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The Bank of Indus: A Strategic Operational Transformation

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Abstract

The case describes how Khyber Bank saw compelling reasons to open branches in FATA, a part of the KPK province. Khyber Bank had only 2.5 months to open branches in FATA, where there was no concept of banking or operating banks in the area. The branches had to be operationalized by the end of November 2019; hence, this was a challenge that was to be encountered by Khyber Bank. In the underdeveloped new zone of FATA, where there was no such idea of the banking system and financial services, recruiting, residence, security, finance, awareness, economic, and infrastructural concerns were real. Despite having the advantage of being the first to market, the bank nevertheless had to ensure that all of its branches were self-sustaining within the first few years of operation. The story was about internal operations and decisions, citizens' involvement, and analytical study to evaluate the real-world reality of that specific zone. The case explores Khyber Bank's problems while relocating its branches in FATA within 2.5 months and how they tried to overcome them.

1 Introduction

One day, on 2nd September 2019, the vice president of Indus Bank, Mr. Arif, was working in his office through his daily work. Amidst of all, he received a call from the President of Indus Bank, who, in a disoriented tone, told him that a new objective had been added to the annual tasks by the order of the National Assembly. This new objective was to establish new banking branches in regions that lacked banking infrastructure, specifically focusing on the Federally Administered Tribal Areas (FATA) and ensure their smooth functioning. While Mr. Arif was assimilating this news as he came across the real challenge that it was not only the remote areas, they had to expand into but that all had to be done within 2.5 months. The branches were expected to be operationalized by the end of November 2019. Why was there a sudden need for new branches?

FATA officially became a part of Khyber Pakhtunkhwa at the end of 2018. Therefore, the government wanted to provide the basic infrastructure and facilities as part of the province.

2 The Bank of Indus (BOI) – Company Background

The Bank of Indus is a provincial government bank owned by the Government of Khyber Pakhtunkhwa and is based in Peshawar, Pakistan. The Bank of Indus was initially established in 1991 and successfully now holds a distinctive status, stands out amidst other banks operating within Pakistan, and has the privilege of being allied amongst the only four government banks of Pakistan (Shahid, 2023).

Vision: To become a leading Bank providing efficient and dynamic services in Islamic and Conventional banking through an expanded nationwide network.

Mission: To increase shareholders' value and provide excellent service and innovative products to customers through effective corporate governance, a friendly work environment & contributing towards equitable socioeconomic growth.

The core values of BOI are given as follows.

- Highest quality of service
- Professionalism
- Integrity
- Teamwork
- Innovation and utilization of the latest technology
- Risk Mitigation
- Corporate Social Responsibility

The bank has long been associated with business and commercial circles and caters to all sectors' financial needs and concerns. It has successfully extended funded and non-funded facilities to its customers for various business needs. Besides exceptional traditional business operations, the bank has also evolved in the digital market by launching its mobile application that allows users to stay home and operate remotely (I. Khan & Wasaya, 2018).

The bank deals with both conventional and Islamic approaches to banking and serves a wide variety of facilities to the public. Apart from personal, business, and Islamic banking, it provides financial services to female clients. The bank has maintained excellent stability in terms of its financial position and currently holds a market value of Rs. 16.54 billion (Nour Mahdi Abdullah, 2021).

3 Banking Industry in Pakistan

Pakistan has a stable and prosperous performance in terms of the banking industry. Four nationalized banks besides BOI, i.e., National Bank of Pakistan, Bank of Punjab, Sindh Bank, and First Women Bank, have large network operations all over Pakistan. Indus Bank and Punjab Bank are provincial banks of Pakistan. Furthermore, 15 commercial banks in Pakistan heavily contribute to the economic growth of Pakistan's service sector. These are associated with agents, brokers, institutions, intermediaries, loan facilities, etc. Commercial banks and microfinance banking have significantly improved Pakistan's business environment by granting loan facilities. Six foreign banks are involved in the industry (Kumail Abbas Rizvi et al., 2018).

3.1 Political Conditions

Every economy aims to have a sound and stable financial system to ensure the smooth running of the economy. The Pakistani financial sector (PFS) faces many issues because of the unstable economic system. Since independence (1947), Pakistan has faced almost 25 governments, including elected, interim, and military governments. The Pakistan Banking Council (PBC) was set up after its role in 1971 SBP was distorted after the nationalization period (State Bank of Pakistan, n.d.). The purpose of the PBC was to monitor and inspect the banks and oversee the nationalization objectives. In 1977 a military government again gave licenses to private banks to operate side by side. Due to the higher levels of corruption, the banking sector has faced political instabilities each time (Haris et al., 2019).

In May 2018, the Federally Administered Tribal Areas (FATA) was declared part of the Khayber Pakhton Khwah (KPK) province. This reform was a decisive step toward completing Pakistan's unity and establishing the rule of law and democracy in the region. The security conditions in KPK are tense due to threats of terrorism from extremist groups (Begum, 2018).

