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GORDON INSTITUTE
OF BUSINESS SCIENCE

University of Pretoria

South African Aspirant Multinationals and their Move into Emerging Market

Economies: How Emerging Markets are Chosen for Market Entry:

Standard Bank as a Case Study

MAIDEI LUCIA MATIKA

28530081

**A research project submitted to the Gordon Institute of Business Science,
University of Pretoria, in partial fulfillment of the requirements for the degree of
Master of Business Administration**

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This study originated in an interest in the evolving field of emerging markets and ongoing efforts being made by academics to test current theory and develop theories and approaches for emerging markets, which constitute a major growth component of today's global market. This study specifically set out to verify whether or not Multi-National Corporation (MNC) theories and approaches proposed by International Business researchers and theorists in respect of strategy, locational considerations and market assessment also apply to multinational firms coming out of emerging markets, dubbed Emerging Multi National Corporations (EMNCs) or Emerging Multi National Enterprises (EMNEs). Ongoing review of present MNC theory and its applicability to these newcomers on the block is being undertaken and is coupled with research into the development of business models and approaches specific to EMNCs.

The research was undertaken as a single case study, using the Standard Bank Group (SBG) and its Africa operations as an example of an EMNC with the specific objective of verifying present MNC theory in the areas of strategy, locational consideration and market assessment. Qualitative interviews with experts from the SBG Africa operations provided interactions and insights on the central themes of the research and these, in the light of approaches argued in the available literature, formed the basis of the research findings.



DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorization and consent to carry out this research.

.....
Maidei Lucia Matika

.....
Date



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First and foremost, I would like to acknowledge Almighty God, without whose consistent support, I would have been unable to undertake this two-year journey.

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CHAPTER 1: PROBLEM DEFINITION

1.1 Introduction

With the introduction of a new global business order and the ever-increasing importance of emerging markets, a rising number of multi-national corporations from these markets are entering the global arena of business. Dubbed as Emerging Multi-National Corporations (EMNCs) (Salehizadeh, 2007), these firms are expanding beyond their local boundaries to take on overseas markets in other emerging, as well as developed economies by such methods as establishing affiliates or even through mergers and acquisitions. Research reveals that these firms are 'attaining a large share of the world's Foreign Direct Investment (FDI) stock' and are 'achieving international status at a rate equal [to] or faster than their First World Counterparts' (Salehizadeh, 2007, p. 1152).

Further study has been done on the advantages of these EMNCs over the traditional Multi-National Corporations (MNCs) in successfully entering emerging markets. Although MNCs have distinct advantages over their new counterparts, including incumbency and vast resources, EMNCs have a distinct advantage over foreign multinationals in dealing with what have been termed institutional voids – the absence or poor functioning of specialist intermediaries needed to bring buyers and sellers together in markets (Khanna, Palepu and Sinha, 2005). This distinct advantage results in EMNCs being able to successfully navigate their way in emerging markets.

In the case of South Africa, with the re-entry of the country onto the global stage in 1994 a number of South African companies unbundled their operations to return to core competency or firm-specific advantages (FSAs) that could be exploited within similar type markets and would ensure the ability of these firms to compete on a locational basis (Klein and Wöcke, 2007). Some of these firms have gone on to become global contenders within their industries of operation through, among other measures, the upgrading of their capabilities and resources to compete with the traditional MNCs within a global setting.

The basic point of departure for these global contenders was, however, the ability of these firms to springboard into the global arena by protecting their home markets while at the same time exploiting locational similarities with other emerging markets. Without a doubt, emerging markets constitute a major growth opportunity in the new world economic order (Arnold and Quelch, 1998) and are the focus of not just the traditional MNCs but the EMNCs as well. However, with the exception of a handful of companies, EMNCs are still not in dominant positions in their industries of operation. Questions remain around strategy and how these EMNCs can succeed in becoming major global players.

1.2 Research scope

The scope of this research is described by the following relevant definitions:

- Emerging markets (EMs) will be used to mean all developing economies within Africa (as classified by the United Nations Conference on Trade and Development [UNCTAD]) that have a low to medium per capita income, have a level of economic development within a relative pace (GDP growth rate) (Arnold and Quelch, 1998) and are net recipients of FDI;
- MNCs will be used to mean firms with some foreign sales or foreign production, usually ten percent (10%) or more of their operations (Ramamurti and Singh, 2009, p. 44);
- EMNCs will be used to mean emerging market multi-national corporations that target other emerging and overseas markets through outward FDI where ‘they exercise effective control and undertake value-adding activities in one or more foreign countries’ (Luo and Tung, 2007, p. 482).

The research specifically investigated the approach followed by the Standard Bank Group of South Africa (SBG) in expanding into emerging markets within Africa. As one of South Africa’s four major banks and a leading South African investor of FDI stock into other emerging markets, the SBG is best suited for a case study aimed at enhancing knowledge on EMNCs and their process of market assessment and entry into other EMs within Africa, including what locational factors are considered in determining geographical areas for investment.

1.3 Research Motivation

The research was motivated by an interest in verifying existing theory frameworks on MNCs and the approach followed in determining their locations into other markets. Specifically, the research focus is on the applicability of existing MNC theory to EMNCs and their process of market assessment and choice of location. In this regard, the investment of the SBG in Africa and the process followed in locating and entering those EMs is viewed as a relevant contribution to the study on EMNCs and the applicability (if any) of MNC theory, given the following:

- The SBG is the largest bank in South Africa, with more than 140 years' involvement in the economy of southern Africa;
- The SBG aspires to be a leading EM financial services organization;
- The SBG operates in 17 African countries and remains focused on building its operations within Africa;
- During 2008, the SBG received 13% or R1,86b of its headline earnings from operations in other African countries, as opposed to 10% from countries outside Africa;
- The SBG is one of the leading EMNC investors of FDI stock in other African countries.

1.4 Background of the

1.4.1 History

The Standard Bank Group (SBG) was established in 1969 as a holding company of the Standard Bank Investment Corporation. The Group's history has its background in the establishment of the Standard Bank of British South Africa in 1862 and subsequently the Standard Bank Limited in 1962; the latter was a holding company based in England and was subsequently renamed the Standard Chartered Bank Plc. Following the purchase of a 39% equity stake from the Standard Chartered Bank in 1987, the Standard Bank Group became a wholly South African owned holding company.

According to the Standard Bank website and records, the re-establishment of the SBG's African links began in 1991 through the acquisition of the former ANZ Grindlays Operations, through which banking operations were established in Botswana, Kenya, Uganda, Democratic Republic of Congo (formerly Zaire), Zambia and Zimbabwe. A further branch was established in Swaziland in 1998. Further expansions through minority holdings in banks in Ghana and Nigeria were also undertaken.

In addition to the above African operations, expansions were also made to England, Jersey and the Isle of Man, with a full branch and full banking operations also undertaken in Taipei (branch only), Russia, Hong Kong, Singapore and Brazil.

More recently, the SBG acquired a 20% shareholding in the Standard Bank of China (SBC) in August 2006, set up operations in Angola and then sold a 20% shareholding to the Industrial and Commercial Bank of China (ICBC) during 2008. A further investment was also made during 2008 through the acquisition of a 60% interest in CFC Bank in Kenya, thereby enhancing its Kenya operations.

1.4.2 Vision of the SBG

The vision of the SBG is centred around Africa and the building of its operations on the continent. At present, the SBG has presence in 17 African countries, and its objective is to be a leading emerging market financial services organization focused on Africa and other emerging markets, particularly those with links to Africa. This focus, according to SBG records, ‘underpins recent acquisitions in Nigeria, Kenya, Russia, Argentina and Turkey’. This focus is of specific interest to the research, given the objective to investigate the process followed by EMNCs when investing in other emerging markets, with a specific focus on strategy and locational considerations and the applicability, if any, of approaches highlighted in MNC theory.

1.4.3 Structure of the Standard Bank Group

The SBG comprises the Standard Bank of South Africa Limited, Stanbic Africa Holdings, Standard International Holdings and an investment in the Liberty Group. The organizational structure of the SBG is as follows:

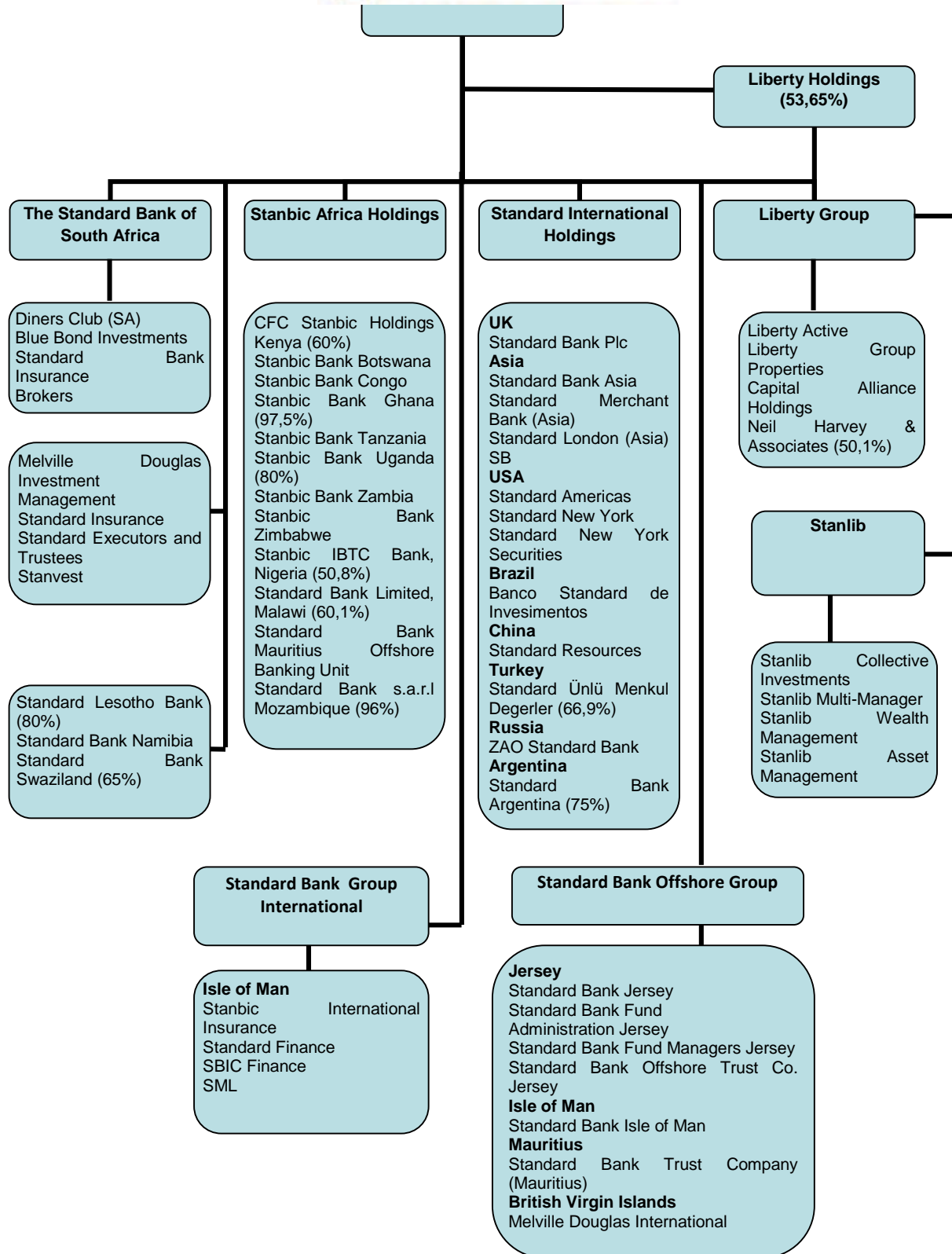


Figure 1.1: Standard Bank Group Structure. Sourced from the Standard Bank Group Annual Report, 2008, p. 279

Specific for the Africa operations, the SBG operates under its Stanbic Africa Holdings subsidiary and its operations of Standard Bank Namibia, Standard Bank Swaziland (65% shareholding) and Standard Lesotho Bank (80% shareholding).

The operational structure of the Africa operations is as depicted below:

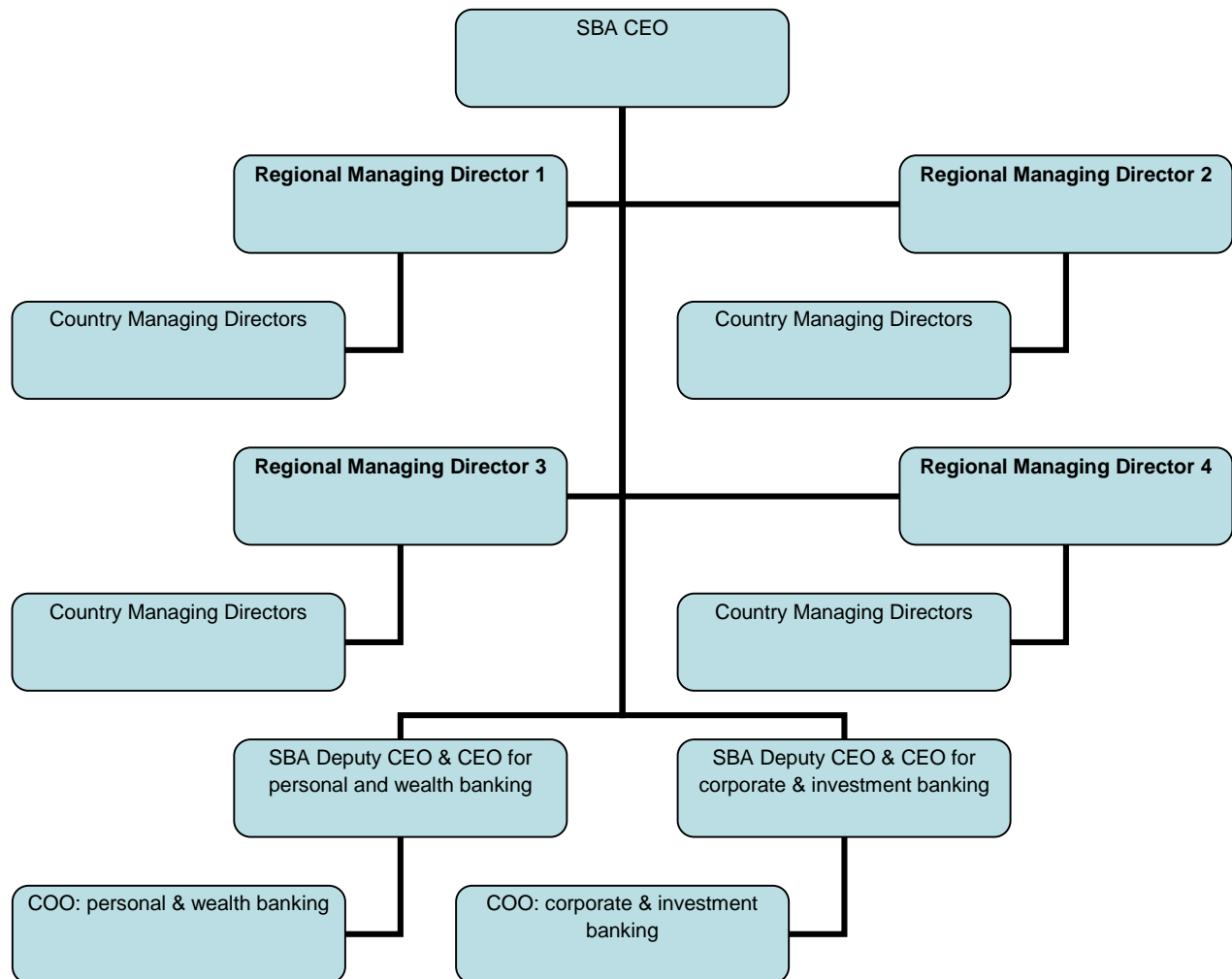


Figure 1.2: Standard Bank Africa Operational Structure. Sourced from Standard Bank Africa Operations

1.4.4 Firm-specific advantages

According to the SBG, the firm-specific advantages that give it an edge on competitors in emerging markets include, inter alia, its cost-effective systems and infrastructure, good services, risk and capital management practices, a strong ability to attract the necessary skills, and the shareholding of the group itself: i.e. that it is an emerging market investor. The group is also sensitive to the socio-economic environment within Africa and it has experience in providing banking within these markets.

1.5 Research problem

The research sought to determine aspects considered by the SBG in the process of market assessment and choice of location and their impact on the SBG emerging market strategy, specifically variations made to the strategy based on local context factors.

The underlying objective was to ascertain what local context factors are considered when entering an EM and what further factors impact on the process of successful market entry.

