

Temple University
Fox School of Business and Management MBA 2000 Program
BA 910: 6 Credit Financial Services Industry Capstone Course
Industry and Firm Level Strategic Analysis
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I. Scope of the 6 Credit Hour Industry Capstone Course

This 6 credit hour Industry Capstone course of the MBA 2000 Program is a “strategic management course.” It focuses on methods of assessing the strategic factors driving the Financial Services Industry (FSI), its three major segments, and the firms within it. This includes the interrelationships among competitors and between the industry and its principal customers, suppliers, distributors, and regulators. The course will introduce students to the basic concepts of strategic management from the perspective of the financial services industry. Students will learn the enduring theories and concepts that help firms define and implement their strategies within the specific context of the complex and rapidly changing financial services industry environment. Students will learn how to define and understand the industry, as well as how to design and implement strategies that may include new ways of competing such as via virtual organizations and electronic commerce. Students will also learn something of the language and culture of the industry, such that they will be able to converse intelligently about the industry with industry insiders. This does not mean, however, that students will develop professional finance or risk management skills, such as are learned through a finance or risk management major.

II. Complex and Rapidly Changing Industry Environment

The financial services industry contributes approximately 7% to GDP, and approximately 8% to Pennsylvania GSP. Financial institutions hold over \$23 trillion in assets, with commercial banks accounting for \$5.6 trillion, mutual funds \$4.9 trillion, and insurers \$3.6 trillion. The insurance industry alone employs approximately 2.3 million people nationally. The Delaware Valley region is home to many of the leaders in the financial services industry, including Vanguard, CIGNA, Chubb, and MBNA, and is in close proximity to New York and Delaware, two of the financial services industry capitals of the world. As such, the area provides a fertile ground for studying the rapidly evolving structure and dynamics of this industry. The exact boundaries of this industry will be the subject of extensive discussion.

The industry has undergone dramatic change in the past few years, culminating in federal deregulation in 1999. The Federal Financial Services Modernization Act, now known as the Gramm-Leach-Bliley Act of 1999, provides an important context in which to examine the complex and rapidly changing industry environment. The Act may be briefly summarized as follows:

- Achieves financial modernization by permitting banks to affiliate at the holding company level with other financial services businesses, including those engaged in securities and insurance underwriting, merchant banking, and real estate development and investment. This is accomplished by repealing the Depression-era Glass-Steagall Act of 1933 that separated commercial and investment banking, and by eliminating the Bank Holding Company Act of 1956's prohibition on insurance underwriting activities. This will enhance the development of the financial services industry, especially in major banking center states, as consumers benefit because more financial products will be available through more efficient and competitive delivery systems.
- Removes restrictions on new activities and cross-marketing with affiliates that specifically burdened so-called grandfathered non-bank banks. Relief from those restrictions will allow those banks to compete more effectively.
- Enhances bank powers by allowing limited securities underwriting in bank subsidiaries. Some state laws, such as Delaware's, already authorize state-chartered banks to engage in these activities.
- Provides historic new privacy protections by allowing consumers, for the first time, to "opt out" of having their financial information shared with unaffiliated third parties. This opt-out structure balances consumers' privacy needs with the information needs of financial services businesses.
- Preserves CRA (the Community Reinvestment Act) by barring any bank holding company from merging with insurance or securities firms or embarking on new powers if any of its banks earned less than a "satisfactory" CRA rating in its most recent exam. The company would be barred from additional powers or acquisitions if one of the banks' CRA ratings dropped below "satisfactory" later. Provides regulatory relief to small banks under \$250 million in assets by extending the CRA exam period to 5 years when an "outstanding" rating was earned on the last exam, and to 4 years when a "satisfactory" rating was earned. Adds a "sunshine" provision that requires banks and community groups to disclose the terms of certain CRA agreements.
- Protects small banks by preventing commercial businesses from buying federal savings banks (but commercial businesses that already own FSBs don't have to divest).

Deregulation removes the last barriers to competition across financial services sectors, including banking, insurance, and mutual funds and securities dealers. This implies even greater pressure to remain competitive amidst a wave of mergers and acquisitions within and across sectors, increasing globalization of financial markets, and new channels for product distribution and servicing, including the Internet.