3.2 Economic Conditions

The service economy of KPK was run by remittances having a growth of 5.1% from the period of (2013-17) according to the publication. 20% of incomes in KPK is generated through the remittances received. According to the World Bank collection of development indicators, the financial sector in Pakistan provided 57.9 percent of GDP as domestic credit in 2018. The service sector of Pakistan contributes around 59.6% (2016-17) to the GDP and around one-third of employment. The service sector of Pakistan contributes almost two-thirds to the final economic share. In previous years, Pakistan's economic structure has changed with the major results, starting from 57.1% of contribution to GDP in (2009- 2010) and increasing to around 59.6 % in (2016-2017). This sector has contributed to much of the growth.

3.3 Competition

The banking sector of Pakistan has shown significant progress in the past years. However, since the existence of many banks, it has raised policy issues related to competition in the banking sector. The amendments in the banking act 1974 transferred shares of five big state-owned banks to the private sector. This caused the state-owned banks to be transferred to private banks, and secondly, new banks were established in the country, transforming the banking sector to become less concentered. The opening of new banks caused issues with mergers and acquisitions. Mostly the small banks faced difficulties competing with the large banks and maintaining minimum capital adequacy requirements imposed by the central bank (Tahir et al., 2016).

Currently, the banking sector is primarily owned by the private sector, making it a competitive environment for all banks. Moreover, the emergence of Islamic banking has also increased the completion level as they deal with traditional interest-based methods per people's religious beliefs. Islamic banks contribute around 10% of the overall banking sector, being an aggressive competition to conventional banks. Moreover, the changes in technology in the banking sector have helped the delivery mechanism of existing banking services and led to the development of new business avenues (Casper & Ait Allali, 2017).

The existence of ATMs, debit/credit cards, and online banking facilities has increased the competition. An increasing number of open-end mutual funds operating in the money and capital market have increased, competing with the banking sector to mobilize funds from the same investors and depositors. Similarly, microfinance banks are crucial in promoting banking Bottom-of-the-pyramid segment and transferring small funds nationwide.

4 Background of FATA

The FATA was a semi-autonomous tribal area in northwest Pakistan that existed from 1947 until 2018 when it was amalgamated with the neighboring state of Indus Pakhtunkhwa. It was made up of seven tribal agencies (districts) and six border areas, all of which were regulated directly by Pakistan's federal government under the Frontier Crimes Regulations. It was bordered on the east, south, and south-east by Pakistan's provinces of Indus Pakhtunkhwa, Balochistan, and Punjab, and on the west and north by Afghanistan's provinces of Kunar, Nangarhar, Paktia, Khost, and Paktika. Most of the population in the bordering provinces of Khyber Pakhtunkhwa and Northern Balochistan, as well as in the areas bordering Afghanistan, consists of the Muslim Pashtun people.

Since 11th September 2001, the tribal territories have emerged as a significant breeding ground for militancy and terrorism. In response to this escalating threat, the Pakistan Army has undertaken ten operations against extremist groups, the latest being Operation Zarb-e-Azb in North Waziristan. With the resulting destruction of schools, hospitals, and houses, around two million people have been displaced from tribal communities. On 2nd March 2017, the federal government discussed the potential merger of the tribal territories with KPK. However, certain political groups opposed this union, asserting that the tribal areas should maintain their distinct status as separate provinces within Pakistan. (Z. A. Khan, n.d.)

On 24th May 2018, the National Assembly of Pakistan voted in favor of an amendment to the Pakistani Constitution for the FATA-KP merger, and the Senate approved it the next day. Because the modification will affect the province of Indus Pakhtunkhwa, it was brought to the Khyber Pakhtunkhwa Assembly for approval on 27th May 2018 and was approved by a majority vote. The FATA Temporary Governance Regulation, a collection of interim laws for FATA until it merges with Khyber Pakhtunkhwa within two years, was signed by Pakistan's President on 28th May 2018. FATA was formally united into Khyber Pakhtunkhwa after President Mamnoon Hussain signed the 25th Amendment on 31st May 2018 (J. A. Khan & Mahmood, 2018).

The former FATA area's residents are among the country's poorest segment. Despite having 2.4 percent of Pakistan's population, it accounts for just 1.5 percent of its GDP, with a per capita income of about $663 in 2010. Only 34% of families escaped poverty in 2010 (Haris et al., 2019). The economy of the former FATA territory is primarily pastoral, with minor agricultural conducted in the country's few fertile valleys due to the region's tribal system. It has around 1,000 square kilometers of irrigated land. Unfortunately, the region is a crucial hub for optimum trafficking and other illegal activities.

According to Craig Cohen, an expert at the Center for Strategic and International Studies in Washington, D.C., foreign aid to the area is a challenging prospect. Because security is a challenge, local nongovernmental groups are tasked with distributing relief; nevertheless, there is a lack of confidence among NGOs and other powers, which impedes delivery. In the Former FATA area of Pakistan, Islamist terrorists frequently assault Pakistani NGOs. As of July 2007, the American chapter of Save the Children was distributing funds secretly in the region due to widespread antipathy to any sign of foreign involvement.