The research therefore:

- Reviewed whether any differences applied between the SBG corporate strategy and its African EM strategy;

- Reviewed the underlying strategic factors motivating the choice of markets by the SBG: the factors contributing to the choice of market/location;
- Reviewed locational factors considered by the SBG in determining which African markets to invest in, specifically in relation to local context factors viewed as relevant for successful investment;
- Reviewed the process of market entry and variations (if any) made in the SBG emerging market strategy from country to country and the reasons for these variations;
- Reviewed factors viewed as critical for successful identification of and entry into an EM by the SBG, including the SBG process for spotting and addressing institutional voids from market to market.

2.1 Introduction

The theory reviewed in this section provided a framework for investigations into the approach followed by the SBG when assessing markets for investment. The research problem centered around strategy motivation with respect to locational factors and variations instituted when assessing and entering identified markets, specifically considering factors considered critical for the success of the investment by the SBG.

2.2 Motivation for entering emerging markets

Luo and Tung (2007) contend that EMNCs use international expansion as a 'springboard' to enhance their growth and as a strategy aimed at establishing their competitive positions in the global arena. Various motives for the springboarding are presented; these include the need for the EMNC to: compensate for its competitive disadvantage; overcome its latecomer disadvantage; counterattack global rivals' foothold in its own home country markets; bypass stringent trade barriers; alleviate domestic institutional constraints; secure preferential treatment offered by emerging market governments; and exploit its competitive advantages in other emerging markets.

Luo and Tung further contend that the motives of the EMNCs can be categorized into either efficiency-seeking or strategic asset-seeking. This resonates with Klein and Wöcke's (2007) assertion that EMNCs tend to be motivated by both defensive and offensive considerations. Klein and Wöcke further contend that EMNCs build their global position on firstly asset-exploitation and then asset-seeking behavior, through which it could be argued that assets held by a firm are exploited to expand the firm specific advantage with the sole objective of seeking opportunities aimed at enhancing that asset base. In addition, Petrou (2007) argues that Multi-National Banks are motivated by motives to exploit their ownership and internalization advantages. Specific to Multi-National Banks from developing countries, the argument presented is that these banks follow their clients from home with the objective of demonstrating some type of FSAs in the form of target market proprietary knowledge, expertise or image, etc.

Based on the above, the research sought to determine the underlying motive of the SBG's expansion into other EMs. The analysis of this motive looked beyond generalized notions of organic growth by any MNC and sought rather to specifically determine the underlying reason for the expansion, given that the same is naturally a contributory factor to locations to be considered by a MNC when identifying markets for expansion i.e. to either go into imperfect markets (efficiency-seeking behavior) or markets that will enhance the firm specific advantages of the MNC (strategic asset-seeking behavior). With regard to the latter, the research also investigated aspects viewed as firm specific advantages by the SBG vis-à-vis other financial institutions.

Specific to South Africa, Klein and Wöcke contend that the evolution of the South African EMNC has as its premise the unbundling of South African company operations and their return to core-competency or firm specific advantages that could be exploited within similar markets thereby ensuring the ability of the South African EMNC to compete on a locational basis.

2.3 Locational considerations

A primary focus of this research also lies in determining locational factors considered by the SBG when identifying markets for expansion vis-à-vis existing theories on factors that influence geographical areas for location choice by the MNC.

2.3.1 Porter's Cluster Theory

Porter's thinking on clusters (1990) and their role in locational consideration has received much attention by International Business researchers analyzing the role of clusters in MNC locations. Specifically, Porter argues in his cluster theory that a firm will choose its location based on the source of locational competitive advantage created by an inter-play of the four factors ('the diamond') as depicted here below:

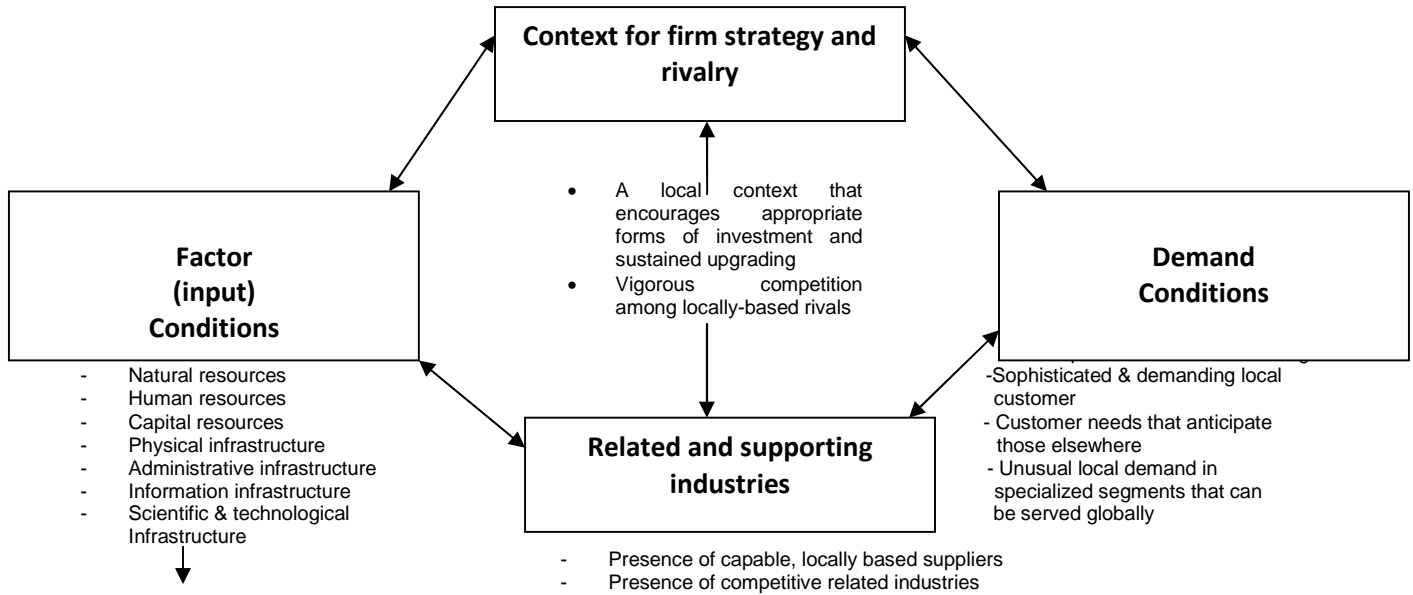


Figure 2.1: Sources of Locational Competitive Advantage. Adapted from Porter, E.M. On Competition: Updated and Expanded Version (2008)

From a Porterian perspective, the focus of the research was on which components of the diamond are most considered in the determination of locations by the SBG. Aspects relating to locational competitive advantages resultant from Porter’s arguments on cluster theory were not investigated, given that same do not address the process of market assessment but rather seek to determine where a firm can be located based on the existence of a competitive cluster in a particular market.



2.3.2 Transactions-costs

McCann and Mudambi (2004) contend that neither International Business literature nor orthodox locational literature is sufficient to effectively discuss the locational behavior of MNCs because of ongoing fundamental changes within the global business environment. An approach is advocated that calls for an analysis of both literature frameworks in a more detailed manner and the development of a transactions-costs analytical framework that considers neo-classical economic literature as advocated in the Ownership, Locational and Internalization (OLI) paradigm and Porter's cluster theory.

The specific argument by McCann and Mudambi is that locational considerations of an MNC are a combination of both economic and geographical factors that take into consideration the balance between the costs of an MNC locating in a cluster and, amongst others, the opportunity cost of not locating there. The latter argument is in direct response to Porter's cluster thinking which argues that a firm should locate where other firms are located in order to benefit from locational competitive advantages of the specific cluster.

In addition to McCann and Mudambi, Dunning (1993, cited in Marsh, 2000) argues that transaction costs are the key variable influencing managerial decisions and that they are perceived differently by different firms.

Within the SBG context, the research considered the role that economic and geographical factors play in the determination of a location by the SBG.

2.3.3 The OLI paradigm

The OLI paradigm contends that ownership specific advantages of the MNC within its home market, locational considerations and internalization factors interplay to create advantages for the MNC within similar types of markets. Specifically in respect of locational considerations, similarities between the home market and the emerging market can provide distinct advantages for the EMNC over the traditional MNC, given the ability of the EMNC to effectively address institutional voids based on cultural similarities (Khanna and Palepu, 2005) and by so doing, effectively translate or transfer the firm's capacities to another similar market setting. The factor on internalization addresses alternative modes for entry into a market and the potential for opportunities in uncertain environments while factors in respect of ownership specific advantages address a firm's core competencies or firm specific advantages and how they develop (Klein and Wöcke, 2007, p. 322).

Dunning and Norman (1983, cited in Wiley, J & Sons, TIBR-07-147, p.6) contend that three conditions must be met by a MNC in order for it to engage in outward FDI :

- The MNC must possess ownership specific advantages over other firms, especially those of other nationalities;
- These ownership specific advantages must rather be exploited internally than by selling or licensing them to other firms;

- Internalization of the OLI factors is best achieved by production outside the home country, rather than by domestic production and export.

Within the SBG context, the focus of the research was on investigating the inter-change of the OLI factors and the extent to which they create advantages for the SBG, if any. Specific focus is on the 'L' in the OLI paradigm i.e. the role of locational considerations in the process of market assessment and entry and alterations made to the corporate strategy based on local market context factors. Further insight into the SBG's firm specific advantages in relation to other competitors was also sought.

2.3.4 Resources, Capabilities, Markets (RCM) versus Institutions (I)

In their paper on Foreign Direct Investment (FDI) and the locational competitiveness of countries, Dunning and Feng Zhang (2008, *Transnational Corporations*, 17) examine the role of Resources, Capability and Markets (RCM) and Institutions (I) on the competitiveness of national economies and the investment decisions of MNCs. According to Dunning and Feng Zhang, MNCs do consider countries 'in terms of their ability to offer the RCMs and Is that they need to make their investments (or other forms of economic involvement) worthwhile'.

Table one below summarizes the main components of the RCMs which, according to Dunning and Feng Zhang, firms consider when making their locational choices:

RESOURCES	<ul style="list-style-type: none"> • ...ned labour • Created assets e.g. technological capacity, machines, buildings
CAPABILITIES	<ul style="list-style-type: none"> • Intangible assets, skills, educated/trained labour, accumulated experience and wisdom; • Organizational capacity and governance; • Vision/judgement in strategic decision making; • Ability to frame and execute appropriate policies
MARKETS	<ul style="list-style-type: none"> • Information/knowledge/availability of both domestic and foreign markets; both product and factor markets • Ability to tap into, exploit and coordinate markets and to understand and cater for specific e.g. localized needs

Table 2.1: Resources, capabilities and markets: the ingredients of wealth creations
Source: Dunning and Feng Zhang (2008, Transnational Corporations, 17, p. 6)

Dunning and Feng Zhang contend that the weight which a firm places on the inputs above is context specific and is subject to the factors most affecting the FDI i.e. resources vs. capabilities vs. markets.

In addition to RCMs, the ‘I’ presented by Dunning and Feng Zhang also comprises a galaxy of aspects that firms consider when choosing locations. In this regard, a distinction is made between the institutions and policies of national government and institutions and strategies of firms as indicated below:



A. Forms	B. Areas of institutional influence (in commercial domain)
Formal institutions <ul style="list-style-type: none">• Constitutions, treaties, laws, regulations: provision for learning, upgrading cognition, knowledge, etc.	<ul style="list-style-type: none">• Economic adjustment and stabilization;• Intellectual property protection;• Strengthening economic motivation / entrepreneurship
Informal institutions <ul style="list-style-type: none">• Tradition, cultural mores, trust, goodwill, reputation	<ul style="list-style-type: none">• Rule setting and societal guidance (e.g. reducing crime)
Enforcement mechanisms <ul style="list-style-type: none">• Less formal self regulation, fear, retaliation, blackballing• More formal. Incentives/penalties, fines, enforced transparency, cancellation of contracts, imprisonment, etc.	<ul style="list-style-type: none">• Promotion of entrepreneurship and competitive market structure• Adequate and effective financial institutions• Education and training upgrading• Security of people and physical assets• Innovatory development• Incentives/regulation of FDI• Social equity and access to opportunity

Table 2.2: Institutions: The motivation for and regulation of wealth creating activities
Source: Dunning and Feng Zhang (2008, Transnational Corporations, 17, p. 8)

According to Dunning and Feng Zhang, aspects in respect of formal institutions, informal institutions and enforcement mechanisms and their interplay with areas of institutional influence in the commercial domain are a critical factor in the location consideration by the MNC.



Based on empirical invest found that the institutional factors of a country had a stronger effect on FDI than its RCM. In relation to the research, the focus was on whether institutional factors as defined by Dunning and Feng Zhang played a role in the determination of location by the SBG and the extent of the FDI.

2.3.5 The development of a firm's spatial development organization

Stam (2007) contends that where a firm chooses to invest or locate is subject to the developmental stage of the organization. Stam presents five different stages of development for a firm, the same ones that have an input into the decision by a firm on where to locate. These are: start up phase, initial survival phase, early growth phase, growth syndrome phase and accumulation phase.

Stam argues that very few firms actually enter the accumulation phase (2007, p.41) and that locational initiatives in this phase are opportunity driven. Stam's theory of localization is based not on size or age of the firm as independent variables but rather the developmental phase of the organization as a point of departure. He argues that where a firm locates is the outcome of a process of initiatives that are enabled and constrained by resources, capabilities and relationships with internal and external stakeholders and that this process is difficult to predict, given that this process depends on people and events.

Stam's offering to locationa developed the capability to open new branches in other regions successfully, it should do so (2007, p. 46). With reference to the SBG, the focus is on what phase the SBG is in and its capabilities in setting up new locations and what those capabilities or firm specific advantages are.

2.3.6 MNC investment as an object of state economic strategy

Dunning (1993, cited in Marsh, 2000) argues that state policy has an influence on the location decision of the MNC. Dunning presents examples in respect of Ireland, Singapore and Scotland and how the state economic strategies of these countries influenced FDI investment. Marsh further argues that MNCs depend on certain features within their host countries for their success and that these can range from macro features such as low costs, political security and stability, a skilled workforce, high quality telecommunications and market access, the presence of complementary firms, discriminating customers, particular technologies, etc. (Marsh, 2000, p. 71).

Similarly, Dupasquier and Osakwe (2005) have argued that factors such as political and macro economic stability, low growth, weak infrastructure, poor governance, inhospitable regulatory environments and ill-conceived investment strategies have resulted in poor FDI investment within Africa.

This argument was tested against the SBG to determine whether state economic strategies or macro features do influence its locational decisions.

2.4 Strategy development specific to emerging markets

Khanna, Palepu and Sinha (2005) contend that only companies that develop specific strategies for emerging markets, as opposed to using traditional approaches, will succeed in doing business in these markets. They specifically argue that the different characteristics of emerging markets including the presence of institutional voids result in the need to develop strategies based on a country or a market's specific characteristics. Specifically in respect of the latter, Khanna and Palepu (1997) also argue that focused strategies may be wrong for emerging markets, given that these markets are hardly uniform and require varying degrees of institutions necessary to support basic business operations.

Similarly, Arnold and Quelch (1998) argue the need for a rethink in marketing policies, based on the distinctively different environment and dynamic of the emerging market. Arnold and Quelch specifically argue that the process of market assessment and entry must include strategic decisions pertaining to relevant market frameworks and variations required to meet the characteristics of the emerging market as well as aspects in respect of timing of entry, market assessment, product policy and partner policy.

In respect of the SBG, focus of the research was on the process followed in respect of variations made to the corporate strategy based on varying market conditions.



2.5 Emerging market ar

Khanna, Palepu and Sinha (2005) have developed a five context framework that is aimed at assisting MNCs in assessing markets proposed for investment, which framework also assists with spotting institutional voids. This framework provides for a series of questions that executives can use to spot institutional voids and includes an analysis of political and social systems, the extent of openness within the society, the characteristics of product markets as well as characteristics of the labour as well as capital markets. For example, an analysis done by Khanna et al. has found that different realities exist for the US/EU countries vis-à-vis the BRIC cluster of countries (Brazil, Russia, India and China).

The interest of the research in this regard was the approach followed by the SBG in assessing these markets, what analytical tool was used to assess markets and how if any, the SBG addresses institutional voids as part of the process of market assessment.

2.6 Conclusion

The central theme of the literature review was on MNC strategy and what influences the MNCs choice of location. Limited information could be found in the literature on divergent locational considerations between a traditional market and an emerging market (as defined by the UNCTAD) thereby necessitating the research, specifically in relation to enhancing academic knowledge on EMNCs and their motivations for choice of market and whether MNC theory applies to EMNCs as well.