III. Choosing the FSI Capstone

The 6 credit hour FSI Capstone Course is especially appropriate for any student currently working or planning to work in the Financial Services Industry or in firms closely linked with this industry. It may also be appropriate for those who anticipate significant FSI impacts on the industry in which they are now or may someday be employed. **Students need not be finance or risk management majors to be eligible for this 6 credit course.**

Prerequisites: Students enrolling in the 6 credit hour course are expected to:

1. Be in their last semester of the MBA program;
2. Have access to e-mail and a web-capable computer;
3. Have the ability to use the Web and the library interactively to perform electronic searches for such material as recommended readings, data on firms and the industry, and analyst reports with estimated future earnings and underlying rationale;
4. Have knowledge of current word processing programs (such as Word);
5. Have the ability to use presentational programs (such as PowerPoint); and
6. Have the ability to access such data as Standard and Poor's "Research Insight" data providing a wealth of financial information available electronically to Fox School MBA students.

IV. Course Objectives for the Industry Capstone Course

The main objective of this course is to teach MBAs to recognize and deal with strategic issues facing the financial services industry, the segments and firms within it, firms likely to enter it, firms who buy and sell to the industry, and the plethora of industry regulators. Other objectives include the preparation of MBAs for management careers by sharpening their conceptual, analytical, communications, leadership, teamwork and diversity skills through class discussions, group projects, professional presentations, and student research on and visits to firms within the industry.

Although focusing upon the financial services industry, the course will provide an eclectic "capstone" for all previous MBA courses, enabling students to develop knowledge and skills pertaining to the formulation, implementation, evaluation and control of corporate strategies.

To bring the industry capstone course to life, we rely heavily on cases of real life situations within the financial services industry. In addition, there are numerous readings that provide important frameworks for understanding and organizing the complex strategic issues that relate to this industry and its major participants. The cases and readings will cover a wide range of financial services firms, both within and outside the U.S., and deal with some of the most challenging strategic issues facing the industry in the years ahead.

Class discussions will be the centerpiece of the course. They provide the opportunity for an exciting and challenging exchange of ideas that will allow you to improve your understanding of strategic management issues as they relate to this industry. Class discussions will sharpen your analytical and communication skills as we relate current strategic concepts with business trends in the financial services industry.

V. Desired Outcomes from the Industry Capstone Course

By the end of the course, all students should be able to successfully perform the following on their own and as part of a well functioning team.

I. Industry Level Strategic Analysis

1. Assess the past, present and future attractiveness of the financial services industry and its major segments from the point of view of firms within the industry and outsiders who might consider entry into the industry.
2. Identify the “driving forces” affecting this industry and its major segments, and how they have changed and are changing over time.
3. Identify the major problems, issues, and challenges that have historically faced, are now facing, and will likely face top executives within the financial services industry and its major segments, and outsiders to the industry who might seek to enter it.
4. Identify the “key success factors” that influence sustainable competitive advantage within the industry and its major segments, and discuss how they have changed, are now changing, and will likely change in the future.
5. Identify the major firms in the industry and its major segments on the basis of relevant financial and strategic dimensions: e.g., assets, sales, earnings, growth rates, growth potential, market capitalization, shareholder value added, etc.
6. Demonstrate an understanding of the main drivers of “value added” along each dimension of the financial services industry value and supply chains.
7. Demonstrate an understanding of how the financial services industry differs from other industries on key strategic dimensions.

II. Firm Level Strategic Analysis

1. Assess the relative strengths, weaknesses, opportunities, and threats of the major firms within the industry and the major firms considering entry into the industry.
2. Assess the relative positioning of firms within the financial services industry and its major segments.
3. Identify the strategies of the major firms in the industry and grasp their underlying capabilities, the sustainability of any competitive advantage, and the corresponding probability of competitive success.
4. Identify the presence of “strategic groups” within the industry and its major segments, the similarities and differences in their strategies, and their most likely future moves to reposition in the face of rapid industry change.
5. Analyze the industry segments in terms of their different origins of profitability.
6. Identify the major strategic issues of importance to firms in the industry at the corporate, business unit, functional, and operational levels of strategy setting.
7. Understand the important roles of corporate governance, social responsibility and leadership in the strategy setting process within this industry and its major segments.
8. Understand the important role of corporate structure, control, information flow, and enterprise modeling in the implementation of the strategy process.
9. Complete a comprehensive analysis of a major firm within the financial services industry.
10. Develop conceptual, analytical, communications, leadership, teamwork and diversity management skills.