The notion of banking is not well-known among the people of FATA. Thus, the government recognized it as an urgent need to facilitate and operationalize the banking and financial services of the new region.

5 Possible Predicted Problems

After finalizing the decision to establish branches in KPK, Mr. Arif deeply contemplates the potential challenges of setting up new branches. He envisioned several problems that he believed could impede the smooth operations of their branches.:

5.1 Security and Location Issues

The turmoil in Afghanistan had blocked Pakistan's access to the central Asian States and affected Pakistan's potential as a trade corridor, causing instability in FATA. FATA has many security issues because of the threat of extremist groups and is considered an unsafe area for business operations. The delayed socioeconomic development in FATA has caused the state's inability to pursue the gradual integration of the area, allowing outsiders to exploit the situation further. FATA is an underdeveloped area that still requires a lot of work for a smooth economy and better living standards for its residents. The lack of quality governance has caused crises in KPK, keeping it underdeveloped. Limited economic opportunities are available that force people into the illegal sector (Parveen et al., 2020).

A weak regulatory environment and lack of law enforcement discourage service businesses from investing, impacting employment and growth. Moreover, the police and other civilian securities in KPK and FATA are extremely ill-equipped and underfunded to maintain law and order. FATA residents' fundamental rights are compromised, while the administrative systems seem insufficient and financially mismanaged. Mr. Arif was worried about these factors when he started chalking plans for their operations in FATA.

5.2 Economic Issues

One of the most alarming factors for Mr. Arif was the economic condition in FATA. The state is deprived of a well-established economic system, weak human development indicators, and acute disparities with national standards that created an environment in KPK and FATA, an opportunity for exploitation by the military groups. Most people living in KPK hardly had any job opportunities, forcing them to migrate to other cities in Pakistan or abroad for work. Opening up branches of Indus Bank itself would be a challenge for Mr. Arif in this environment. KPK and FATA offered limited opportunities for earning a decent livelihood since the young population was mainly unskilled with hardly any education. When he launched the branches in this underdeveloped area, Mr. Arif's had these factors in mind.

5.3 Electricity & Maintenance Issues

The power supply was another factor that Mr. Arif thought. Since KPK is underdeveloped and lacks proper infrastructure, it faces many electricity issues. One significant challenge that Mr. Arif identified was the frequent disruption of the power supply in the city. The average load shedding in FATA is around 16 hours which made Mr.Atif worry more about the smooth running of the bank's services for the public. Recognizing the importance of electricity for the operational needs of Indus Bank, he realized that working in an environment without electricity would pose extreme difficulties for the bank's staff. This was particularly crucial as banks require the installation of air conditioners and basic electrical infrastructure, including the ATMs that were planned to be opened in the area. Furthermore, Mr. Arif acknowledged that another obstacle to the smooth functioning of the branches would be the lack of human capital for repair and maintenance tasks. With limited resources regarding skilled personnel available in the region, addressing repair and maintenance issues would pose a considerable challenge for the operations of Indus Bank's branches.

5.4 Staff Issues

After deciding to open branches in FATA, Mr. Arif faced the challenge of selecting employees to work in the region. However, upon examining FATA's development, he grew increasingly concerned about the difficulties the staff would encounter. The first major problem was the lack of suitable accommodation options. There were no hotels or Airbnb houses for the employees to rent and reside in. Additionally, the physical security of the staff was a significant concern since FATA itself was not considered a safe living environment. Furthermore, Mr. Arif contemplated how to address the basic needs of the employees, including their food requirements, as well as the daunting challenge of providing suitable shelter for them. Ensuring proper accommodation for the staff would be a critical issue for Indus Bank to overcome to commence operations in FATA.

Moreover, there are gender biases in such areas as women are not encouraged to work in FATA because they are mostly illiterate with backward thinking. The people of KPK believe that the sole earner should be men only and girls get married at young ages. Secondly, people are extremely religious and believe a woman should observe “pariah’’ and stay indoors in Islam. This was again a very alarming factor for Mr. Arif as he had to employ some female staff in the new branches of FATA.

5.5 Initial Meeting with the BOD

Recognizing the importance of stakeholder involvement in major business decisions, particularly in the case of a public limited company, Mr. Arif understood the significance of informing and involving the Board of Directors throughout the decision-making process. He recognized that obtaining their input and approval regarding resource allocation was essential for the effective planning and execution of the branch setup in KPK. The Bank of Indus started with an initial meeting with the BOD where all company goals were analyzed and ensured that the new operation must align with the overall business strategies and that all pros and cons be recognized.