It is argued that a case study on the SBG Africa operations is best positioned to enhance academic knowledge on EMNCs, given the organization's vast footprint in Africa and its vision to be a leading emerging market financial institution. In line with the literature reviewed, the research provided for investigation into the following :

- The strategy of the SBG, specifically the presence if any of an EM strategy and how same differs from the overall SBG corporate strategy;
- The SBG's motivation for investment, specifically considering asset-seeking vs. efficiency-seeking aspects as motivating factors in location choice – i.e. choice of markets that would enhance the firm-specific advantages of the SBG as against imperfect markets that it could capitalize on;
- Similarities between the home market and markets identified for investment/location with a specific focus on the exploitation of the SBG's firm specific advantages in similar type markets and the impact of local context factors on the choice of location;
- Contribution of Porter's diamond model, if any, to the choice of location;
- Transaction and cost factors with special reference to economic and geographical factors and their impact on the choice of market identified for expansion / location by the SBG;
- The role of state and commercial institutions in locational consideration by the SBG;
- The impact of state economic strategy on the SBG's choice of location;
- The developmental phase of the SBG and its impact on location determination, specifically considering the SBG's resources and capabilities to set up new locations

CHAPTER 3: RESEARCH QUESTIONS

The research investigated the approach followed by the SBG when expanding into emerging markets within Africa with a specific focus on the process of strategy, market assessment and locational considerations. The overall questions asked in the research were therefore:

- Is there a specific difference between the SBG's corporate EM strategy and its African EM strategy?
- Does the SBG have FSAs in the African market and what are they?
- What are the underlying motivational factors of SBG FDI investment into African emerging markets?
- What type of African markets are the focus of SBG investment?
- What are the strategies and approaches employed by the SBG when assessing these markets?
- Are there different approaches employed from market to market and what are the reasons for these variations?
- To what extent do local context factors impact on the decision to enter a market?

4.1 Proposed research method

4.1.1 Rationale for the proposed research method

The study aimed to explore factors motivating the SBG to enter emerging markets, the strategy and approaches employed, differences in these approaches and to what extent locational aspects impacted on the market chosen for FDI investment.

The emerging market field is an evolving one; Klein and Wöcke (2007) have asserted that questions are being raised on the applicability of existing theory to the approaches followed by EMNCs i.e. in comparison with approaches adopted by traditional MNCs. Klein and Wöcke have further found that the determinants of FDI may vary from environment to environment.

Given the above, it is argued that an exploratory approach was best suited for this type of research. Specifically, a case study method was used to provide a platform to investigate responses to questions raised in the research on strategy motivation, locational consideration factors and the process of market assessment including whether the SBG has an analytical tool to, inter alia, assess markets and address institutional voids in markets identified for investment.

The case study method was seen as most relevant in providing the required in-depth information on the SBG, given that it provides a platform for investigating in detail, a particular organization or institution (Zikmund, 2003 and Parse et. al, 1985 cited in Bergen and While, 2000). In addition, the case study method provides for the collection of detailed, relatively unstructured information from a range of sources about the topic including the subjects of interviews themselves (Hammersly, 1989 cited in Bergen and While, 2000).

An argument for a case study approach to the research on the SBG is further presented by Ying (1994, cited in Bergen and While, 2000), in which it is argued that a case study enquiry:

- Copes with the technically distinctive situation in which there will be many more variables of interest than data points and as one result;
- Relies on multiple sources of evidence, with data converging in a triangulating fashion; and as another result;
- Benefits from the prior development of theoretical propositions to guide data collection and analysis

Given that theory in respect of EMNCs is at best confined to traditional theories on MNCs, and given that the field of EMs is an evolving one, Ying's argument for a case study enquiry provides further justification for the research method undertaken.

Stake (2000, cited in Rosenberg and Yates, 2007) presents three forms of case study approaches: *Intrinsic* (where the case is studied for its own sake), *Instrumental* (where the case is studied to understand related issues or phenomena of interest) and *Collective* (where the single case, either intrinsic or instrumental is extended to include many cases).

In this research process, an instrumental case study approach was undertaken. This method provided for a review of literature available on EMs as well as the SBG; which review was further enhanced with qualitative interviews conducted with identified stakeholders from the SBG to gain a further understanding on the SBG EM process. The semi-structured interview as the tool of data collection was considered relevant for the research method. DiCicco-Bloom and Crabtree (2006) argue that semi-structured interviews with open ended questions are the most beneficial approach for creating dialogue and deepening understanding on a body of knowledge that is both conceptual and theoretical. Semi-structured face-to-face and telephonic interviews that provided for a set of pre-determined open questions were presented to identified stakeholders within the SBG.

The interview process was therefore a mixed one: face-to-face as well as telephonic interactions, with similar questions posed to participants. In respect of the former, Hayhow and Stewart (2006) argue that, given that qualitative research is concerned with studying subjects in their natural setting, the employment of semi-structured personal interviews is the most effective approach for collecting data aimed at enhancing

knowledge. However, Hawi (2003) states that face-to-face interviews were long believed to be preferable for data collection, mail-out questionnaires or even telephonic interviews are methods of choice because of geographical spread and high interview costs and are just as reliable, if done correctly (p. 1081)

Zikmund (2003) has pointed out, however, that this type of research requires flexibility in order to gain meaningful information on the research topic. This flexibility was provided in this research by developing a list of open-ended questions around specific concepts that provided the basis for dialogue with identified stakeholders of the SBG.

By its nature, the process of data collection in qualitative research is a process of social interaction and developing key questions that would direct the dialogue was the overall objective of the researcher. This objective is in line with Yates and Rosenberg (p. 448) who argue that case study research should be conceptualized as 'an approach to research rather than a methodology in its own right; in other words when considering the phenomenon of interest and the research questions it raises, the case study researcher selects the methodological position most suited to answer the particular research questions'.

The researcher was aware of the challenges of case study research but was convinced that this method would be the most beneficial for gaining insight into motivational factors, strategies and approaches employed by EMNCs when entering similar type markets in Africa.

4.1.2 Research process

The research process provided for:

- Review of information available on the SBG to gain preliminary insight into its strategy for expansion into other EMs, specifically within Africa;
- Interactions with experts on African markets within the SBG, to gain insight into the process followed in entering these markets, including the motivational factors for the EM expansion, the approaches followed in assessing these markets, the role of locational considerations in determining markets chosen for expansion and the process of market entry; whether the SBG has an analytical framework to spot and address institutional voids; and which firm-specific advantages of the SBG ensure its success in identified markets;
- Collation of relevant data from interviews held and finalization of findings.

4.2 Population and Unit of Analysis

The population of relevance is the SBG Africa operations. This population is argued given the objective of the SBG to retain its focus on building operations within Africa and given that in 2008, 90% of the SBG headline earnings was derived from Africa alone (13% in respect of Africa operations and 77% in respect of South African operations) i.e.R12,78b vis-à-vis 10% from its non Africa operations.

The unit of analysis is SBG investment into EMs within Africa. Presently, the SBG specifically operates in the following 17 African countries: Democratic Republic of Congo, Kenya, Tanzania, Uganda, Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Zambia, Zimbabwe, Ghana, Nigeria; and of course South Africa

4.3 Size and nature of sample

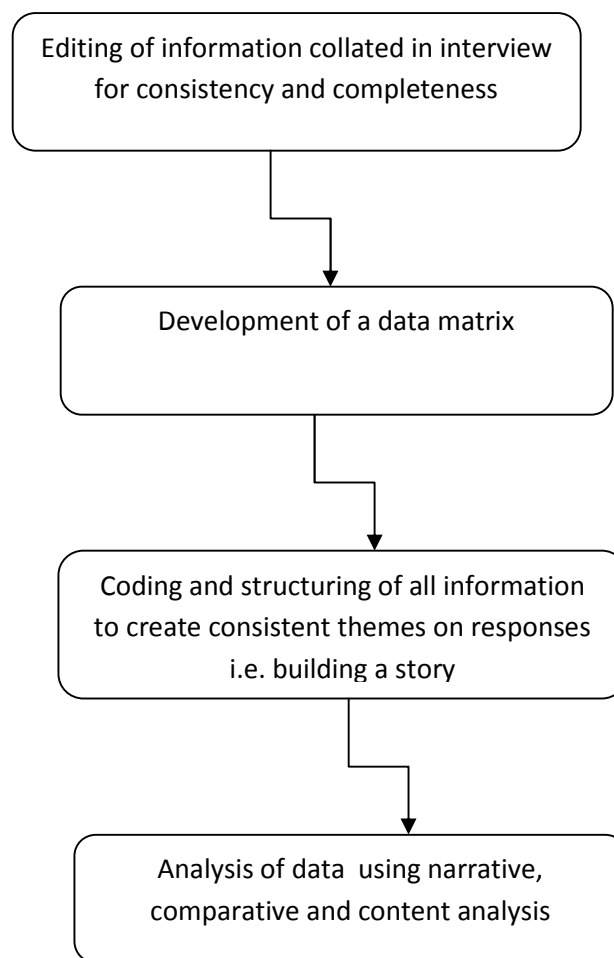
The sample was drawn from the SBG Africa operations and was limited to senior executive and strategic leaders that responded to the request to be interviewed i.e. seven. The nature of the sample is argued given strategy and locational insights required as an outcome of the research, which insights can only be determined resultant from dialogue with a handful of strategic leaders within SBG Africa operations.

Specific to sampling, non-probability purposive (judgment) sampling was utilized in the first instance to gain entrance into SBG Africa operations, where after referrals received from key strategic leaders resulted in snowball sampling in order to reach as many relevant individuals as possible as part of the case study process.

All of the individuals identified for interviews were of executive (up to board level) and senior positions and were specifically targeted to provide key insights on the SBG process of expansion into EMs into Africa.

4.4 Data collection, data

Data collection was undertaken in the first instance through review of available information on the SBG. The data collection process further provided for semi-structured interviews with identified stakeholders within the SBG, where after a data analysis process in line with the process presented by Zikmund as indicated below was undertaken:



Back up of all data in electronic format and copies of interview notes were maintained at all times as part of the data management process.

4.5 Data validity and reliability

Calder and MacLin (2006) argue that although data quality is assessed in many ways, the interviewer is often an overlooked participant in the data collection process. Along with assessing measurement and sampling error, Calder and Maclin (2006, p.168) contend that considering the interviewer is critical to the data quality process as interviewers themselves can be an important source of information on the quality of information they have collected. The explicitness of the qualitative researcher is however still relevant to the rigour of the research process and Tobin and Begley (2004) conclude in this regard that researchers need to be explicit about how and why they choose specific legitimizing criteria in ensuring robustness of their inquiries.

As part of the process to ensure the presence of the three criteria of good measurement as defined by Zikmund (2003), the following aspects as highlighted by Tobin and Begley (2004) formed an inherent part of the interview and research process:

- Commonality of language and terms in the interviews to ensure that there was limited or no transference of terms;
- Maintenance of rigour throughout the interviews by employing a consistent and similar structure in the research questions posed;
- Applicability of goodness in the research process by using a dynamic and interactive approach rather than a linear approach;

- Credibility of the interview responses to questions and the researcher's representation of same;
- The avoidance of transferability by allowing individual and subjective responses to research questions posed to participants;
- Dependability by auditing the responses received;
- Confirmability by comparing responses to questions posed in order to ensure that consistency existed for all data and interpretation of the findings;
- Authenticity by maintaining fairness throughout the interview process

4.6 Research limitations

The most significant limitation of this case study is the fact that only SBG Africa operations were investigated - this decision was strategic in nature, given the retained growth focus on Africa by the SBG and its objective to use Africa as a platform for investment into other emerging markets. This limitation must be borne in mind when interpreting the findings. The results of the research may therefore not be representative of all EMNC practices in respect of expansion into other similar type EMs but they do in the main, provide a window for further academic review and learning.

Researcher bias might also be present and for this reason, the responses to the questions posed in the semi-structured interviews have been carefully cross-checked with other data collected.

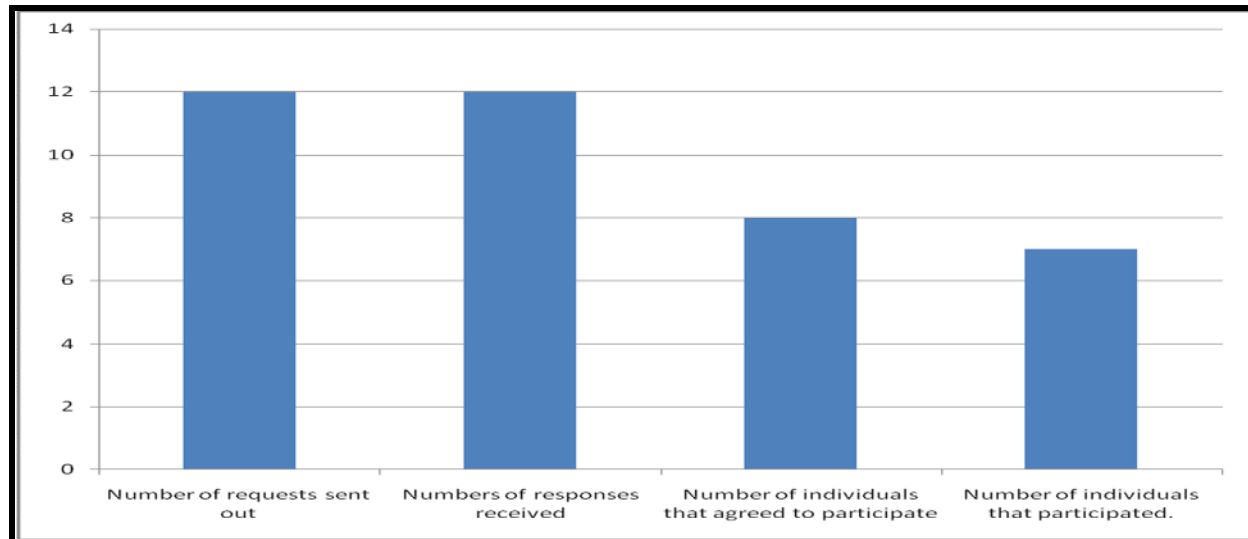
CHAPTER 5: PRESENTATION OF RESULTS

5.1 Description of sample

Sample selection was limited to individuals that work within the SBG Africa operations (SBGA), specifically those responsible for executive management, strategy development, management and execution of due diligence processes undertaken in respect of market assessment (inclusive of locational considerations) as part of the SBG's expansion approach within Africa.

Of the twelve requests forwarded for interviews to identified stakeholders, twelve responses were received, of which only eight individuals agreed to participate. Of the eight individuals, only seven individuals eventually participated in the research, representing a 58% positive response rate. The seven individuals who participated are senior members of the SBGA team and are responsible for the executive management and development and implementation of strategy, including due diligence processes undertaken for markets within Africa.

Figure 5.1: Description of sample



5.2 Descriptive summary of the respondents

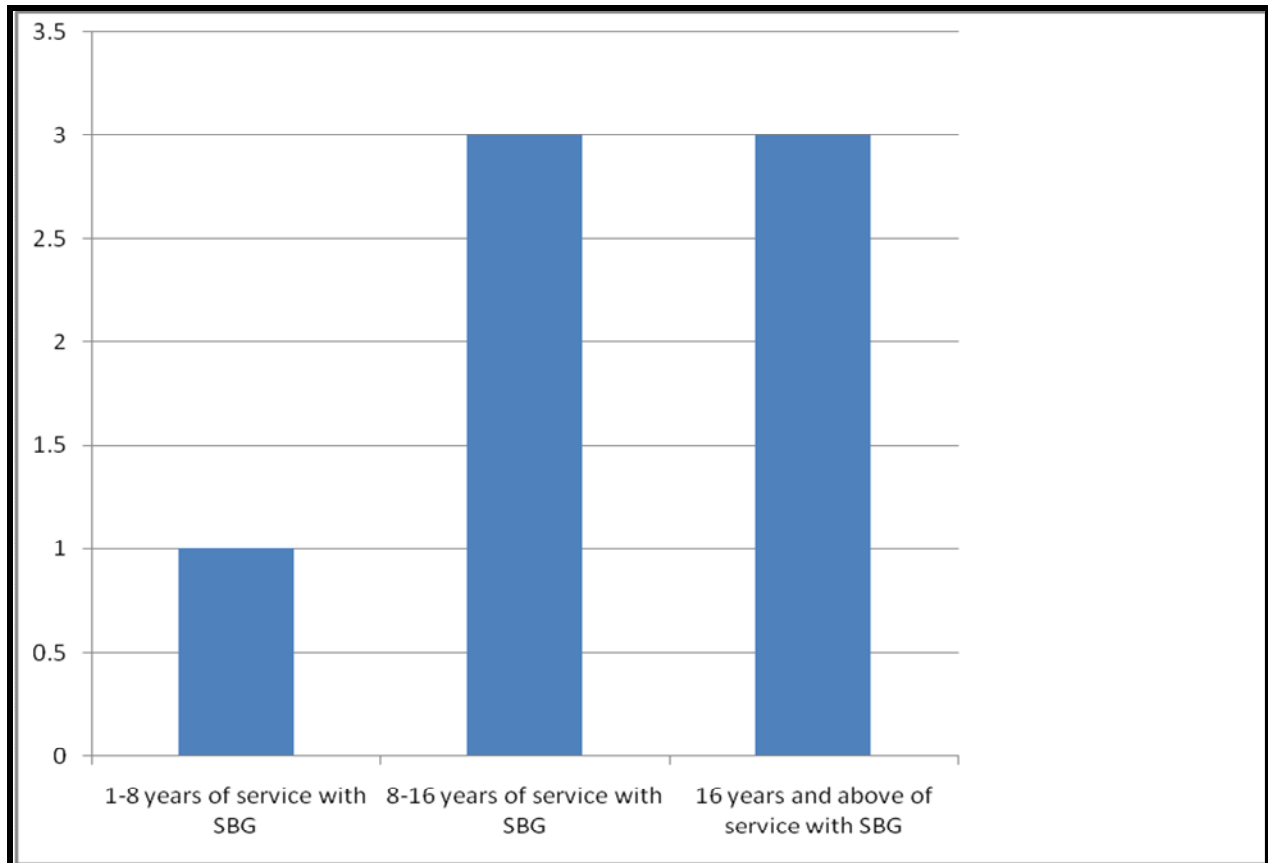
5.2.1 Gender

All respondents were male.

