business operations, including the formulation and implementation of policies, business examination, the reporting of control deficiencies and the organization of rectifying measures.
S2	SO2. Conglomerate Differentiation: Develop insurance, fund, leasing products and services for local customers. (S2, S4, S5, O1, O2, O6, O7, O8)	x	x	x		x			
S3	SO3. Market Penetration: Increase market share by 1%. (S1, S2, S6, O1, O6, O7, O8)	x	x	x	x	x			
S4	SO4. Develop market in Bolivia, Ecuador and Colombia. (S1, S2, S3, O3, O5)	x			x	x	P2	Implement green channel mechanisms for significant credit approval and assessment	
S5	WO1. Strategic Alliance: Form syndication loan with local bank to access large scale projects. (W1, W2, W3, W5, O1, O2, O6, O7)	x	x			x			
S6	WO2. Product Development: Introduce and/or develop Fintechs to promote efficiency and innovation in business model to lead the future market (W3, W4, W5, O1, O2, O7)	x	x	x	x	x			
S7	WO3. Domestic Market Development: Develop products and service to top ten provinces in Peru. (W3, W4, W5, O1, O2, O4, O6, O7, O8)	x	x	x	x	x	P3	Pursue compliance-oriented culture in ICBC Peru's operations	
S8	ST1. Diversification Strategy: Develop retail banking to Premium customers. (S1, S2, S4, S5, T2)	x	x	x	x	x			
S9	ST2. Integration Strategy: M&A with local financial institutions (horizontal integration). (S2, S4, S6, T2, T5, T8, T9)	x	x	x	x	x			
S10	WT1. Market Development: Diversify customer portfolio to avoid concentration in certain sectors and/or geographic areas. (W1, W2, T1, T3, T7, T9)	x		x	x	x			
STO 1.1	By 2030, increase the number of corporate clients from 24 in 2018 to 48 by increasing 2 or more per year starting on 2019.	48 & 2 #					P4	Encourage innovation and professionalism at work	The internal control and risk management departments of the Bank's institutions at all levels form the second line of defence. They are responsible for overall planning, implementing, examining and assessing risk management and internal control, and for identifying, measuring, monitoring and controlling risks. The Bank enhanced the use of the Group's operational risk monitoring and analysis platform, in order to perform a regular monitoring on material risks, and to promote the optimization of business processes and systems.
STO 1.2	By 2030, increase the number of large firm clients from 2 to 50 by increasing at least 4 or more per year starting on 2019.	50 & >=4 #							
STO 1.3	By 2030, increase the number of medium size companies from 4 in 2018 to 100 by increasing 8 or more per year starting on 2019.	100 & >=8 #					P5	Implement incentive mechanism for All Employee Marketing	
STO 1.4	In 2020, launch corporate credit card product to commercial banking clients (corporate, large, and medium companies). By 2030, increase corporate credit card clients to 150 by increasing 15 or more per year.	150 & >=5 #							
STO 1.5	By 2030, having already opened 4 more regional offices. Open by 2021, one new office in Cusco; by 2024, one in Arequipa; 2027, in Trujillo, and in Chimbote by 2030.	4 #					P6	Strengthen cooperation with major financial institutions in the market	
STO 2.1	By 2030, increase trade-related clients in mining sector to 20 by establishing a customer relationship with 2 or more mining companies each year starting on 2019.		20 & >=2 #						
STO 2.2	By 2030, increase the number of trade-related clients in telecommunication or IT industry to at least 5 by increasing 1 or more new customers every two years starting on 2019		>=5 & >=1 #				P7	Implement dynamic human resource management and performance assessment mechanism	
STO 2.3	By 2030, increase the number of trade-related clients in the agriculture industry to 20 by increasing 2 or more companies each year starting on 2019.		20 & >=2 #						
STO 2.4	By 2030, increase the Bank's number of clients in fishery sector to 20 by increasing 2 or more clients each year starting on 2019.		20 & >=2 #				P8	Lead product and service innovation in the Market	
STO 2.5	By 2030, increase to at least 10 types of trade financial products and services, by launching factoring, Chinese RMB settlement, supply chain management, and bill advance every three years starting on 2019.		>10 #						
STO 3.1	By 2020, launch consumer credit card product to premium retail banking clients. By 2030, increase the number of consumer credit card clients to 5,000 by increasing 500 or more per year starting on 2020.			20 & >=2 #			P9	Explore business opportunities actively and aggressively	