Mr. Arif was not just concerned about the operational issues of the bank but also the profitability. While the objective of the nationalized bank was to serve the community and contribute to the development of the newly merged territory, Mr. Arif observed that the Board of Directors held a broader perspective during the meeting. Their focus extended beyond simply setting up branches and providing financial products and services to the local population. Instead, the directors expressed a strong interest in ensuring that every step, resource allocation, and task scheduling led the branches toward self-sustainability. They aimed to achieve breakeven within 18-24 months, emphasizing the importance of the branches operating as viable and financially independent entities. The director assured the board that the bank would make profits irrespective of its socioeconomic responsibilities as a nationalized and provincial bank of Pakistan. Hence, each brand must ultimately become strong enough to create individuality.

The protagonist highlighted that the initial meet-up and the corresponding problem were considered entirely different project management, a discrete science. There is always a sequence, a way, and an organized procedural and systematic approach to take steps in businesses, whether it is a routine work implementation or a major transformational decision to be taken. Therefore, as per the usual practice of the Board of Directors, all the goals, aims, and objectives, as well as the necessary backend business tasks, steps, and execution techniques, were documented on paper along with a timeline for their execution. This meticulous approach of writing each consideration was a customary practice of the BOI to ensure comprehensive planning and effective management of projects. The staff drew all comprehensive projections, including staffing, financing, selecting locations, budgeting, and targeting clients. The timeline was a primary concern for the bank as it had to undertake significant challenges and execute big decisions quickly. If anything went beyond the projected time, it impacted the overall project and its element. The ground realities that came up and were outlined regarding the problems were the three stages:

- Establish the branches
- Operate the branches
- Make it profitable

After careful consideration, the board reached a conclusive decision that the project would progress through three distinct stages of growth. The initial stage would ensure a solid physical setup for the bank's branches and establish the necessary infrastructure and facilities. Following this, the bank would transition into the operational phase, actively engaging in transactions and providing financial services to the local population of the new FATA region. However, the board identified the core stage and primary concern as the bank's profitability. The primary objective was to ensure sustainable profitability, guaranteeing the branches' long-term financial viability and success. During their initial meeting, the directors emphasized that all goals would be accomplished while adhering to regulations, laws, anti-money laundering standards, and policies set by both the internal organization and the government of Pakistan. An important focus was given to analyzing and attracting the target market and potential customers. The bank was committed to meticulous implementation throughout its understanding of business performance and operations. The bank employed the KYC (Know Your Customer) approach and conducted thorough research and analyses to gain insights into the customers and the local population, recognizing the importance of these efforts in serving their needs effectively.

5.6 Upshots of Customer Research

After nearly 16-17 months of operation, the branches in FATA have encountered the reality of the region's population dynamics. It is essential to acknowledge that while a significant number of people inhabit FATA, it is primarily characterized by rural society. Unlike heavily urbanized areas, there is a lack of proper urbanization and development in these regions of Pakistan. The population is scattered throughout the area, and despite the substantial overall population of approximately 10 million across the seven districts, it is crucial to understand that this population is widely dispersed.

In relation to the economy, FATA's financial well-being relies heavily on various factors. One significant factor is the significant presence of expatriate individuals, particularly in the Middle East, specifically the United Arab Emirates and Saudi Arabia, and other major countries in the region. These expatriates contribute to the local economy through regular income through home remittances. But what exactly are home remittances?

A migrant worker's home remittance is the lawful transfer of money from their employer to their family or dear ones in Pakistan. Thousands of individuals leave their home countries in search of a better life and more economic prospects. Currently, the home remittance is around 2 billion dollars for Pakistan. From this particular amount, at least 45%, equal to 900,000,000 dollars, is given to Indus Pakhtunkhwa. In addition, from this 45%, a significant proportion of wealth is distributed into the merged districts of Indus Pakhtunkhwa, which are mainly the seven major districts as mentioned earlier.

Moreover, the people of FATA are extremely active regarding trading practices throughout the nation. If we talk on international grounds, China is a major trading partner of these seven districts of FATA. Not only with China, but the overall trade levels are very high, considering FATA. As a result of the research, FATA's third most important strength is the 'carriage.' Of the trucks that are operating from Pakistan, more than 50% of them, according to the people, belong to Indus Pakhtunkhwa. Merged districts also have a share in this. The people of these merged districts are very good in terms of transportation. If we refer to the carriage business specifically, many people from Pakistan play a vital role in running this business. They often have very large streets i.e., greater than 500 streets. Hence, this contributes as a major source of income for the people of FATA.

In addition, every district has its peculiarity. Some of the districts perform very well in terms of copper. For example, South Waziristan has various copper mines from where the copper is transported to other parts of the country. The refining of copper is done on the outskirts of Islamabad, near Tarnol. Besides this, many Chinese people work in small-scale copper businesses. However, the copper is brought from one of these districts, mainly from South Waziristan. The gold is also extracted from the copper and sold by the local Chinese people, or they simply take it.