5.2.2 Years of service with the SBG

All respondents have eight years of service or more within SBG.

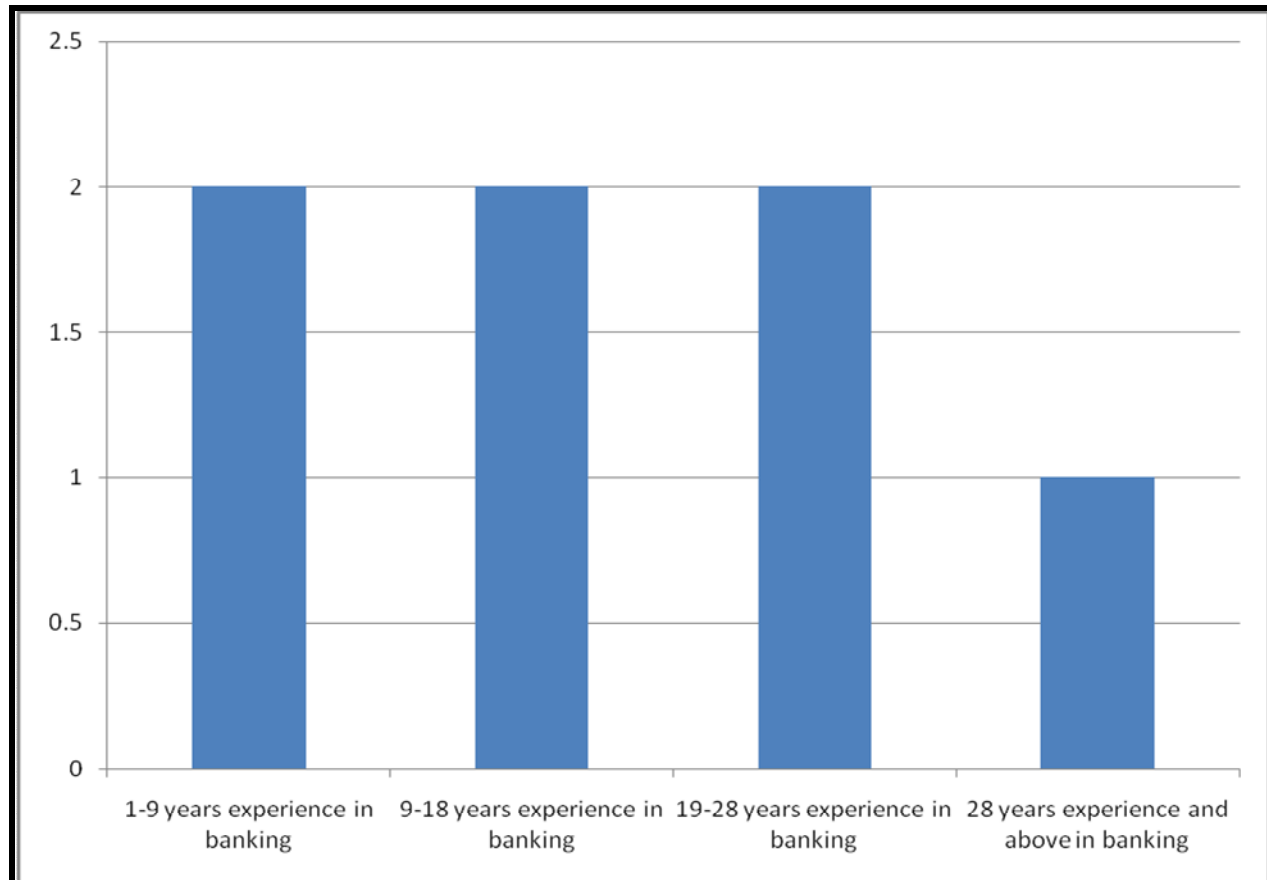
Figure 5.2: No. of years of respondents' service with SBG per 8-year category



5.2.3 Educational background and experience

The respondents have educational backgrounds in subjects that range from banking, applied economics, law, IT, finance and human resources to strategy and risk management, with experience ranging from four to more than twenty years in banking.

Figure 5.3: No. of years of respondents' experience in banking per 9-year category



5.3 Theme of research questions posed

The theme of the questions posed to the respondents centred around the following:

- Variations between the SBG corporate EM strategy and its African EM market strategy, if any;

- SBG's firm specific advantages in an EM;
- Motivational factors for SBG foreign direct investment into African markets;
- The type of African markets considered for investment by the SBG;
- The strategies and approaches employed when assessing these markets, including the generic factors considered in identifying and assessing markets for investment or entry;
- Different approaches (if any) employed from market to market and the reasons for these variations;
- The impact (if any) of local context factors in the process of market assessment, including factors considered critical in ensuring successful localization and investment.

5.4 Layout of findings

The layout of the findings has been undertaken in line with the theme of the questions posed and provides for a description of the findings on each research question posed / investigated as well as a brief conclusion.



5.5 Findings of the research

5.5.1 Variations between SBG's corporate EM strategy and its African EM strategy

5.5.1.1 Description of findings

Of the sample, 100% of the respondents indicated that there was no distinct variation between SBG's corporate EM strategy and SBGA's EM strategy. Of the respondents, 71% specifically indicated that although there was a distinctive African EM strategy, this strategy 'overlaps with other emerging markets' and is not focused on to the exclusion of other markets. Africa is also seen as core to SBG's overall corporate strategy, which is 'to be a leading emerging market financial services organisation'. In this regard, Africa serves as a 'link' to connect the African market to other EMs, the rest of the world and vice versa. The African EM is therefore not viewed separately from other EMs and the rest of the world, but rather serves as a platform 'to replicate learning into other emerging markets around the world'.

Respondent C indicated that there are 'two levels at work i.e. Standard Bank Group and Standard Bank Africa' and that the 'vision is to be leading emerging market bank on the continent', which vision links back to the corporate strategy of the SBG. Similarly, Respondent E indicated that 'Africa is very central' and is 'an area of strategic advantage and differentiation' for the SBG and is seen to be of 'primary rather than secondary

importance' to the SBG. Researcher A : the specific strategy of the SBG was 'to become a bank of scale in Africa' as that is the SBG home market.

5.5.1.2 Conclusion of findings on research question one

The research found that a separate strategy does apply for the Africa operations of the SBG, although this strategy is linked to the overall EM and corporate strategy of the SBG which is to be a 'leading emerging market financial services organisation'.

The research further found that the African EM is not viewed separately from other EMs but is rather seen as a conduit to link Africa to other EMs and the rest of the world.

5.5.2 SBG's firm specific advantages within the African EM

5.5.2.1 Description of findings

Of the respondents, 57% indicated that a FSA of SBG was the extent of its physical footprint in Africa. At present the SBG operates in 16 African countries (excluding South Africa), making it 'the largest bank in Africa in terms of assets and in terms of profits' and with the 'biggest presence' in sub-Saharan Africa. Respondent A also indicated that the ability of the SBG to operate 'in these sometimes complex markets, understand their resources, both human and other, and manage the risk in these markets' is also a competitive offering of the SBG.

The same percentage, 57%, of the respondents also indicated that the product offering of the SBG remains a competitive advantage of the group (i.e. in comparison to its competitors), given that it provides a 'blend of the SBG's corporate investment banking and personal/business banking' vis-à-vis other competitor banks that are more 'retail' or 'wholesale' focused.

Almost a third, or 29% of the respondents cited SBG's internalization strategy as yet another of its FSAs; Respondent D indicated that in many of the countries, especially in the eastern and western parts of Africa, the SBG does have 'local shareholders' which stands it 'in quite good stead with the local community' resulting in the SBG not being seen as a foreign bank but rather a bank that provides local support to the community. Similarly, Respondent F indicated that in some African countries, the SBG is listed on the local stock exchange and has local shareholders, resulting in its ability to successfully compete with other local banks. From a FSA perspective, this makes the SBG a 'local and international bank' and not all banks have that advantage.

From an EM perspective, one respondent cited the shareholding of the SBG by China's largest bank as a FSA, given that this provided a link to China and India, two of the largest EMs in the world.

5.5.2.2 Conclusion of findings on research question two

The following were identified as FSAs by the SBG Africa operations:

- Extent of SBG's physical footprint in Africa;
- The product offering of SBG;
- SBG's internalization strategy; and
- Shareholding of the SBG

5.5.3 The underlying motivational factor for SBG FDI investment into African emerging markets

5.5.3.1 Description of findings

Once again, 57% of the respondents cited opportunity as the underlying motivational factor for SBG FDI investment into other African EMs. The size of the opportunity is also specifically seen as a determinant factor on the type of investment to be made in a particular market: investment vs. retail banking. Respondent C cited the need to develop an 'investment strategy' based on the attractiveness of the market and the extent of the opportunity. The latter is linked to product offering, in terms of which 71% of the respondents cited a 'universal banking model' as an objective of SBG. This objective was, however, subject to 'the type of market' and the opportunity available in that market:



whether the opportunity could be used as against an investment and business banking model only, or a retail and personal banking model only.

Of the respondents, 29% cited economic growth of the country as a motivating factor for SBG FDI investment in a particular country. However, Respondent F indicated the need to review a country's growth in comparison with the rest of the world, specifically in terms of its 'market share of finance, trade flow in and out of the country', and the extent of infrastructure investment in that country, while Respondent G highlighted the need to consider 'inhibitors' to both the opportunity and economic growth of a country vis-à-vis the extent of the FDI investment. At least one respondent also cited that a motivational factor for FDI investment into identified African markets was linked to the countries the home-client base of the SBG invested into.

5.5.3.2 Conclusion of findings on research question three

The research found that opportunity and economic growth of an identified market were the underlying motivational factors for FDI investment into identified African markets. Of interest is the one respondent that also cited following the home client base as a motivating factor for investment into identified African markets.



5.5.4.1 Description of findings

A large majority, 85%, of the respondents cited markets with economic growth and opportunity as the focus areas of SBG FDI investment within Africa. Respondent G indicated that 'there are eight to nine specific country targets' already identified over a six-year period up to 2015, but that SBG would also look at other countries as well. In respect of criteria, aspects in respect of political risk, economic activity, GDP growth, the size of the population, the size of the banked vs. unbanked, the level of regulation (including property rights and the level of corruption), the level of risk, the depth of the financial market (including competition within the market), and the developmental level of infrastructure, specifically in respect of telecommunications and systems, were cited as critical in determining the type of market the SBG would focus its investment on.

In addition to the above, Respondent C indicated that a ranking order (red, amber, green) was utilized by the SBG in line with the above criteria and that the SBG 'would not touch any country that is red'.

Respondent E also cited the fact that in the longer term, the SBG was likely to go into countries 'where there is a larger GDP'. According to Respondent E, the type of market to be considered by the SBG would be determined, amongst others, by the lead indicator of GDP and how the bank's growth could be measured in relation to GDP: 'If you are growing

more than GDP you are ga growing less than GDP, you
are probably underperforming in the markets’.

5.5.4.2 Conclusion of findings on research question four

The research found that the type of African markets considered for investment by the SBG were subject to the availability of both opportunity and economic growth potential in that particular market.

5.5.5 Strategies and approaches employed by SBG when assessing these markets

5.5.5.1 Description of findings

All the respondents, 100%, indicated that a per-country analysis is undertaken when assessing markets identified for expansion. Respondent A indicated that each market has its own ‘local differences and idiosyncrasies, and understanding and recognizing those is key to being a competitive player in those markets’. Similarly, Respondent E indicated that each country has its ‘own dynamics, from regulations to market dynamics’, and that assuming similarities would be a mistake in strategy. Respondent F also cited differences in market conditions and customer behaviour and requirements from country to country necessitating per-country analysis.

In addition, three of the respondents indicated the use of a 'home-grown due diligence' manual or framework for market assessment. Respondent C indicated the use of 'PESTEL' variables (political, economic, sociological, technological, environmental and legal) in the process of market assessment, while Respondent A indicated the inclusion of 'all those indicators that will inform what the size of the economic activity is in that particular market' in the home-grown framework. Respondent D indicated that prior to the full due diligence being effected, a review of the country operating environment is also undertaken to ensure that the environment SBG is going into 'presents the type of opportunity' it should be looking for in that particular country.

Moreover, 43% of the respondents specifically cited regulation and the rule of law as a key variable for assessment of any market, specifically with respect to property rights, banking laws and practices and the level of corruption. Respondent D cited the importance of a 'fairly robust market' and 'a reasonably well developed banking environment' as key factors for assessment.

In addition, aspects in respect of political risk assessment and its contribution to the attractiveness or non-attractiveness of a market were identified. Respondent B cited 'a stable government' as key to investment assessment and indicated that the SBG was more likely to consider a market that was less risky from an economic and political point of view than a more risky one.

Other variables cited include the size of the middle-income market, the attractiveness of the financial market, product strategy, competitor analysis including competitive positioning and what the impact of differentiation would be for the SBG in that particular market.

5.5.5.2 Conclusion of findings on research question five

The research found that a generic homegrown framework or manual does apply in respect of the assessment of markets considered for investment within Africa.

The research further found that the following criteria are key components of the assessment process for any market considered for investment:

- Economic GDP of each country;
- Regulation;
- Political risk assessment;
- Population variables;
- Financial market variables including competitor analysis and the level of competition;
- Product strategy and the impact of differentiation



5.5.6 Different approach **arket to market and the reasons for these variations**

5.5.6.1 Description of findings

All of the respondents indicated that different approaches are employed from country to country, subject to local factor considerations. Respondent A indicated that because each market is assessed on an individual level, each market is 'judged on its own merits', thereby limiting standardization and generalization, and that while learning and experiences are reviewed from one country to the next, SBG tries 'not to replicate' approaches.

Similarly, Respondent B highlighted the fact that the extent of trade within a particular country could result in varying approaches being employed from country to country, while Respondent F indicated that 'it is never one size fits all', and Respondent G indicated that 'there are never two acquisitions that are the same' and that 'the dimensions of scale' result in different approaches. Respondent D further stressed that variations to the approach are undertaken based on the 'scale or type of business' SBG undertakes.

Differences arising from culture are also part of the findings; all of the respondents confirmed that culture does play a role in approach variations employed from market to market. Respondent G specifically cited differences in legislation between Francophone and English-speaking countries, which resulted in variations in implementation of



approach or strategy, while cultural differences could also result in differences in approach in respect of human resource interactions.

However, 43% of the respondents indicated that although cultural differences across Africa could result in differences in approach or strategy implementation, they were not an impediment or hindrance to SBG's expansion once a country had been identified for potential investment. For instance, Respondent C indicated that if 'a French speaking country has extremely attractive returns in terms of politics, economics and so on, SBG would take it seriously'. Respondent E indicated that although 'English by and large is a business language which is a commonality', it is not a key issue and that cultural issues could not keep the SBG 'out of markets'. Respondent F indicated that it is 'about how the commercials get put together and what the opportunities are' and that it is not so much a cultural debate. In this regard, the fact that the present geographical footprint of the SBG is mainly concentrated in Anglo-Saxon countries is more an aspect of legacy than cultural accessibility, and subject to the opportunity and positive assessment of a country, the SBG would be willing to invest in both Francophone and Lusophone countries.

5.5.6.2 Conclusion of findings on research question six

The research found that variations do exist in the implementation of approaches or strategies from market to market, which variations are subject to varying local market conditions.



5.5.7 The impact of local context factors on the decision to enter a market

5.5.7.1 Description of findings

In line with the findings indicating individual country analysis for each identified market, 100% of the respondents indicated that local context factors do play a role in the decision to enter a particular market. Respondent A cited ‘the socio-political structures, stability in the country, economic order, extent of the rule of law, acceptance of good corporate governance and level of corruption’ as key local context factors that are considered generically for each market before an investment decision can be made. In this regard, Respondent A indicated that the SBG ‘will not entertain any bribery or corruption or anything of that nature’ and that ‘if push comes to shove’, it would not enter a country.

Respondent A further cited changes to the product portfolio offered by the SBG per market in line with local factor conditions such as the unavailability of a house as security for loans to customers in a certain country due to the legal framework of that particular country.