STO 3.2	By 2020, launch mortgage loans products and services to the bank's retail banking clients. Increase mortgage loans to \$50 million US dollar by increasing \$5 million US dollar per year starting on 2020.			5,000 & >=500 #					
STO 3.3	By 2020, launch mortgage loans products and services to the bank's retail banking clients. Increase mortgage loans to \$50 million US dollar by increasing \$5 million US dollar per year starting on 2020.			50 million & >= 5 million \$			P10	Seek for transparency and flexible pricing with the public	
STO 3.4	By 2020, launch vehicle loans products and services to the bank's retail banking clients. Increase vehicle loans to \$20 million US dollar by increasing \$2 million US dollar per year starting on 2020.			20 million & >= 2 million \$					
STO 3.5	By 2020, launch, diversify and increase the Bank's retail banking products and services by providing wealth management service for premium retail banking clients. By 2030, increase the number of clients to 500 by increasing 50 per year.			500 & >= 50 #					
STO 4.1	In 2020, implement the Bank's mobile banking services in Peruvian Market. By 2030, increase mobile banking clients' rate (both corporate and retail banking) to 80% by increasing 8% per year starting on 2020.				80 & 8 %		P11	Comply with the anti-money laundering and financing terrorism for all businesses	<ul style="list-style-type: none"> Compliance with local and international regulations; Provide satisfactory and professional services to clients; Be honest, reliable and prudent; Be responsible to the society and contribute to the economic development of Peru; Keep constant innovation; Respect cultural diversity.
STO 4.2	In 2020, launch the digital platform for 24/7 instant inter-bank transactions. By 2030, having covered all Top 10 banks in Peru by connecting at least one major bank per year starting on 2020.				10 #				
STO 4.3	In 2020, introduce an A.I. and big-data credit assessment and approval platform. By 2030, have 80% of clients (both corporate and retail banking) credit assessment and approval process carried out through this platform by increasing at least 8% clients per year starting on 2020.				80 & >=8 %				
STO 4.4	In 2020, launch the Intelligent Teller services for all types of clients (both retail and corporate client). By 2030, increase the proportion of teller operations to 80%, by transferring 8% of operations of the bank to the Intelligent Teller per year.				80 & >=8 %				
STO 4.5	In 2020, introduce remote banking services. By 2030, having already implemented remote banking services in all top 10 Peruvian cities by establishing at least 1 remote banking terminal in 1 city per year.				10 & >=1 #		P12	Apply new fintech in the focal market	
STO 5.1	By 2030, increase the Bank's Gross financial Margin by 300%. The Bank should increase its financial income by 30% every year.					300 & 30 %			
STO 5.2	By 2030, maintain a non-performing loan ratio in level zero .					0#			
STO 5.3	By 2030, increase the Bank's income from financial services by 300%, by leveraging on the bank's professionals in Syndication Loan and project finance, the Bank should maintain an annual commission revenue increase rate of 30% or more starting on 2019.					300 & 30 %	P13	Maintain a balanced bank's assets and liabilities to achieve sound development	
STO 5.4	By 2030, reduce the annual growth rate of administrative expenses to less than 3%. In 2018, the Bank increased its administrative expenses in 7%. The Bank should gradually reduce the Bank's administrative expenses growth rate by 0.4% per year until 2030.					3 & 0.4 %			
STO 5.5	By 2030, reduce the percentage of term-deposit in the Bank's deposit structure to 50% from 79% in 2018, by decreasing 2.9% annually.					50 & 2.9 %	P14	Implement the green credit concept to support sustainable development in Peru	

Mission
 The mission of ICBC Peru is to carry out long-term, sustainable growth as a reliable financial institution by contributing to economic cooperation between Peru and China through:
 • Offering added value, professional, satisfactory and innovative financial products and services to local and international clients;
 • Applying cutting-edge information technologies as our sustained competitive advantages;
 • Leveraging corporate resources in its globalization to capture internal synergies;
 • Complying with local and international regulations.

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