VI. Texts and Required Readings :

1. Hunger and Wheelen, **Essentials of Strategic Management**, Prentice Hall, 2001 (2nd ed.).
2. **Harvard Business Review on Strategies for Growth**, Harvard Business School Publishing, September 1998.
3. **Harvard Case Studies**. (see weekly assignments).
4. **Assigned Readings**. (see weekly assignments).

VII. Recommended Reading/Discussion Materials

1. The **Wall Street Journal**, **Business Week**, **Forbes**, **Fortune**, etc. There are numerous articles weekly on the subject matter of the course with excellent examples of the application of course content. Please bring them up in class discussions when you see such examples.
2. Internet and library sources of information on firms, competitors, industries, and analyst reports.

VIII. Course Requirements:

1. Class Participation: The main teaching tools of this course are listed above as required and recommended readings/discussion materials. Class participation will also be stimulated by three additional sources, where possible. The first is the presentation of several popular executive videos featuring Michael Porter that can contribute much to our understanding of the financial services industry. The Porter videos focus on assessing industry attractiveness and formulating and implementing generic industry strategies. Porter calls this “Industry Competitive Analysis.” The second is through senior executives who will be invited to class to participate in class discussions. Where possible, we will bring to class executives from the financial services industry who are in a position to opine on their industry situation. The third is a class visit to the corporate headquarters of a leading firm within the industry, if possible.

Most weeks, at least half of the class period will be taken up in allowing students time to lead the discussion in drawing important points from the readings and applying them to the real world situations of the real firms we will be exploring. Each student will get numerous opportunities to lead and direct class discussion. The remainder of the period will be lecture. A key point to keep in mind as you prepare for class is to focus on drawing practical lessons from the readings, making insightful applications to real world problems, and avoiding mere summarization or rehashing of points from the readings.

2. Case Study Write-Ups and Presentations : We will organize immediately to begin examining the financial services industry in teams. Students will choose the industry segments and firms to be studied, subject to the approval of the faculty, and will be graded on the content, quality, and lessons drawn from their analysis.

Teams will be required to complete two case write-ups and presentations (complete with bibliography, charts and graphs) that can provide useful lessons for understanding the industry, its major segments, and its major competitors at the current time. The first write-up and presentation will focus on an industry segment, and the second write-up and presentation will focus on a particular firm within the segment. **Segments and firms chosen must be agreed to by the faculty by the end of week 3.** Both presentations will be formal 20-30 minute presentations to the class on the findings and implications of the team’s research. Each team will also be expected to stimulate at least an additional 10 minutes of questions and answers from your classmates, and to post the team’s slides (electronically) into Blackboard 48 hours before their presentations.

Careful financial analysis of financial ratios, balance sheet and income statement data, cash flows, trends over time, and comparisons with industry averages and major competitors are essential. Notwithstanding its importance, however, emphasis should be on more than shareholder interests alone. Where important and relevant, other stakeholder interests, such as those of employees, communities, suppliers, and customers, etc., should also be considered.

All case write-ups and formal presentations should be in the form of business reports to the CEO and Operating Committee of a particular company's Board. Since CEOs and Boards are busy people, please be concise and focus on a clear analysis of all the important issues, including:

- Identifying the main strengths, weaknesses, opportunities and threats facing the firm from a strategic perspective;
- Identifying the major strategic problems facing the firm;
- Identifying viable options that will enable management to resolve the strategic problems, issues, and challenges facing the firm;
- Choosing and defending the best strategy from among the viable options that will enable management to resolve the strategic problems, issues, and challenges facing the firm;
- Discussing the relevant problems that will be encountered in implementing the chosen strategies recommended for the firm; and
- Discussing the relevant problems that will be encountered in evaluating and controlling the chosen strategies recommended for the firm.

Final products should be: (1) Clear and concisely written business reports summarizing all of the above with appropriate content, substance, graphics, and documentation; and (2) Polished multi-media business presentations to financial services executives in a professional manner summarizing all of the above.

Some class time will be devoted to the group projects since it is understood that it is difficult to reconcile team member schedules outside of class and to permit the groups to get inputs from the instructors. However, in this electronic age of "telecommuting," and given the growing importance of "teleconferencing and distance learning," it is expected that much group activity can be conducted electronically rather than through face to face meetings during class time.