Respondent B highlighted the institutional framework of each country as a local factor taken into consideration in entering a market and cited the selling of SBG shares on the local stock exchange of a particular country as part of the process of gaining entrance to that country.



Similarly, Respondent C indicated that the judicial system is a key local factor consideration for any market. Respondent C further indicated that 'local factors do play a big part' in the products and investment offered by the SBG in a particular market.

Respondent D highlighted the fact that local context factors and the extent of the opportunity identified in a particular market or country also play a role in the decision to invest in a market. Specifically, Respondent D cited banking consolidation done in Nigeria based on the extent of the opportunity identified as a local factor consideration. Respondent D further indicated that local context factors in respect of regulation, politics and economics play a vital role in the decision to enter a market.

The findings of the research also revealed that although institutional voids may be apparent in identified markets, these voids are not an impediment to the SBG decision to enter a market. A critical consideration of the SBG is therefore not so much the presence of institutional voids as the lack of economic prospects and unfriendly regulatory environment in a given market. In respect of the former, Respondent D cited the importance of 'local management' to 'support and guide' the SBG through any identified challenges while Respondent C indicated that as far as possible, local resources are enhanced and utilized to reduce the cost of business resultant from institutional void challenges. Respondent F also indicated that once a decision to go into a market has been made, aspects in respect of resources and their availability on a local as opposed to international level are determined in order to ensure a 'fit for purpose' operation.



5.5.7.2 Conclusion of findi

The research found that local context factors do impact on the decision of the SBG to enter a market.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

This chapter will draw on the findings presented in Chapter 5 against the research questions presented in Chapter 3 and the qualitative findings as presented in appendix B.

The questions are presented per sub heading with the findings briefly summarized thereafter at the end of the sub heading. A conclusion on whether or not the evidence garnered in the research supports the theory as detailed in Chapter 2 is then provided.

6.2.1 Research question one

Research Question One was “Is there a specific difference between the SBG’s corporate EM strategy and its African EM strategy?”

6.2.1.1 Discussion of research question one

The research question sought to determine whether there were varying strategies between the SBG corporate EM strategy and the African EM strategy. Interest was specifically on whether or not the overall collective of the EM is viewed differently from the African EM



and whether different strate

overall corporate strategy of

the SBG.

This question is directly related to Khanna, Palepu and Sinha's (2005) and Arnold and Quelch's (1998) arguments that only organizations that develop specific strategies for emerging markets, as opposed to using traditional approaches, will succeed in doing business in these markets. It is also related to Khanna and Palepu's (1997) statement arguing that emerging markets are hardly uniform and, based on their varying degrees of institutional capacity, require variations in strategy in line with available institutional context factors. They argue that strategy for an EM should be driven by the institutional context and not the other way round, given that limitations that exist may result in strategy failure if they are not considered. Institutional context factors identified in this regard include the nature of the capital markets, the labour market, the product market, government regulation and contract enforcement. These variables are considered key to developing strategies for each EM, reinforcing the argument for specific and not generic strategies in order to ensure success in EMs.



6.2.1.2 Conclusion of rese:

The findings of research question one are consistent with the literature review, which argues for specific strategies for EMs. In the case of the SBG, the research did find that it does have a specific EM strategy for its Africa operations.

Key however is that this strategy is linked to the overall corporate and EM strategy of the SBG in which Africa is seen as central to the success of the SBG in other EMs and the rest of the world. This finding is of particular interest, given that it could be argued that Africa is seen as a platform for the SBG to enhance its FSAs with the objective of further exploiting and internalizing its ownership advantages in other emerging and world markets with direct links to Africa. This certainly resonates with Petrou's findings (2007), which found that multi-national banks from developing countries are more likely to follow clients from their home base into foreign markets, unlike those from developed countries, which are more likely to pursue foreign markets based on the availability of opportunities for business and profit growth; these markets need not necessarily provide for the presence of the bank's home-based clientele, given the vast resources at the disposal of multi-national banks from developed countries.

6.2.2 Research question two

Research Question Two was "Does the SBG have FSAs in the African market and what are they?"

6.2.2.2 Discussion of research question two

The basis of this question was to determine what the SBG considers to be its FSAs within the African market and how it believes these firm-specific advantages enhance its competitive offering.

The question is in line with Dunning's eclectic OLI paradigm, which posits the interplay of three ingredients for the success of the MNE beyond its home market: ownership specific, location specific and internalization aspects. Specific to ownership specific advantages or FSAs, the assumption is that the firm already possesses the knowledge or technical know-how required to meet the needs of a foreign market. A further argument is that this knowledge or know-how cannot easily be replicated, giving the firm a competitive advantage. The SBG identified four major FSAs that it considers to give it its competitive edge within the African market: the extent of its physical footprint; its product offering (i.e. universal banking based vis-à-vis a retail-only or wholesale-only product offering); the SBG internalization strategy that provides for local shareholding where required; and the shareholding of the SBG itself, which includes a 20% stake by China's largest bank.

6.2.2.2 Conclusion of research question two

Petrou (2007) has found that Multi-National Banks are motivated to exploit ownership and internalization advantages. This finding is certainly consistent with SBG's identification of its internalization strategy as a FSA.

The identification of its physical footprint as a FSA for the SBG also resonates with Petrou's findings that found that studies that applied Dunning's eclectic OLI paradigm to Multi-National Banks identified, inter alia, the Mutli-National Bank's motivation to exploit its proprietary customer information as a FSA. In this regard, it can be argued that SBG's large physical footprint within Africa puts it in the enviable position of being able to exploit proprietary customer information or needs where they may be required.

In respect of products suited for EMs, Ramamurti and Singh (2009, p.405) argue that a common FSA of EMNCs is their ability to adapt their products to suit local market conditions. This certainly resonates with SBG's assertion that one of its FSAs is its ability to provide a blend of corporate/investment and personal/retail banking vis-à-vis other competitors that are more 'retail' or 'wholesale' focused.

From a shareholding perspective, whether or not the 20% stake held by ICBC China provides the SBG with a FSA requires further interrogation. Without a doubt, this relationship provides a window for the SBG to enter the larger EMs of India and China but



further investigation would | holding can count as a FSA for the SBG. This investigation would add further insight to the evolution of EMNCs, given Ramamurti and Singh's argument (p. 405) that FSAs although a useful concept, are hard to apply in practice and that it is often unclear to what extent the FSAs even contribute to the success of the firm.

6.2.3 Research question three

Research Question Three was "What are the underlying motivational factors of SBG FDI investment into African emerging markets?"

6.2.3.1 Discussion of research question three

Luo and Tung contend that EMNCs use international expansion as a 'springboard' to enhance their growth and establish themselves on the global arena thereby making up for, inter alia, their late comer disadvantage and ensuring their competitive advantage in other EMs. As regards the latter, Petrou has also found that Multi-National Banks are motivated by the need to exploit their ownership and internalization advantages. Specific to banks from developing countries, this motivation arises when the client home base of the bank enter or take on other overseas markets, which client expansion necessitates the bank to take on other markets in a bid to safe guard its home market client base. This argument is certainly of interest, given that it implies that an emerging Multi-National Bank's primary motivation is in the first instance protection of its home market client base by exploiting its



FSA and internalization adv ting client base is operating.

This argument is certainly consistent with Goldstein and Prichard (cited in Ramamurti and Singh, p.269) who that found that initial expansion into Africa by South African banks was driven by structuring financial arrangements for the South African mining sector.

Goldstein and Prichard have also found that South African firms have tended to focus on regional multinationalization with a specific focus on African markets. Their findings also indicate that this expansion strategy is due to a lack of technical advantages and financial muscle necessary to expand into larger developed countries. Their findings further indicate that the 'push factor' of intense competition on the local market necessitates the move to other African markets. As regards the SBG, this is of particular interest, given the SBG strategy to use the African market not as an end in itself but rather as a conduit to other EMs and the world at large.

6.2.3.2 Conclusion on research question three

The findings of Research Question Three indicate that the SBG's underlying motivation for FDI investment into other African markets is growth and opportunity led. This finding is certainly consistent with Luo and Tung who argue that EMNCs are motivated by growth, which growth must also serve as a platform for the EMNCs to establish itself on the global arena and enhance its competitive advantage. The latter is also consistent with Petrou who found that Multi-National Banks are motivated by the need to, inter alia, exploit ownership advantages. In the SBG case, it could be argued that the specific focus on

African markets provides a chance and exploit its FSAs in markets not as developed as the local market. Without a doubt, the South African local banking market is characterized by intense competition which would certainly prompt expansion outside local borders.

Of interest however is the argument by Goldstein and Prichard that South African banks looked to Africa after 1994 because of a lack of the financial strength required to secure a presence in developed markets and a limited level of technical expertise in comparison to banks from developed markets. According to Goldstein and Prichard, the focus on Africa was driven in the main by limited competition within the African market i.e. in comparison to the developed market where the banking sector is more competitive. Of further interest is the assertion by Goldstein and Prichard that as a result of this approach, South African banks have now developed locally specific competitive advantages that are more consistent with the EMNC model.

In analyzing the finding of the research question, it should be noted though that the research sought to determine the underlying motivating factor for SBG focus on the African market; it did not investigate this focus in relation to other world markets and the level of competition available within Africa as an EM and the developed world.



6.2.4 Research question

Research Question Four was “What type of African markets are the focus of SBG investment?”

6.2.4.1 Discussion of research question four

Having isolated the strategic reason or motive for FDI investment in African EMs, this research question was an expansion of question three and sought to further identify the types of markets within Africa that would be of interest to the SBG.

Two types of markets were identified in the literature reviewed as part of the research process i.e. imperfect markets or similar type markets. The former speaks to the exploitation of an imperfect system by a firm while the latter speaks to the protection and enhancement of FSAs within a similar market. In this regard, the research found that the SBG’s key focus is on markets where it can enhance its asset base through both asset exploitation and asset seeking behavior by using the SBG’s FSAs to enhance its asset base in markets that present opportunities for growth.

Similar to the debate on which type of market is most preferred by an EMNC is the debate on the choice of location by an EMNC and what motivates that decision. Amongst others, are arguments by Porter who urges consideration of the diamond approach in isolating a market for investment and McCann and Mudambi who argue for consideration of both



economic and geographical. The research findings are certainly consistent with the latter as economic growth and opportunity were the underlying motivating factor for FDI investment in any particular market. This finding was further coupled with assertions that, aspects in respect of political risk, regulation and the depth of the financial market also contribute to the decision of whether or not to invest into a particular market. The key focus remained however on economic and governance factors, specifically the level of GDP growth vis-à-vis political risk vis-à-vis regulation.

In discussing the above findings, one must also consider the findings of Dunning and Feng Zhang (2008) who found that institutional factors of a country had a much stronger effect on FDI than any resources, capabilities and markets. This certainly resonates with Khanna and Palepu's argument that strategy must follow institutional context and not the other way round. It further gives impetus to Petrou's findings that Multi-National Banks from both the developed and developing countries are more likely to locate themselves in markets with a favourable national regulatory framework. Certainly for the SBG, focus on economic, political and regulatory factors as primary areas for review in investing into a market indicate an awareness on the importance of this as well as the importance of the broader institutional context to the success of its investments within the African market.

6.2.4.2 Conclusion of Research question four

The findings of research question four are certainly consistent with the Transaction-costs approach advocated by McCann and Mudambi as well as a further argument presented by



Dunning as well as Dunning's OLI paradigm, the influence of macro factors and country institutional factors on attracting FDI.

The above findings further resonate with Dunning's OLI paradigm which argues the critical role of location-specific advantages of a particular market or country in determination of a location. Petrou argues however that the latter is only beneficial to the extent that it interacts with ownership specific and internalization advantages to confer specific advantages on the market and that due to the lower capabilities of banks from developing countries, the choice of location is not so much a function of location specific advantages but rather a result of the bank following its home based clients into a foreign market.

In the case of SBG, it should be noted that its expansion into Africa was in the main driven by its purchase of the former ANZ Grindlays Bank operations and it is only recently, that the SBG is venturing into markets that are not part of its 'legacy' acquisition and its 140 year historic involvement in the economy of Southern Africa.

From a further research viewpoint, the above would require further analysis to determine the profile of the SBG corporate customer base vis-à-vis markets identified for expansion to test whether the assertions of both Petrou and Goldstein and Prichard on the approach followed in choosing locations by EMNCs have merit within the confines of the SBG.

6.2.5 Research question five

Research Question Five was “What are the strategies and approaches employed by the SBG when assessing these markets?”

6.2.5.1 Discussion of research question five

Without a doubt, the challenge of institutional voids in EMs has resulted in questions being raised on an appropriate approach to assess these markets to ensure successful investment.

Many companies in the past have invested in markets on the basis of assessment tools that are not always effective in determining whether or not an MNC should invest in that particular market (Khanna, Palepu and Sinha, 2005).

The development of a framework by Khanna et al. is a derivative of this challenge and sought to address aspects in an institutional context considered relevant as assessment to determine investment into a market. This framework is consistent with Dunning and Feng Zhang’s argument that factors of institution have a much bigger effect on FDI than resource, capabilities or even market factors. From a banking perspective, this is certainly critical given favourable regulatory frameworks required by banking institutions (Petrou, 2007).

In the case of SBG, the research revealed the use of a ‘home grown’ assessment tool or manual employed by the SBG when assessing markets for investment. The SBG assessment tool appears to encompass all but one of the components advocated in the five context framework by Khanna et. al i.e. aspects in respect of the openness and receptiveness of the society to FDI.

It could be argued however that these aspects are inherent in any due diligence process and that any investor will review the receptiveness of a society to FDI including the type of Government restrictions or policies that may apply on that investment.

From an institutional void perspective, the research certainly also confirmed that strategies to address identified institutional voids are a direct outcome of the assessment process. This is critical and from a transaction-costs perspective can add further insight into whether or not the SBG should invest in a particular market and if so, what approach must be employed to address identified voids. The approach followed by the SBG in reviewing institutional voids again, resonates with McCann and Mudambi’s assertions that locational considerations of an MNE are a combination of both economic and geographic factors that take into consideration the cost of locating in a market as opposed to the cost of not locating there.



6.2.5.2 Conclusion of rese:

The SBG manual for market assessment provides for a review of standard variables that form part of the PESTEL analysis: political, economic, sociological, technological, environmental and legal aspects.

These variables are consistent with components of the five contexts framework advocated by Khanna et. al to map or address institutional context factors in EMs (i.e. political and social systems, openness, product markets, labour markets and capital markets) and certainly provide a basis from which the SBG could determine whether or not its should enter a market.

6.2.6 Research question six

Research Question Six was “Are there different approaches employed from market to market and what are the reasons for these variations?”

6.2.6.1 Discussion of research question six

In line with the arguments of Khanna and Palepu as well as Arnold and Quelch that each market must be assessed in line with its own institutional context and relevant characteristics, this research question sought to determine varying approaches that may apply for each market and the reasons for these variations.

The argument for variation is also based on Khanna, Palepu and Sinha who recommend the development of specific strategies to fit emerging markets if MNCs are to succeed in these markets.

The view of Khanna et al. on challenges facing many MNCs in EMs, specifically around institutional voids and the need to develop relevant strategies for each market has also been echoed by other International Business theorists and researchers who argue for the consideration of market specific factors as an input into the investment decision to go into a particular market.

6.2.6.2 Conclusion of research question six

The findings in the research are consistent with the literature reviewed which found that variations to strategy do apply based on local institutional factor considerations. These variations extend from product portfolio to in some instances the management of human resources.

It is important to note, however, that the extent of these variations from market to market was not investigated; the research merely sought to identify whether variations exist and the reasons for these variations.

6.2.7 Research question seven

Research Question Seven was “To what extent do local context factors impact on the decision to enter a market?”

6.2.7.1 Discussion of research question seven

Beyond variation in approaches based on local context factors is the decision on whether or not investment must be made in a particular market due to its characteristics. The basis for this research question was therefore to ascertain to what extent local context factor conditions impact on the decision of the SBG to enter into a market.

Based on the arguments presented by Dunning and Dupasquier and Osakwe, it is clear that local context factors in the form of macro economic, regulatory and political factors play a major role in determining FDI inflows for any particular country or market. Over the years, Africa has had a poor record for FDI inflows in the main due to its trade and capital policies in the 1970s and 1980s, which discouraged FDI and had negative effects on the economic growth and living conditions on the continent.



As an EM, Africa holds great wealth of natural endowments in mineral deposits and oil, is a major consideration for not just the EMNC. Indeed, the current wave of globalization has intensified competition for FDI investment in developing economies. Globerman and Shapiro (2002) have however pointed out that over time, the economic performance of any country is determined by its governance structure: political, institutional and legal environment. In addition, investments in human capital, physical infrastructure, the environment itself and the presence of a healthy workforce also play a role in FDI inflows to a particular location. Regarding human capital, it has been found by Noorbaksh, Paloni and Youssef (2001) that human capital is one of the single most important determinants of FDI investment into a country and its importance is gaining momentum. This finding is certainly significant, especially if considered against institutional voids identified in EMs, some of which include limitations in human capital in locations otherwise favourable for investment.