Likewise, the pine nut is part of the biggest trade in South Waziristan and North Waziristan. By the surveys done, the income generated from the trade of pine nuts is considerably high. In addition, if we consider the kinds of businesses that suit the banking sector of Pakistan, the business of pine nuts is one of the main areas that contribute towards the economy's growth. Being a part of the banking sector of Pakistan, we greatly encourage the growth and development of such businesses and target them.

In addition to the previously mentioned districts of FATA, another district called Mumant is known for its abundant marble resources. Marble and granite mining activities are conducted in this district. Moreover, a large industrial estate has been established in Mumant, exclusively dedicated to marble-related activities and housing marble factories. However, it is worth noting that there have been significant challenges associated with blast mining techniques employed in the region. In this process, the mine is first blasted, and then the marble is extracted. Unfortunately, during this process, a considerable portion, approximately 50% to 60%, of the marble used gets destroyed. Only about 40% to 50% of the marble reserves yielded proper marble slabs that could be extracted and utilized for high-quality products. The remaining 40% to 50% of the marble was used for chips, low-end product manufacturing, and other purposes.

Furthermore, in the last 5 to 10 years, top-of-the-line wire-cutting and block-mining machines were gradually introduced. The whole block of the mountain is cut through the wire-cutting process through these machines, and there is no wastage during that procedure. Brand new machines were initially launched, but later on, used machines were brought into the market as they were comparatively cheaper. The miners started to opt for the used wire cutting and block mining machines. However, these wires cutting and block mining machines are currently being produced in Gujranwala at a much cheaper rate. Therefore, the mining sector of Pakistan is benefitting from this particular factor of marble mining to a great extent.

Apart from marble mining, significant coal reserves in certain areas lead to coal mining operations. If you travel from Peshawar to Kohat by road, you will witness extensive coal mining activities on both sides of the road in the mountains surrounding the FR area of Kohat. Coal is extracted from the mountains and transported to the road using trolleys. An intriguing aspect of this process is that the mines are not privately owned but are part of tribal community lands. As a result, many households are involved in coal mining, directly impacting their income. The company responsible for mining operations typically has agreements with the respective tribes. These agreements often state that the registered households of a particular tribe will receive a larger share of the income based on the number of family members living in each household. Therefore, the income from the mines is distributed proportionally to the number of family members in each household. Given their role as a banker, various arrangements and complete agreements have been made with these tribes. Bank accounts have been opened for all households, and the generated income flows directly into these accounts, ensuring transparency and facilitating the financial management of the funds.

Therefore, there are various small areas in which these tribal people work for their living. They are also employed in several other areas of Pakistan. A large section of these people is part of the armed forces of Pakistan, such as; the Airforce, Army, and Navy. So, they receive their salaries and pensions too. The government is doing a lot of spending in these areas as well. Many colleges and hospitals are being developed in FATA, so the budgets of these projects are also routed through us, so we get benefitted from this too. The government's welfare programs, including the Ehsas program and Benazir Income Support Program, are also utilized through the bank branches.

Most importantly, the micro-finance loan schemes of the Government, like the 'Kamyab Jawan Program' of the Federal Government, cover FATA and its merged districts as well. Besides that, the Provincial Governments have developed exclusive programs for these merged districts, such as interest-free loans of up to 10 lac rupees. There is another scheme of Government, called the Insaf Rozgar Scheme, through which we have dispersed around 10 million rupees to needy people who want to start a small-scale business. Mostly, the financing amount is about 100,000 to 200,000 rupees. Thus, after the amount is recovered, it is again dispersed. So, it's a revolving fund process.

Hence, we are doing many activities, and we are glad that we made the right decision to open these branches at the right time. Now the Government and the people are also benefiting from our presence. In addition, the people who were trading and wanted to send money to their loved ones but could not do so due to the lack of an official and formal arrangement can now do so, and they find us very well-placed and close to their villages and houses. So, for now, the staff is from the other areas. Still, we are targeting various schemes where we will hire fresh people from those locations and train them so that they are appointed to senior positions in the times to come and are not dependent on outsiders. However, these things take at least ten years to occur.

6 Groundwork Implementation

6.1 Strategic Strengths

The Bank of Indus did not only successfully plan the entire project but also implemented the projections progressively on real grounds. Even though it was a major challenge for the business that held not only transitional changes in the strategies but was time-bound, the bank and the senior directors were aware of the strengths and opportunities they held in the KPK market. And this core potential led them to accomplish a healthy and productive implementation of their goal. The potential and opportunities that the new KPK had were very different from the urban potential market that has large-sized cities and is comparatively developed in the service sector. But truly, the Bank of Indus had a major edge of being the first mover. They had a grip on the market of KPK as the provincial bank and ultimately got the advantage of being the market leader in providing services to that local community. The people of these rural and unbanked areas are extremely loyal to their service providers. Hence, the bank was least concerned about the future competition prospects as even if any other commercial bank ever aims to gain a share in the market, the local people will not switch from their original and foundational facilitator as they deeply realize that this bank had served and supported them when no one was there. All these factors led to the bank's optimism and successful execution on physical grounds. Moreover, even though the new KPK was an undeveloped territory, the local people had enterprising nature, which was not only reflected by their businesses but also by their progressive lifestyles. The chairman of the Pakistan cricket board, Raheem Raja, highlighted in a conference the contributions and developments of KPK, stating, "*The future of Pakistan cricket team is dependent on the talent KPK is going to produce.*"