IX. Grading:

Class participation	20%
First group case write-up	20%
First group case presentation	20%
Second group case write-up	20%
Second group case presentation	20%
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Total	100%

X. Miscellaneous:

Groups will be formed by students early on in the semester. Diversity of student backgrounds is a requirement and should lead to synergies and strategic fits which otherwise would not be possible.

There will be no extra credit. It is not fair to the rest of the students who perform acceptably within the defined course constraints.

There will be no make-up work. Please note important dates on your calendar and notify the appropriate people if you must miss a date.

All assignments must be typed (double spaced) and turned in on time unless written permission from the instructor(s) is obtained in advance of the due date. Late assignments will be penalized 2 letter grades per week. No exceptions.

Individual differences among team members on both the team papers and the team presentations will be assessed by the instructors. Peer evaluations will be used to help assess individual differences within teams on the papers, and actual performance on the presentations will be assessed by the instructors for each team member.

Class Schedule

August	27	Administration	None
	29	History of Regulation The Delaware Situation	None
Sept	3	Labor Day: NO CLASS	None
	5	Strategy: Porter video / discuss	Text: Chs. 1-2
	10	Strategy: Porter video / discuss	Text: Chs. 3-4
	12	Strategy: Industry Competitive Analysis	Text: Chs. 5-7
	17	Industry Overview Retail Financial Services in 1998: HBSP http://www.ny.frb.org/rmaghome/econ_pol/900sant.pdf The Determinants of Success in the New Financial Services Environment FYI: http://www.Anderson.com (Financial Services Megatrends)	
	19	Deregulation http://www.senate.gov/~banking/conf/grmleach.htm Financial Services Modernization Act: Summary of Provisions FYI: http://www.pwcglobal.com/Extweb/indissue.nsf/docid/5F8B28031AA7F4B085268B200603732 The Gramm-Leach-Bliley Act: How Financial Modernization will affect the Financial Services Industry (PwC)	
	24	Segment 1: Insurance Retail Financial Services in 1998: Travelers http://pwcglobal.com/images/gx/eng/about/ind/fs/financial_home/tlli.pdf Tomorrow's Leading Life Insurer (PWC Global) http://www.internationalinsurance.org/default.htm International Insurance Factbook	
	26	Segment 2: Banking Form Follows Function: The Transformation of Banking Retail Financial Services in 1998: First Union	

<http://www.phil.frb.org/files/bb/bbspecial00.pdf>

Special Report: Commercial Banks in 2000, *Banking Brief*

FYI: <http://www.thebanker.com/> Top 1000 banks

Oct	1	Segment 3: Securities	
		Retail Financial Services in 1998: Merrill Lynch	
		Retail Financial Services in 1998: Charles Schwab	
		FYI: http://www.sia.com/publications/html/fact_book.html	
		Securities Industry Factbook	
		FYI: http://www.ici.org/aboutfunds/factbook01_toc.html	
		Mutual Fund Factbook	
	3	Segment Wrap-up and Case	Banc-One
	8	Strategy: Achieving Breakaway Growth Strategic Logic of High Growth	HBR: Chs. 1-2
	10	Group time to organize for projects or Guest Speaker	
	15	Strategy: Growth Through Acquisitions Diversification Decisions	HBR: Ch. 3 HBR: Ch.4
	17	Strategy: Implementation Issues I	Text: Ch. 8-9
	22	Case	Morningstar
	24	Strategy: Implementation Issues II How GE Capital Integrates Acquisitions The Living Company	HBR: Ch. 5 HBR: Ch. 6
	29	Class preparation for first team projects	
	31	Team Presentations 1-2	Papers Due
Nov	5	Team Presentations 3-4	Papers Due
	7	Strategy: Evaluation and Control	Text: Chs. 10-11 & Appendices A-C
	12	Review results of first team projects Guest Speaker or time to prep project 2	

	14	Case	AIG
	19	Case	Schwab
	21	NO CLASS	
	26	Strategy: Exploiting the Virtual Value Chain Capturing the Value of Supplementary Services	HBR: Ch. 7 HBR: Ch. 8
	28	Case	Wingspan bank
Dec	3	Class Preparation for second team projects	
	5	Team Presentations 1-2	Papers Due
	10	Team Presentations 3-4	Papers Due
	12	Class wrap-up	