6.2.7.2 Conclusion of research question seven

From a SBG perspective, the importance of local context factors to investment was found to be paramount. Critical factors identified related in the main to governance issues identified by Dunning as well as Dupaquier and Osakwe.

Interesting in these findings however is the limited attention given to human capital within an identified market as a major impediment or consideration for FDI. The research findings did mention the development of strategies that would effectively address institutional voids



(including human capital lin identified as part of the SBG due diligence process. However, human capital and its importance were limited to this factor and were not considered in the context as argued by Noorbaksh et al. Noorbaksh et al. have further argued that given that FDI is not just a source of finance but also employment, greater emphasis should be placed on skills constraints. He argues that foreign investors are attracted to locations that offer appropriate locational advantages.

From a research finding perspective, it is proposed that similar emphasis must be placed on human capital and its impact on the success of the FDI as is placed on governance issues.

6.3 Conclusion

The aim of this research was to verify the applicability of MNC theory and EMNC proposed business approaches by using the SBG as a case study to analyze the practical relevance of approaches to strategy, locational considerations and market assessment advocated in respect of EMNCs.

It can be stated that the findings of the research have been met to the extent that the applicability of certain theories and proposed business approaches have been confirmed as relevant in respect of strategy, locational considerations and market assessment.

CHAPTER 7: CONCLUSION

7.1 Introduction

The purpose of this chapter is to summarize and draw together the findings of the research and make recommendations about directions for future research based on the limitations of this study.

The study applied a qualitative method to address factors around strategy, location and market assessment in respect of EMNCs and their expansion into other EMs. The specific focus was on the SBG and its Africa operations and the process followed by same and whether or not MNC theory and proposed approaches by International Business theorists and researchers applied to the SBG as an example of an EMNC.

7.2 Summary of key findings and conclusions

The EM field is an evolving one and it provides opportunity for further review and research on factors affecting EMNCs including the extent of applicability of traditional MNC theory to EMNCs. Although MNC theory continues to dominate this evolving field, there is ongoing debate by International Business theorists and researchers on the development of models that are specific to EMNCs within which learnings on EMs and the approaches adopted by EMNCs can be further enhanced.

This research sought to add to that ongoing learning; by using the SBG as a case study, the objective was to ascertain to what extent MNC theory and business approaches proposed by International Business theorists and researchers apply.

It can be stated that the research did meet its objective i.e. to the extent that it provided a basis for verification of theory and approaches proposed for EMNCs. Specifically, the following conclusions can be drawn:

7.2.1 The significance of specific strategies to fit EMs

Greater value can be realized by developing specific strategies for EMs. As argued by Khanna et al., institutional contexts of EMs tend to vary from the traditional more developed markets and in order for an MNC to be successful in an EM, it is critical that strategies that fit the EM are developed, which strategies must consider the market's institutional, governance and economic factors. This approach should not just be limited to MNCs but to EMNCs as well. In this regard, the development of a specific Africa operations strategy by the SBG as against the application of a generic corporate strategy for other EMs and the rest of the world gives impetus to the literature reviewed that found that EMs have different characteristics from the more developed markets and require varying approaches that provide for inter alia, the development of specific strategies within their relevant institutional, economic and governance context.

7.2.2 The role of FSAs

Without ownership specific or firm specific advantages to provide a competitive offering to a market, any firm whether an MNC or EMNC will have limited success in a new market. As regards Multi National Banks from developing countries, the literature reviewed indicated that these institutions are motivated by the need to exploit, amongst others, ownership specific advantages, especially in instances where they follow home-based clients to a foreign market. FSAs have also been identified by literature as one of the three conditions that must be met before an MNC can engage in outward FDI. More importantly, these FSAs must be of such a nature that they cannot be easily replicated thereby providing a competitive edge to the firm.

From a research perspective, the FSAs identified by the SBG Africa operations are certainly consistent with literature reviewed to the extent that they support literature assertions on ownership specific and internationalization advantages as FSAs of Multi-National Banks. In addition, the product portfolio of the SBG and the approach followed in adapting that portfolio to local market conditions is yet again supported by literature reviewed that identified this as a common FSAs of EMNCs.

From a further research perspective however, further review is required to determine whether the shareholding of the SBG will prove to be a huge FSA for the bank, specifically as regards the objective of enhancing its participation in the EMs of India, China and African markets with links to two of the largest EMs in the world.

7.2.3 Motivation for FDI investment

Underlying any objective for FDI investment is growth and opportunity. Beyond this objective however, is the question of when and how this motivation arises. The literature reviewed indicated amongst others, the need for the EMNC to ‘springboard’ into the international arena as well as the need to protect its home market clients by entering into foreign markets where its home market client base had established itself as motivators for investment into a foreign market. The latter argument is of considerable interest because it implies that a Multi National Bank is motivated in the first instance by the desire to protect its home market client base in an international market as against being motivated by growth and opportunity. Certainly from a SBG perspective, the research found that opportunity and growth were the single most critical factors for FDI investment into other markets thereby resonating with some literature reviewed and theorists that have argued accordingly. From a further research view point however, it would be of interest to test the assertion of literature that has argued that protection of the home market client base specifically in respect of ownership specific and internalization advantages is a major factor in the developing country Multi National Bank’s motivation for expansion into other markets, the latter that is further supported with the argument that South African banks by and large were initially driven into expansion in Africa by structuring financial arrangements for the South African mining sector.

7.2.4 The type of markets

The type of market that a firm invests in does without a doubt, influence the type of strategy or product offering to be provided in that particular market. With EMs, the question arises whether a firm wishes to venture into otherwise ‘imperfect markets’ or ‘similar type markets’, either of which certainly has implications on the extent of the investment and the approach to be followed in ensuring success of that investment.

From an EMNC perspective, research revealed that the SBG determined its market location based on economic and governance factors. This finding is certainly consistent with literature reviewed, specifically the Transaction-costs approach argued by McCann and Mudambi as well as findings of Dunning and Feng Zhang on the importance of institutional factors as an influence on where FDI is invested by an MNC. State economic strategy as argued by Dunning as well as the importance of location specific advantages as argued by the same author also play a vital role in determining the choice of market by an MNC. There appears therefore to be no difference between the approach advocated for MNCs and the approach undertaken by the SBG as an EMNC.

7.2.5 Strategies and approaches employed when assessing markets

The importance of a framework to assess markets has been argued by Khanna et al. alongside the argument that assessment tools and even composite indices are not always effective in determining whether or not an MNC should invest in a particular market. Critical factors identified relate to institutional context factors while similar arguments on governance aspects, specifically in respect of political risk and regulation have also been identified. Certainly from an African EM perspective, the latter are of critical importance, given the historical view held on African politics and the implementation of regulations that did not always favour or attract FDI.

From a research point of view, the importance of a framework or manual was reaffirmed through the SBG's use of its own home grown manual or framework, which framework by and large constitutes the recommendations of International Business theorists on aspects that need consideration in assessing markets for investment. Yet again, there appears to be no distinction between the approach advocated for MNCs and the approach adopted by the SBG as an EMNC, which finding resonates with the assertion that in aspects of investment, firms will apply similar due diligence measures.



7.2.6 Different approaches

If strategies are to be developed to fit institutional context as argued in literature and not the other way round and if governance and economic factors are considered critical inputs for investment into a particular market, it follows that variations in strategy and approaches based on local context factors will apply. The research finding is certainly consistent with this argument and supports the argument by International Business researchers and theorists that different approaches based on varying institutional context factors must apply from market to market.

7.2.7 The impact of local context factors on the decision to enter a market

In evaluating a market for investment, local context factors are critical. The research finding was certainly consistent with this argument and the importance of variation to strategy and approach based on macro, economic, regulatory and political factors. Aspects in respect of human resource factors and their importance in determining whether or not an MNC enters a market were also identified by literature. Yet again, none of these arguments and the outcome of the research provide for any distinction between MNCs and their EMNC counterparts. On the contrary, they support the view that in aspects of assessment and local context factors, similar considerations will apply from both the MNC and EMNC perspectives. That the EMNC however has been purported to have a distinct advantage to deal with limitations within the EMs, specifically in respect of institutional voids was not a focus of this research and could be a consideration for future research,

specifically in respect of i stituted by the MNCs and EMNCs in addressing local context variations.

7.3 Recommendations

The recommendations of this research are centred around further study in the varying themes contained in this investigation, given that only the SBG Africa operations was investigated. In this regard, further academic research is recommended around the central themes of strategy, locational consideration and market assessment as well as other additional questions:

- Does the motivation for expansion of Multi-National Banks into other foreign markets lie in a desire to protect the home market client or rather just opportunity and growth factors?
- To what extent do FSAs ensure the success of an organization in a new market?
- Can markets identified for expansion by the MNC or EMNC be categorized into either asset seeking or strategic asset seeking or is it just a question of where the opportunity lies?

7.4 Directions for future research

This was a case study limited to the SBG Africa operations. Future research could be directed at expanding this study beyond the SBG to gain more insight on the approach of other developing Multi-National Banks, with a focus not just on the Africa operations but the EM field as a whole.

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APPENDICES

Appendix A: Copy of interview questionnaire

No.	Question	Objective
1	Is there a specific corporate strategy for expansion into African markets and what does it encompass?	To determine whether African markets are viewed differently from other EMs
2	What type of products and services are the focus areas of FDI investment into Africa and why?	To determine the focus of FDI investment into Africa i.e. investment banking vs. retail banking vs. both
3	What are the SBG FSAs that give it a competitive advantage within Africa	To determine the SBG FSAs that will enhance its success
4	Presently the SBG is in 17 African countries. What is the ultimate target of SBG FDI stock in Africa?	To determine the ultimate objective of FDI stock in Africa
5	What are the generic factors within Africa affecting SBG FDI stock expansion?	To determine the generic factors affecting EMNC expansion into Africa
6	What type of African country landscapes or markets are the focus areas of the SBG FDI EM strategy and why?	To determine factors motivating the SBG expansion i.e. efficiency seeking (to exploit imperfect markets) vs. Strategic asset seeking (to protect and enhance the SBG FSAs in other similar type markets)
7	What similarities between South Africa and other African markets are considered in determining a location for FDI	To determine areas viewed essential for SBG investment into identified African countries



No.	Question	Objective
8	Is there a framework that the SBG uses in investigating a location for investment and what are the components of this framework?	To determine the type of framework used by the SBG to investigate location and the components of this framework
9	Are there generic factors considered by the SBG when identifying markets for assessment and entry and what are these factors?	To determine locational factors critical to the SBG in their process of market assessment and entry
10	What local context factors does the SBG consider as critical for its investment into a location	To determine the importance of locational competitive factors
11	What other factors are considered by the SBG when choosing a location	To determine other factors considered in choosing a location i.e. economic, geographical, political, social, labour, product market, capital markets, institutional
12	How does the SBG address the absence of factors viewed critical for successful locationalisation and investment	To determine how institutional and other voids are addressed
13	Does the SBG have a specific approach for market entry and does this approach differ from country and country and if so, what are the reasons for these variations?	To determine variations in strategy implementation and the reasons for same
14	Are there specific differences employed between the different geographical locations of Africa (West vs. East vs. Central vs. Southern), what are these and how do they affect implementation of the SBG strategy?	To determine the existence of geographical and cultural differences within Africa and the need for varying strategies / implementation, if any
15	What has the impact of the present global crisis on the SBG corporate strategy of investment into EMs been?	To determine the future direction of the SBG strategy into EMs

INTERVIEW WITH RESPONDENT A

Date	02 September 2009	Time	16h00	Venue	SBG offices, Johannesburg
M	Thank you for taking the time for this interview, I have prepared a list of questions that will guide the deliberations. To get the ball rolling in terms of Std Bank itself, having had a look at your press clippings and your recent media briefings there has been mention of Std Bank retaining their focus on Africa although your vision indicates that you want to be an emerging market financial institution. How would you say that there was a difference between the Africa strategy vis-a-vis other emerging markets? Understanding that also within Std Bank there is talk of a mono-strategy, you have a mono position and with the moving forward tag tag that you have recently launched.				
A	I think there is not necessarily a difference, the understanding that we need is that Africa is core to our other market strategy. We see our ability to connect Africa and its different markets to other emerging markets as key to our strategy. Africa is core to our emerging market strategy, it is not different - it is what we do in other emerging markets typically links back to Africa.				
M	So Africa remains the centre-piece so to speak and perhaps the way in which you see yourself in getting involved in other emerging markets such as Russia, Argentina and so forth. The next question is around products and services, again looking back at some of the press data which is some of the information I pulled off the Std Bank website. What is the focus of FDI stock for Std Bank within Africa and why would that be the particular focus?				
A	Our strategy is to operate full service universal banks in all the markets we operate in. Sometimes that takes a bit of time and we would phase it in depending on the market. Ultimately we see ourselves operating personal and business banking which is retail, corporate and investment banking, wealth in all the markets we operate in.				
M	Is there any one of the three that you think is more critical or relevant to standard bank?				
A	No because they basically support and need each other so you would use your personal and business banking franchise as a source to attract retail deposits. You would then have the ability to use those retail deposits to lend into the corporate space and do some investment banking deals. And as we have seen with the global financial crisis recently it is very hard now for investment banks to exist without a retail bank so they are very strong partnerships. The wealth offering, as an example, is critically reliant on the cheap and efficient distribution mechanism that a branch network out of the personal and business banking gives you, so they are all interconnected. So we don't really see a world going forward where we would run one and not the other two.				
M	What does wealth entail exactly?				
A	Wealth is typically the provision and sale of insurance and risk opportunities for customers. It is short term property insurance, life insurance, and it is a number of investment opportunities.				



M	Going back to your specific advantages or what makes Std Bank unique, in your recent press clippings by your CEO he mentions issues such as cost effectiveness and infrastructure and certain skills that Std Bank can bring into African countries. Looking at the 17 countries you are involved in and looking at Std Bank as a group, maybe within Africa but maybe broader, what would you say are the issues or advantages that Std Bank have which give you a competitive advantage. Why Std Bank and not CitiBank for argument sake? What makes Std Bank unique?
A	Certainly the extent of our physical footprint on the continent, we also believe we have, as a competency, an ability to understand and operate in these sometimes complex markets, understand their resources, both human and other and manage the risk in these markets.
M	You mentioned footprint, how do you address challenges around institutional voids. With emerging markets there is always talk around infrastructure, skills, trying to get business done which obviously adds to the cost of doing business in Africa. How does Std Bank address those issues within the Africa operation to ensure that you are one step ahead of the game?
A	We try and ensure that we encourage the development of skills and competencies within each of the countries we operate. Sometimes you need to start off with the transfer of skills either from South Africa, where we have a lot of those skills, or from some of the other bigger African countries into other countries who might not have as much or as many of those skills. It is about skills development, the transfer of skills, and about making those banks, to a certain extent, self sufficient in the way they develop their infrastructure. But there is a partnership between the centre, which sits in Johannesburg, and the country as to how that infrastructure will be developed. If we want to consider constructing a branch in a city in Africa we would then use the best practice that we have in SA about the physical construction of the branch but we would use local knowledge and expertise about where the best place to put the branch would be in our decision, so it a combination of those two issues.
M	Would you then say that your strategy implementation would be amended based on local context factors ~ perhaps there would be certain issues within Nigeria round skills or infrastructure ...
A	It has to be a combination of both. You have to take into account local considerations, local conditions, local difficulties, local opportunities, etc.



M	And then coming back to the generic factors what would you say, within Africa, are the crucial issues that would affect Std Bank FDI expansion? You are currently in 17 countries what is the ultimate target, where do you see Std Bank Africa ...
A	The critical issues is the slice of the market and therefore the size of the opportunity, You would look at the GDP, economic activity, the size of the population and then look at how you would want to optimise that be it by way of acquisition or be it by way of the construction of a green fields operation which takes longer and tends to be more difficult. So quite a bit of our growth in Africa has been by way of acquisition. Typically you ask yourself the question, would you like to buy yourself a small to medium size bank in Nigeria with huge potential or do you want to buy the market leader in a small country with limited potential. The size of the banking opportunity in any country tends to be dependent on its economy and the size of its population. If you have a country that has no oil, no mineral deposits to speak of, poor climate and low population then it does not necessarily present such an attractive banking opportunity. However to the contrary, if you have a country that is large in its population, is blessed with mineral deposits and oil, has a good climate, fertile soil and its ability to export agricultural products then it would be a good banking opportunity.
M	So natural endowments count a lot ito Std Bank then deciding which countries to go into?
A	No. They play a part in how the economy develops so we would look at the economy. There might be in specific instances things like tourism that might make an economy attractive, there might be in another instance financial services. It is what are the fundamentals that are going to ensure that the economy has an opportunity to grow.
M	Any specific generic factors within Africa that Std Bank would like to see for Std Bank to go into
A	As a major emerging markets player we believe that you have got to understand those and manage those risks and there is nothing that would be an absolute barrier to entry.
M	So there are no specific risks, it would all be based on the market and what it is that you see for that specific country?
A	We would assess it from time to time and there are certainly things like country risk, political risk ~ if there is open warfare you probably wouldn't choose to enter into a country at that specific time, but we tend to have a longer term view and if warfare develops then we wouldn't necessarily withdraw from a country. All of these things go into the mix of deciding at a given moment in time whether it is good to enter into a particular country.
M	If you look at your footprint within Africa it is interesting that you are not in any of the Francophone countries ...
A	With the exception of the DRC.
M	Is it a cultural issue? Is there any specific reason?
A	No, it is for the reasons I have mentioned. It is about the economic opportunity. That is where it starts and finishes. We are in Lusophone Africa, so there is no cultural reason
M	Historical ...
A	No.