6.2 The Enacted Actions

The two Road journeys of Mr. Hafeez started on 2nd September 2019. Once again, he has to show his capabilities as a leader and a project manager who takes challenges that might shake many people. As introduced, the challenge to open branches in those regions where there is no concept of Banking was limited to just opening the branches and making them operational and profitable. But Mr. Honey was quite optimistic and knew this project would open doors to new opportunities.

Every organized project starts with planning and Mr. Hafeez went with the same approach asking themselves the 5 W's: who we are, what we do, why we do it, where we can approach our customers the best and when is the best time. During planning, he came across several predicted challenges based on their research and prior experience. Moreover, they came across a lot of hidden opportunities too. As this was challenging, but Mr. Honey got the blessing to use the opportunity in his favor what he did was he closed the branches which the bank has tried to operate through many different solutions and possibilities. This made the opening of the new branches more feasible as he didn't have to go through all the legal documentation from the very start for the new branches to use the license for the prior ones for the new project branches and also utilized the resources which were not being used productively in the branches of different areas. The project started with detailed research about the customer profile, what type of customer they will have in FATA, who will provide the service, and how they will execute the strategy.

As the people of FATA are religiously sensitive, they opted to go with their Islamic banking Sharia Compliance model of banking in those areas. Then they started to probe the sources through which most of the population draws its income. As per the data, FATA, a rural with very low technological advancement, is a hub for a great chunk of remittances in Pakistan, as the majority of the population was working-class people in the Middle East and UAE who used to send in monthly remittances to their families which comprise of 25% of all the remittances of Pakistan *(See Exhibit 3)*. Most of us know that the people of KPK and FATA are highly known for their trading skills and businesses. They are the people who comprise almost 50% of the transport sector of Pakistan. Moreover, most people are also part of Pakistan's armed forces, which means they have fixed incomes and pensions and salaries coming in monthly, which was also a positive sign for Indus Bank—keeping these big chunks of their potential audiences in focus. The bank also eyed the Mining sector, which was booming in revenue and Technology as the region of FATA and KPK has many coppers and marble mine and the companies with mining contacts must pay every household of the tribe whose mine is being used. The payments were automatic and dependent on the size of the family. As a bank, it was a good opportunity to make arrangements between the tribes and the Mining Companies.

Upon realizing the numerous opportunities in FATA, Mr. Hafeez and the project team became optimistic and recognized the significance of being present in those areas. They saw it as an excellent opportunity to provide a well-developed banking structure to the people of FATA and gain a first-mover advantage in the region. The project team understood that the new audience in FATA shared similar cultural and religious values with the existing customer base of Indus Bank. This meant that they had the potential to convert these individuals into loyal customers who had never been exposed to such banking services and had limited knowledge about the banking system. By entering the market early and offering comprehensive banking services tailored to the specific needs of the people in FATA, Indus Bank aimed to establish itself as a trusted financial institution and build strong customer relationships. They recognized the opportunity to educate and introduce the population to the benefits of banking services, fostering financial inclusion and promoting economic development in the region.

Now coming to the problems faced during these two and a half month's journeys, out of which the majority was predicted and some sprouted out of nowhere. Security was the biggest issue of opening the branches and making them operational in regions of FATA. This included the branches' security and the back-and-forth transportation of the cash to and from the branches. Moving next to the security was the availability of the location as in these regions, there was no concept of renting out places, and the population was scattered in a large number of small tribes which altogether made up a strength of 10 million that was a fascinating thing about this project that such a huge market was untapped by the banking industry of Pakistan. After going through different alternatives about the location, they came across a diverse solution per the region as the initial number of branches they had to open was 4. They opened two branches in military office buildings for the other two. They went from scratch and constructed their own.

After the security and location, the next hurdle lined up was staff availability, as their nearest branch was 120 km away from the new ones. To make the staff available date took the staff from the other branches and promoted them a level up and placed dam in these new branches a new problem that arises with the staff is that finding or arranging a place for them to live at as in the region there was no concept of renting out the properties so it was quite difficult for them to find a place for the staff. How they cope with that is they made rooms over their branches for the staff where they can live. Another big thing was the maintenance of the branch and the IT equipment as it was rural, there was very little use of technology and IT equipment, and it was not readily available due to the less demand and trade in the region. After all the above mentions were taken care of, the next hurdle they faced was the electricity issue which was not available most of the time, so they had to bear the cost of the generator running most of the time, to go with that they had solar panel installations which was a cost itself but resolved the issue of electricity.