M	I suppose that pretty much answered the next question which is to find out, in terms of factors that motivate Std Bank into emerging markets. Organic growth, one knows that emerging markets present an opportunity for growth but what is also interesting is what motivates that growth? There are lots of theories around ... is it efficiency seeking in the sense that would a company be wanting to go into a market that it sees as imperfect in certain areas and capitalise on what it's advantages or core competencies are, or is it looking to go into similar type markets. Obviously SA, although emerging, tends to stand differently from other African countries, what type of African landscapes or markets would you say Std Bank would focus on or going back to your answer would you say it really is based on the economy there is no particular market if you will or landscape within Africa that Std Bank would say "That's the one".
A	It is about the size of the opportunity. We operate and have been successful in markets where there are strong natural resources and mineral deposits, we have operated in markets where there is strong agriculture, so it basically really gets back to the size of the opportunity.
M	So it has nothing to do with the type of landscape it is more opportunity, economy, more what is driving that economy and where the opportunity for Std Bank would be.
A	That is correct.
M	Now we are just going to tackle some questions and location in terms of how you pick these countries and the entry mechanisms that you use. Are there specific similarities between SA and these other African markets that you consider when trying to determine your location?
A	No, we don't look for similarities at all. More importantly, you need to understand the differences and I think in looking for similarities you are tempted to treat markets the same and they are not the same, they each have their local differences and idiosyncrasies, etc and understanding and recognising those are key to being a competitive player in those markets. We try desperately hard not to say this market is the same as that market so we will treat them all it same.
M	Going back to your press clippings you have done quite well. SA being one of the largest banks. 77% of your earnings last year from SA vis-a-vis I think 13 % from other African counties. SA is obviously unique given the history but what other issues within SA would you argue have made it as successful as it is and that you would want to export to other African markets to ensure that you have a similar success?
A	Our basic understanding of the business, our product design, our value proposition for the customer, our discipline in assessing market opportunities, customer needs and designing solutions for that, our ability to build and manage competitive physical distribution channels in the form of branch networks, our ability to design and successfully operate alternative distribution channels, our ability to bring products to market and probably critically is our ability to manage risk in an appropriate fashion for the market we are operating in.
M	Is there a specific framework that Std Bank uses when investigating a location for investment and what would that be?
A	There is a specific framework, it is home grown. We've determined a number of issues that we look at from country risk, to political risk, to economic size, to average GDP per capita ~ all of those indicators that will then inform what the size of the economic activity is with that particular market.



M	Then obviously you use that per country?
A	Correct.
M	Any generic factors considered when identifying these markets for assessment and entry?
A	We try and look at each market specifically and not look at too many generic factors at all. You need to judge each one on its own merits and the more you go to standardisation, to generics, etc. the more I think you diffuse into a common law of average basically and don't see the highs and lows that you can use then to maximise your competitive situation. You go for the common denominator which I think can confuse.
M	For a shareholder of Std Bank what are the specific factoral issues into if you go into a market that they would require - obviously return on investment, is one of those. What would be the other issues Std Bank would look at, that one may consider generic in terms of identifying that market for assessment and entry. Obviously the entry process is always entirely different from the assessment process but the entry process would follow the assessment process because how you choose to enter a market would be based entirely on the outcome of that assessment.
A	I suppose if you consider things like the socio political structures, stability in the country, economic order, extent of rule of law, acceptance of good corporate governance, level of corruption, we look at all of those if you consider those generic. For example, before we launched a new asset based lending product like a mortgage or a vehicle finance etc we would look at your ability to exercise against your security into the legal system of the country you are talking about. So if you have no ability to attach your asset and sell it in execution of your debt then it doesn't seem to make any sense to offer a mortgage product. So in the DRC, for example, we don't offer any of those products as the legal system, at this point in time, it is relatively under developed in terms of going there. You wouldn't want to offer a loan to a customer in the DRC on the security of his house because if he defaults on that loan you cannot attach his house in accordance with their legal system.
M	That brings me to my next question. So local context factors play a role. Your example of the DRC would be central Africa. If you look at west Africa vs east Africa vs southern Africa what would those differences be if any; what do you do differently in Nigeria because of its local conditions?
A	We don't aggregate countries into regions, we look at them country by country specifically because the fact that a country is in west Africa doesn't mean that the legal system in Nigeria, Togo and Ghana are the same. We would look at the criteria mentioned in depth in each country to get an understanding. You might still want to enter that country but you might want to say that you do so without a full portfolio of products.
M	So subject to the risk the profile of the investment may change?
A	Correct.



M	We have spoken a lot about socio-political and regulatory issues. I get a sense that the legal framework is very important to Std Bank because if you are going to enter a market you want to know that your investment is secure and long term you can continue to grow in that market or economy. Any other critical issues other than the legal framework or the regulatory framework that Std Bank what say in addition to legal, if you had to pick two out of the five or six what would be the core issues that would be of concern.
A	There are environmental issues, there are issues to the extent you can use technology appropriately, political, economic, social, we use a pestel analysis as a starting point, but we would also go specifically into what are the local characteristics that make an economy work or not work and how does that impact on the banking system. So for example if an economy is serviced by a banking system that is primarily sharer based we would take that into account bearing in mind that a lot of the banks we operate do not have sharer products so it is not necessarily one of our competencies but in some countries that is totally irrelevant in other countries it is significant.
M	Just to use an example, was that an issue in Nigeria because of the Muslim population?
A	No.
M	Anything specifically different if you were to give some examples ~ I know you have given one on the DRC and the whole issue around security and housing loans. Anything that comes to mind perhaps ito the 17 countries ito adjustments you had to make.
A	Certainly ito some of the fees we charge and we have been requested to charge a cash deposit fee in some countries, it has been rejected in other countries. The whole question of FICA ~ know your customer ~ in some countries it is legislation and in others not. We report to our home regulator here in SA, the SA Reserve Bank, and they have requested a certain level of compliance ito knowing your customer in order to do that you have to persuade customers to give you the necessary information that you require. Some of them are not inclined to do that ~ you would say unless you do that then I must freeze your account. In some jurisdictions the regulator says you cannot freeze accounts so you just have to persuade them to provide you with the information. There are quite a number of issues that would be pertinent there.
M	How would you address the absence of factors that you view are critical to successful localisation ~ regulatory issues where some countries are stronger than others. How does Std Bank approach or try to address those differences or institution voids that would be different from country to country?
A	We make sure that we comply with all the legal requirements and regulations both here and in the country we are operating in. We certainly are not party to any behaviours that might be described as less than 100% governance. We will not entertain any bribery or corruption or anything of that nature. If push comes to shove we would just not enter a country. For example if we were forced to take on certain local shareholders at a price that we didn't think was appropriate we would withdraw.
M	So legislation is key?
A	Regulation has to be big in banking. It is the most regulated industry in the world and you have to decide that you are going to comply with those regulations otherwise you shouldn't be there.



M	In terms of market entry does Std Bank have a specific approach or does it tend to differ from country to country?
A	Differs from country to county absolutely. For example in Nigeria we operate as Stanbic IBTC, in Kenya we operate a EFC Stanbic, in some countries we operate as Standard Bank, in others as Stanbic. It depends on the country and challenge that will determine it.
M	Any differences you think, you have just said it is country to country but obviously across Africa even within Africa as well to travel across Africa you tend to meet differences and similarities certainly in terms of culture, in terms of the way of doing business, any differences that you would attribute to geography or culture within Africa itself? I know that you said country specific but if you were to draw artificial boundaries cut certainly cultural boundaries how would say your east Africa operation compares to southern Africa, central Africa and west Africa if at all or is it one uniform thing ...
A	No it is not uniform, not a regional thing it is country by country.
M	So you don't look at trying to, because you have been successful in Kenya, because of this factor conditions, or whatever conditions, perhaps they are the same conditions you want to take into Rwanda, for argument sake you would look at Rwanda totally differently ...
A	We would look at our learnings and experience but we would not try to absolutely try and replicate.
M	The impact of the present global economic crisis on the Std Bank group, certainly corporate strategy wise, your investment into emerging markets has that been affected and if so how does Std Bank view themselves going forward still obviously focussing on emerging markets as you have indicated.
A	All markets have been affected by the global financial crisis, some more than others. We have seen some affected ito a time delay so those economies producing commodities for export, etc. tended to be affected last. What is critical in this time is capital and liquidity management and not necessarily profitability so we have constrained our business in the interest of capital and liquidity preservation and we know when the upturn comes we can turn our concentration and focus to getting our profitability up again.
M	Has that in any way affected the pace at which Std Bank wants to grow in Africa?
A	Not at all and we think that there might be some opportunities that may come out of the global financial crisis.
M	Would you see yourselves making expansions in Africa within the foreseeable future from the 17 countries ... ?
A	It is possible, not only for the 17 countries but getting bigger in some of the other countries we already operate in.
M	So you are looking at possibly an internal expansion in the countries you already operate in and adding to the portfolios that you presently are operating in.
A	We look at those on a constant basis.
M	Thank you so much.



Date	08 September 2009	Time	06h00	Venue	Teleconference
M	Thank you for taking time for this interview. I am doing qualitative research so asking similar questions to everyone. The first question is around Std Bank and their corporate strategy for entering into African markets. Is there a particular strategy for Africa or is it the same that you employ in any emerging market e.g. Argentina, Russia, etc.?				
B	It is almost the other way around. When we acquire other banks in Africa we are trying to replicate the learnings from that model in other emerging markets around the world.				
M	So Africa remains the focus and centrepiece?				
B	Our corporate strategy is to be an emerging market bank but for the foreseeable while, Africa remains our core.				
M	Looking back at Africa, what type of products and services are the focus areas of your FDI into Africa and why?				
B	In principle we go in with all the products but we may not implement all in every single operation. For example, you won't be doing much investment banking in Swaziland or Lesotho, they are too small.				
M	So the numbers determine?				
B	Yes. There is also a difference between the strategy and sometimes opportunities may fall into our lap which we seize.				
M	What are the firm specific advantages that would make Std bank a better player in Africa compared to for example Citibank?				
B	Std Bank is trying harder to make use of a bank based in Africa as a competitive sell into the rest of Africa and the fact that we have a better developed franchise now in Africa. Although we haven't expanded much in the past 5 years, our more comprehensive offering makes us more competitive. Speaking for myself, the fact that we are from SA does not necessarily give us a competitive advantage. You go into Angola and they are weary of SA as both countries are vying to be the leader in Southern Africa. If you go to North Africa, which we haven't gone into but explored opportunities, they don't want to be involved with a bank from black Africa.				
M	That might be the feeling because of culture.				
B	They are more Arabic/Muslim but they also look towards white Europe than to black Africa. No-one in Libya or Egypt would say that officially but I think that is the case. There is a cultural difference.				
M	What type of African landscapes/markets is the focus of FDI into Africa and why. You are in 17 countries, one would be interested to know what the ultimate target of your FDI stock is within Africa and what type of countries would be of interest to Std Bank?				
B	We certainly looked up at the Magroot region. Let me go back to the French speaking countries. There is the South African aspect, we don't speak French; the French countries are very segmented. If you want to go to West Africa and you want to go to Anglophone Africa you would go to Ghana and Nigeria, you wouldn't go to Sierra Leone or Liberia. We are in Ghana and Nigeria. Sierra Leona had war, they speak English but they are a small market and they had war. Look at French speaking West Africa, you would probably go to Cameroon, Senegal, Cote d'ivore, you wouldn't go to Burkina Faso, Benin, Togo. Let's look at those three countries, Cote d'ivore has had a disruptive civil war, Cameroon has had a very sluggish economy and Senegal although in relation to the other two is better, it is not shooting the lights out and it is not a huge economy. And that is the third reason perhaps we haven't gone into Francophone				



	<p>Africa. And the s that the British were good colonialists but bad post colonialists. Whereas the French were bad colonialists but excellent post colonialists. What I mean by that is the French elite have managed in various ways to draw the elite from Africa to look in francophone. We give aid, we give assistance, scholarships to children and they want to buy French and they want to deal with French banks. So it is quite a difficult market to break into for that reason.</p>
M	<p>Any generic factors that you say would affect your expansion into Africa?</p>
B	<p>We haven't fully got our heads around Islamic banking. We don't understand Arab culture. Islamic banking is a growing factor, so we are dipping our toes into Islamic banking in one or two other countries before we spread this offer into the rest of Africa.</p>
M	<p>Do you see Std Bank growing beyond the 17 countries and what is the ultimate target?</p>
B	<p>What the strategy has been has been moving from small players in the countries in which we operate. When we entered Nigeria we were in the top 50 and now we are a bulked up player. We are the biggest bank in Uganda. In Kenya we have bulked up by buying CFC bank. We are now the 5th player and becoming a serious operator. The strategy over the next while will be doing the same thing in different operations rather than opening up new banks in new territories. Once we have bedded down and how long that takes I don't know then a more serious focus on getting into more territories is feasible.</p>
M	<p>What similarities between South Africa and other African markets do you use as a determining factor when thinking of locations you would like to be involved in.</p>
B	<p>I think South Africa is different to most African countries in that it is a sophisticated, developed economy. The closest African economy to that would be Nigeria and Kenya. What often happens is that products developed in SA may well be rolled out to other African countries rather than we get products out of Africa into SA.</p>
M	<p>What framework does the Std Bank use in investigating locations for investment. What are the components of this framework?</p>
B	<p>What I have been involved in is looking at the universe of countries, which GDP is of a certain amount, shown decent growth, GDP per capita. We have used those variables to determine which countries we should want to go into. We also have our political risk analysis, do you really want to go into Equatorial Guinea. Using those two broad spheres, there have been studies done, if we had a clear slate, where should we be focussing our investment energies.</p>
M	<p>Would you say that the type of markets you would prefer are those that are more stable? Are you are looking to enhance the Std Bank Group in markets that are less risky certainly from a political and economic point of view and that would make it lucrative for Std Bank to invest in that country. Or are you are looking at exploiting imperfect markets?</p>
B	<p>If we find market imperfections we would use that for profits. Let's look at Zimbabwe which is in a political crisis, we had the bank there as a care and maintenance operation. At very high level there was a determination not to put any more money into Zimbabwe because of the possible reputational and other risks. Corporate strategy is to be a good corporate citizen in all the countries we operate in. A major change I have seen is that when we first started going into Africa the model was that each bank was autonomous and there was a tiny head office function but there was a large expatriate flavour largely in the initial stages in largely white South Africa. Now you have lots of South Africans of all views in the rest of the network but we have got Africans in head office that are not South African and we have got a Kenyan say heading up the bank in Uganda. We are attempting to get a cadre of people to upskill</p>



	locals so that they go to another country and then back home. We are also trying to get a pool of talent that moves around.
M	Any other factors when identifying markets for entry and assessment beyond political risk analysis and economic variables that you consider when trying to enter a market?
B	It depends on the exports/imports of the country which might attract us there. Another thing I have to mention is our 20% share holding out of china, china is operating all over Africa; we are trying to leverage off that and china's interest in Africa and our shareholding out of china and our African heritage and trying to capture the trade and other flows and the financial aspects thereof on both sides of the water.
M	What do you consider as critical other than risk, economics, institutional issues around skills and the need to ensure that investment in that particular country takes off.
B	10 – 15 years ago we would have wanted 100% of the bank. Now we are willing to partner with local players. In Uganda, to get a franchise, we sold 20% on to the local stock exchange. We had a majority stake but we don't have 100%. In Nigeria we amalgamated with several other banks and put in more money now we only have 60% of a much larger operation. In Angola from the word go, we are happy to have a 50% stake.
M	What I hear you saying is what is critical would also be based on the mode of entry - JV's or mergers or partnerships.
B	We are more open ~ we don't have to have 100% of the cake we are happy to have a slice of a much bigger cake.
M	What local factors need to be in place for Std Bank to enter?
B	Institutional and other frameworks need to be in place. Certain level of sophistication to make certain product offerings, and the laws have got to be conducive as well.
M	How do you address those institutional voids or issues?
B	You can try and lobby the authorities most often through the bankers association. It is difficult to do it on your own.
M	What I am asking is that beyond those loopholes and shortcomings how would you address the HR component?
B	For a SA bank to make US\$10m is a lot of money for Citibank it is small change. That is why we can afford to go into Swaziland and Citibank isn't.
M	While in Swaziland how do you address the absence of issues that you believe are essential to be successful in Swaziland?
B	We try to provide good service. We perceive Swaziland to be a maintenance operation that will not expand or grow much more. We try to improve the efficiencies to generate profits rather than introducing a multitude of services and branches.
M	What you are saying is it would depend on the market you are in and certainly your idea would be to improve the efficiencies to ensure it works better basically. How would you do that, how would you improve those efficiencies?
B	I am not an operations person but there are certain things you can do to improve efficiencies. Making sure there are no revenue leakages. I am a customer of the bank and the bank needs to charge for everything but sometimes they don't actually charge for what they are legally allowed to. Moving non profitable clients out of the bank entirely or move them to cheaper platforms and focussing on the people who make you money ~ the old 80 / 20 principle ~ If you start getting better management information then you can identify who those people are.
M	Your approach for market entry - would it differ from country to country? You mentioned that it is not important to own 100% but ensuring that where you play your returns are good. Does Std Bank have a policy of what the preference is?