Despite the bank's policy of providing 24/7 ATM services, only a few transactions were made after 6:00 p.m. due to the area's local lifestyle and cultural practices. As the day ended and the sun set, the banking activities slowed down, resulting in lower ATM usage during the evening and nighttime. The bank had to keep the generator running throughout the night to ensure the availability of ATM services. However, despite these challenges, the bank remained focused on achieving profitability for the branches. Under the supervision of Mr. Hafeez, all four existing branches have become profitable within the designated time frame of 24 months. This success led to seven more branches, bringing the total to eleven branches. Six of these eleven branches are already profitable, demonstrating the bank's ability to generate income and meet its financial goals. The remaining five branches are progressing in the right direction and are expected to become profitable. The bank's commitment to profitability is a testament to its strategic planning, efficient operations, and effective management under Mr. Hafeez's leadership. By establishing profitable branches in the region, not only is the bank achieving its financial objectives but also contributing to the area's economic development by providing banking services and facilitating financial transactions for the local population.

6.3 Relocation of Existing Branches

FATA has seven districts (Khyber Agency, Kurram, South Waziristan, Orakzai, Mohmand Agency, Bajaur Agency, and North Waziristan). After finishing the initial Board of Directors meeting and discussing all the major and predictable problems that can be a hurdle for Mr. Atif, it was time to get things done on the ground. To complete his task, Mr. Arif had to open several branches in different districts of FATA and make them operational in two and a half months. After discussing it with his colleagues and subordinates, Mr. Arif was faced with a dilemma. Should he go for opening up completely new branches or should he go for relocation of existing branches?

After thinking about it for a long time. He decided to go with the second option (i.e., relocation of existing branches). But in a region like FATA, where issues like lack of Infrastructure are not foreign to many individuals, finding the right places and buildings was a big hurdle he had to overcome. Initially, the plan was to relocate four nearby branches to the following districts of FATA: Kyber Agency, Khurram, Bajaur Agency, and Mohmand Agency. There was a need total of four suitable buildings in a whole region, but they failed to find them in two regions (Bajaur and Mohmand), so buildings had to be constructed on urgent bases to complete the task of relocation of branches as soon as possible. Although he planned as much as he could to make things go as smoothly as possible, when you are working on such a big project, you are certain to meet many uncertain situations. One such situation was opening a branch in a government compound for security reasons. Access to that government compound was not easy for the masses of FATA, so the whole branch hardly had 5 to 10 government accounts.

Once the selection of branch locations was finalized, the task of staffing the newly established branches in FATA began for Indus Bank. However, due to its status as a government bank, the hiring process had to be carried out meticulously. In the initial phase, existing employees from within the bank were transferred to these branches, ensuring that they hailed from nearby regions and were familiar with FATA's local values and customs. This approach aimed to facilitate a better understanding between the bank staff and the local population.

Attractive perks and benefits were offered to incentivize and motivate the transferring employees. Some employees were promoted to higher ranks or allowed to take on more significant roles within the new branches. Mr. Arif recognized the importance of keeping the staff satisfied and motivated, especially considering the upcoming challenges they would face while working in the new branches. Understanding that monetary incentives alone might not be sufficient in the long run, a rotation policy was introduced. After a certain period, newly recruited employees would be transferred to the established branches in FATA, while the previously transferred employees would be called back to their home regions. This policy aimed to address the issue of homesickness that could affect employee motivation and well-being. Indus Bank aimed to maintain a motivated and engaged workforce in the newly established branches by implementing a rotation policy with additional perks and incentives for transferring employees. This approach ensured a continuous flow of fresh perspectives and experiences while providing opportunities for employees to stay connected with their families and communities.

6.4 Financial Bearings

It truly is impossible to continue any business-related activity without the consideration of financial aspects and hence, executing such a transformation act heavily reshapes and directly affects the business's numbers. However, fortunately, being a provincial bank with such a strong market share and experience.

Table 1 Six Years Financial and Operating Data (Rupees in Million)

	2016	2017	2018	2019	2020
Deposit	157,020	159,247	171,168	182,168	203,072
Advances(net)	31,644	83,369	95,012	109,742	129,063
Investments	141,602	140,474	94,233	146,911	113,479
Total Assets	206,400	245,132	223,095	306,305	288,300
Capital & Reserves	14,685	14,983	13,809	14,982	16,605
Profit before tax	3,240	2,795	707	2,261	3,806
Profit after tax	2,020	1,790	466	1,306	2,152
Return on Equity	14%	12%	4%	9%	13%

Source: The Bank of Indus- six years highlights

Even though the bank undertook various long-term and numerical projections, the financial statements provided posted and provided show a clear scenario in the six years' operating and financial data shown in Table 1, that the investments have decreased to 94,223 and are least in the five years from 2016-2020. Moreover, the overall capital and reserves have also decreased as opening branches in a limited time led to the usage of resources unexpectedly. The worst impact came on the bank's profit, the core aim of every business operation, and dropped drastically by approx. 74% is a major factor affecting the company's overall financial ratios and performance. And so, the return on equity is reduced to 4%, which shows the percentage of return from the assets. ROE is the return on net assets and a gauge of a corporation's profitability and efficiency in generating profits. Apart from this, the capital and reserves after valuation show a deficit in 2018 whereas, previously, it remained positive and in surplus but changed to the deficit and negative 2,105 rupees million. Whereas, the investments by segment table clearly show the share price have decreased to the least compared to other past years and came on to 684 rupees million, ultimately leading to the overall decrease in the share valuation and market prices of the public stocks.

6.5 The Final Step Towards Execution

The business ultimately became profitable, so the decision and challenge became profitable. Every bank gives their branches around two years to turn towards generating profits, which is what came true for the Bank of Indus. And hence conclusively, the operation and strategic implementation are headed in the right direction regarding turnaround time.

6.6 The Locals to Be Engaged

Once the branches were established, it was a major step to inform the residents and local community about the financial services and the need to be created and unveil the banking facilities they require to improve the development and boost the provincial economy compared to the rest of the country. The region of Khyber Pakhtunkhwa truly is more religious than the people of other regions of Pakistan. FATA, as a society, is really sharia sensitive as well, so to strengthen its roots as a bank in that region, Mr. Arif had to make sure that they were aware people about two things: How banking can help people of FATA manage their finances and How Islamic banking is different from the conventional banking, it was necessary to emphasis on the concept and point of difference of Islamic banking compare to conventional banking (because of the religious nature of the people of FATA region). Indus Bank had a bit of an advantage in that thing. They already had Sharia scholars, and most of them were Pashto-speaking. Apart from that, during the inauguration ceremonies of branches, they conducted road shows for around 40 to 50 people. The audience included Sharia scholars, local khateebs of nearby mosques, community members, and different government officials. During the inauguration and ribbon-cutting ceremonies, Sharia scholars used to educate people about Islamic banking and how it differs from conventional banking. This road shows Idea worked really in favor of Indus Bank as people in the province of Khyber Pakhtunkhwa and the region of FATA put a lot of their trust in Islamic scholars and local khateebs of mosques, and by communicating with them and educating them, Indus Bank made it easier for their potential customers to trust on them.

7 Conclusion

Truly, the decision taken by the national assembly regarding the merging of two separate territories; KPK and FATA; of the Islamic Republic of Pakistan ultimately ended up being a transformational evolvement for both the local community and the provincial bank of responsibility to serve the financial needs of that area, names as The Bank of Indus (BOI). The bank was not only directed to operationalize the branches but they were all given 2.5 months. Will they be able to meet the target, or will they seek some more time? What if they reduce the number of essential branches from four to keep the situation and new project more practical and easier? The entire story was headed and narrated by the vice president of Pakistan, Mr. Arif, who acted as a leading and influential personality in the complete strategic operationalization and execution. It all moves on with the prediction of foreseen constraints along with the outcomes of the initial meetups of the senior board of directors. The recruitment, residence, security, finance, awareness, economic, and infrastructural issues genuinely existed in the underdeveloped new zone of FATA, where there was no such concept of the banking system and financial services. Even though the bank had the first-mover advantage, it still had to ensure that all branches get self-sustained within the initial years of their establishment. The story did not only revolve around the internal operations and decisions, but rather the engagement of the residents, and the analytical research was also undertaken to interpret the real-world scenario of that specific zone. Therefore, the entire operation and project went through its milestones and ended up with the successful execution of what was projected.

NOTE: Names of companies and persons are changed to keep the secrecy of sources.

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Teaching Notes

Teaching Objectives

This case is written to be conveniently taught in a class of 180 minutes. The main objectives of this case study include understanding the importance of relocating branches of a well-established bank operating in one part of the country and how challenging it becomes to reposition the same bank in another country without compromising on its standards and values. This case can be taught in marketing, services marketing, strategic marketing, brand management, consumer behavior, and organizational behavior in under and post-graduate programs. Its key teaching objectives include:

- To identify critical factors that help sustain services in a different market and environment.

- To be consistent in its operations in current and new branches.
- To introduce some of the risks that banks may face in FATA while operating.

Suggested Readings

The following readings are suggested for students to read to better understand branding and relocating their businesses into other markets and environments.

- file:///C:/Users/ICT/Downloads/case-%20Taco%20Bell.pdf
- Services Marketing (people, technology & strategy) - 9th edition by Jochen Wirtz & Christopher Lovelock

Suggested Assignment Questions

- What is the importance of managing relationships and building customer loyalty, and what strategies did the bank use to develop loyalty bonds after the branches were operationalized?
- Discuss the key strengths that helped the management overcome their challenges.
- Do you think that forehand customer knowledge and data played a great role in the success of these branches?
- How this Project became a blessing in disguise for Khyber Bank?