B	No fixed thing. In existing operation rather than growing organically as this takes time and money to do. However, after saying that, we have found that when we merged with an existing operation we found that the levels of bad debt are sometimes higher than what we possibly would have imagined them to be therefore the merger was more expensive than we anticipated. So we have done both routes, both mergers and organic growth and it depends upon the context. In Ghana we couldn't find a fit so we decided to go it on our own and we expanded 10 15 20 branches in the past couple of years.	nd good fit, we prefer to buy an
M	Would you employ different approaches based on geographical locations?	
B	As far as the system and processes there is no real difference in how we would go about it. However after saying that there might be cultural differences in how we handle our interactions with the authorities and our staff.	
M	Strategy ito systems and processes stay the same but the manner in which you do it will be different.	
B	Yes.	
M	Has there been a major impact on the SBG due to the global crisis	
B	I am way down the pecking chain to answer that question ~ I would perceive frankly given that we came from South Africa and we are well regulated we are actually able with the capital base we have to pick opportunities and we could turn this to our benefit. We are well placed to take advantage of the crisis.	
M	Thank you so much.	



Date	22 September 2009	Time	12h00	Venue	Teleconference
M	Thank you for taking time for this interview. My questions are aimed at getting a sense of Std Bank and the process that it uses and locations and so forth. Is there a specific corporate strategy for expansion into African markets and what does it encompass?				
C	The answer is "Yes" there is. Our strategy is to be a leading emerging market bank. Because Standard Bank Africa is part of the Std Bank group we need to make sure we align with the group, we can't work in isolation. Our group strategy is: To be a leading emerging market financial services group. Providing excellent service & solutions to our customers in Africa and other emerging markets. There are two levels we work at, Std Bank Group and Std Bank Africa. When we look at Std Bank Africa, it excludes SA because this is the biggest domestic bank we have. Our vision is to be a leading emerging market bank on the continent and this links to the corporate strategy of Std Bank Group. Africa is made up of SA and the rest of Africa. The rest of Africa is Std Bank Africa.				
M	What type of products and services are the focus areas of FDI investment into Africa and why?				
C	When Std Bank Africa looks at the continent it looks at which markets are attractive and which not. When a market is not attractive we don't do anything about it. When the market is attractive we look at a market entry strategy for that market. When we get into the market we ask what type of products do we need. If you go into Retail banking you need to build, rent or lease branches, which is expensive. Investment banking ~ you only need a small office and you sell your knowledge base. In new markets like Angola, we try and minimise cost of entry and there we will go for Corporate and Investment banking. When we buy a bank and it has some retail outlets we try and grow corporate and retail banking. To start a greenfields bank is very expensive. Investment strategy is based on attractiveness of the market and the minimising of risk in the early stages.				
M	What are the SBG FSAs that give it a competitive advantage within Africa.				
C	All products are basically commodities and it is very difficult to differentiate a commodity. What we see as out differentiating factors for Std Bank Group are:- <ol style="list-style-type: none"> 1. our presence in 16 countries in Africa, South Africa and of 21 countries outside Africa (total of 38 countries); 2. providing total banking offerings; 3. differentiate ourselves in terms of service. We would like to see ourselves that no matter where you go on the continent you will get the same level of service; 4. if you are a multinational or corporate we can give you a good footprint and we can not only connect Africa to the world but the world to Africa. Not many banks can do that. 				
M	Has Std Bank got the largest footprint throughout Africa?				
C	Let me say this, Std Bank is the largest bank in Africa in terms of assets and in terms of profit. In terms of Sub Saharan Africa we seem to have the biggest presence.				



M	Presently the SBG is in 17 African countries. What is the ultimate target of SBG FDI stock in Africa?
C	We have aspirations to grow further and clearly it will be based on the attractiveness of the market. We review this twice a year, to see what has changed on the continent, which countries are more attractive than the others for example right now we have a glaring omission in North Africa, or we are not present in Angola and therefore we would get a full banking license in Angola that would be our first priority. We could grow more in Nigeria. So clearly we are assessing the continent all the time and looking at every opportunity to grow our footprint but it must make business sense.
M	What are the generic factors within Africa affecting SBG FDI stock expansion? - I am trying to determine differences between Africa and other emerging markets.
C	There is no difference. An emerging market is an emerging market whether we go into Russia, China or Africa. We will ask the same questions ~ what is happening in the political front, economic front, level of regulation or unregulation, level of corruption, level of risk, what are the competitors like, depth of the financial market, what is the level of banked and unbanked, what are the opportunities in the country ito which sectors are growing, which sectors are not growing, where we think we can start making money. We do that in every one whether you are in Brazil, Argentina or Africa.
M	What stands out as critical? You have listed all the issues but what are one or two issues if they were not there then Std Bank would not go in?
C	It is a combination, we constantly rank countries ito red, amber and green ito factors such as societal, political, economic, legal, regulatory. We will not touch any country that is red i.e. Somalia will never be on our radar short term however we might not increase our investment in Zimbabwe until we see the political situation turn around. We look at the risk and the factors we can mitigate against risk. If we cannot mitigate against risk then we will not enter.
M	What type of African country landscapes or markets are the focus areas of the SBG FDI EM strategy and why?
C	The motivating factor is that it must make business sense for us to expand.
M	What similarities between South Africa and other African markets are considered in determining a location for FDI.
	SA has 9 provinces and there is one political regime which runs these provinces so when you are analysing what is happening in a province it is very different from analysing a country. So I would say from a political, legal, economic front it is very different. When you look at products the answer is yes. Many products are developed in SA and might require refinement as you move into the rest of Africa because you cannot assume marketing and selling of the product will work so you need to tweak it for the market conditions in which you work. Then of course SA has a huge capability and competence in terms of how we run our operations. SA has a big flagship and we can learn from them in terms of operation. The same will apply to support functions such as IT and HR that we need to manage where we can add benefit of scale and benefit of efficiency.



M	Do those aspects play a role in determining a location or is it just part of the process of entry.
C	It doesn't have a key issues ito of location. Location is based on the stand alone attractiveness of each country.
M	Is there a framework that the SBG uses in investigating a location for investment and what are the components of this framework in addition to Pestel?
C	The first one is Pestel, 2 = financial market attractiveness, 3 = competitor analysis, 4 = product area strategy 5 = competitive positioning and then what is the impact to differentiate. That is the model we follow for the framework.
M	What local context factors does the SBG consider as critical for its investment into a location and what other factors are considered by the SBG when choosing a location
C	Clearly local factors play a big part in terms of products and investment. The question is how friendly is it to foreign direct investment is a very critical factor with regard to that. Second factor is can you go to the courts and how good is their judicial system because people want to rob banks very often/staff or people want to commit fraud whether it is internal or external. The question is if the judicial system is very weak it is going to be very unlikely that you are going to consider yourself in terms of that competitive factor of location. When we look at products, whilst we can learn from SA products we can't just roll them out, we have to tweak them for the particular market, for example in SA a burial product may be a good idea but in another country it would be an insult as it is seen as the family and community's responsibility to bury that person. You need to understand the cultural intricacies in each one of those markets. Over and above the point ito mortgage loans, most African countries do not consider a loan of more than 7 years and when you start looking at mortgages that go from 10 to 20 years it creates problems ito the payback period for housing. To pay back in 7 years or in less than 10 years is a huge problem ito how you can make a difference in the market. In many countries in Africa there are no title deeds. The model in Africa seems to be a building model rather than a selling house model as there is not much stock available of ready built houses available in general in the rest of Africa compared to SA. It is a very small stock so people tend to go and build a house over a 3 or 4 or 5 year period. Every time they have spare cash it goes into building. We are not into building loans we are into mortgage loans so there is a disconnect ito understanding our proposition and you need to understand more and more the local proposition.
M	How do you address that?
C	As far as we are concerned at this point in time we see it as an opportunity but we don't know whether the regulator will allow us and he isn't allowing us. You have to understand the regulator in those countries and until such time that there is more pressure with regard to lets say getting land tenor and security on the land, that's a policy of the country and if that can't change it is very unlikely that we are going to move into those products. Those factors we can't change.



M	How does the SBG address the absence of factors viewed critical for successful localisation
C	We want to be a local bank in every country in which we operate. Therefore the number of expatriates we put are restricted. In Uganda we may have 1300 people but only 5 or 6 expatriates. We try to localise and use talent pool in a country. There is a huge cost in doing business in Africa because you don't necessarily have the same capabilities and you sometimes have to take staff from SA. The long term model is that you must make sure you are able to produce things locally in the country. If you go today to DRC or Mozambique or Uganda, the level of industrialisation is not as sophisticated yet, but it will get there in time. We understand that as we are entering a market you have to look for a higher return. Higher risk and higher cost of doing business therefore you are looking for higher return and that will justify our market return in the short term. In time we can source things more cheaply which will increase our profitability in the bank as we move ahead. Clearly we don't have the infrastructure today, for instance you can't get power to all your branches. Sometimes you have to run on generators and even if you have power you still have to have a generator as you cannot rely on the power or the quality of the power. These are the additional costs we have to look at when doing business in the rest of the continent.
M	Does the SBG have a specific approach for market entry and does this approach differ from country and country and if so, what are the reasons for these variations? And are there specific differences employed between the different geographical locations of Africa (West vs. East vs. Central vs. Southern) - what are these and how do they affect implementation of the SBG strategy?
C	You have to look at the history of our expansion strategy. We started from SA going into East and Central Africa. First we went into Lesotho, Swaziland, Namibia because these were in close proximity to SA. When we went into these it was easier because they were English speaking. We do not see this as a barrier though. We are in DRC which is French speaking, we are in Mozambique which is Portuguese speaking, we are going into Angola which is Portuguese speaking. Nothing is telling us that we shouldn't enter into any French speaking countries. We don't see language as a barrier to entry. It just happened that our portfolio looks like that at this point in time. I mentioned earlier that we look at the attractiveness of the market, if you can show me today a French speaking country that has extremely attractive returns to the politics, economics and so on we would look at it seriously. We are cherry picking right now to bigger markets. A country like Cameroon is on our radar screen but we still haven't got into that country because we still have some concerns to certain issues in the country. So we don't look at it in terms of whether it is Francophone or Anglophone. We look at it to the business opportunity.



M	What has the impact of the present global crisis on the SBG corporate strategy of investment into EMs been?
C	It didn't affect our thinking into our investment strategy. Std Bank Group acquired a bank in Russia this year so if it was affected why would we buy? Our business has been affected but some parts have been affected more than others for example Uganda has hardly felt it but a country like Botswana has been negatively impacted because they are driven around diamonds and diamonds have fallen heavily where diamond mines have closed so it has had a serious impact. There has been no impact in a country like Lesotho. But other countries have been affected where commodities have come off seriously like in Zambia. There has been an effect, however we continue to expand and look at new opportunities. We have applied for a banking license in Angola despite the crisis.



Date	28 September 2009	Time	14h00	Venue	Teleconference
M	<p>Thank you for taking time for this interview. I will try and be as succinct as possible with regards to the questions. I have prepared 15 questions and they are really focussed around strategy and locational issues with regards to Standard Bank Africa and your move into Africa. Perhaps I could kick off with the first question which is really more to open the dialogue. It is with regards to strategy itself - do you have a specific corporate strategy for expansion into African markets and is it different from your overall Standard Bank Group strategy and what does it entail?</p>				
D	<p>Right at the outset we have to accept that the different aspects of our businesses have different strategies. So clearly we have a business strategy, for want of a better word, where we essentially have split our business into Personal Banking, Business Banking and Wholesale Banking as the three pillars and then we have a wealth component which is more aligned to the Insurance/Investment side. Those are the three critical areas of our business. In aligning your Personal and Business Banking strategy, naturally you have a global Personal and Business Banking strategy, but of course that will also be broken down further into a continental strategy or a decision that we ultimately want to go and open in Russia or wherever we are going to go. From a point of view of Africa, the way the business has been run in the last X number of years is very much on the basis of identifying, and we have done exhaustive research across many of the African countries where either we had businesses or we were not represented in an attempt to determine what ultimately the best markets would be for us either to improve our footprint or alternatively to establish a foot print in those particular countries. Generally when we looked at the situation there could be a number of motivating reasons why we would consider particular countries as being a country with opportunities. It could either be because of the Wholesale footprint or alternatively the Personal Banking footprint or a combined effect of both of them. It has been our experience that there are a few markets where there is a significant, robust Personal Banking or Personal and Business Banking presence and those countries generally are in the northern part of Africa, so it is generally going to be your Arab countries. Coming into Sub Saharan Africa we have found a robust Wholesale Banking offering where you can have quite a lot of income out of doing normal run of the mill work being forex and treasury type business following specifically the major corporate businesses that operate across the continent. Of a key factor being that we do have within the situation or strategies ultimately South Africa being the country that it is has got a number of operations or companies that operate across the length and breadth of Africa so we tend to try and operate in those countries where they are significant players because purely given our relationship in South Africa it would mean that we could provide an ability to interact in the West of Africa and we can have everything under one umbrella and it would help our customers manage their funds and businesses more holistically. I think, from a strategy point of view we have a definite strategy for Africa. We are now moving into a new realm where we are going to look at Personal Banking strategies and Corporate Banking strategies more separated from one another than what they would have been in the past but this should not necessarily change the way in which we assess a country because in many of these businesses you find that you require both - if your Corporate business does not have a branch network you find that your cannot generate the liabilities and deposits you need for the customers and by the same token if you don't have a Corporate base it makes it very difficult for you to establish a</p>				



	meaningful present so they feed off of each other.
M	The second question really relates to products and services and I think you have more or less answered it but I will shoot it on - with regards to Africa you have already indicated that there would be the different types Personal, Business, Wholesale and the world part of your product offering. What would you say were the focus areas of your FDI investment? Is Personal, for instance, or Business more important than investment and more important than wealth and if so how do you rank them? Is there a difference and what would that difference be?
D	I think the wealth business in the rest of Africa is in its infancy. We have some really robust wealth business in Nigeria but the rest of the countries don't necessarily have the same level of wealth businesses attached to them. So it seems to be the main thrust of our business if we are trying to create a universal bank in a particular country which would essentially be your Wholesale, Personal and Business Banking type model the situation would be that you would have the normal run of the mill business, providing a facility for payments both within country and cross border. Essentially it supplies the corporate with one stop banking. On the Personal Banking side essentially it is to provide both individuals and businesses the opportunity to bank in a safe environment, provide them with a certain number of products (savings accounts/current accounts/credit cards/debit cards) and also to harness the liabilities that you can gather and providing loans where you deem such. This could be in the form of unsecured loans which we do to salaried people or alternatively home loans or vehicle loans to the more sophisticated markets. We have a very definite product offering, in some countries it will be pretty sophisticated in the Wholesale environment because the capital markets are well developed and provide us with the opportunity to introduce that. In other markets that are not so well developed, we will provide normal run of the mill mundane products to suit that particular market.
M	You have mentioned that you have done quite a bit of research on Africa and the Africa strategy. What would you say were Standard Bank's specific advantages as far as Standard Bank is concerned that give it a competitive edge within Africa. There are other players for instance even outside of South Africa perhaps even Absa, Barclays, even CitiBank coming out of America, but what is it about Standard Bank that makes it stand out and makes it a competitive player in Africa?
D	When you compare your bank to the likes of Barclays, Citi, Standard Chartered certainly the competitive edge it gives us in a South African context is purely that we run a very widespread network over 17 countries in Africa outside of South Africa. That of course gives us quite a lot of muscle particularly with the major corporates and that is both the corporates coming out of South Africa and the multi nationals who operate in Africa. It also gives us a big leaning towards the agencies and the aid guys who want coveries, they want banks that can ultimately support them. In many of the countries that they are currently operating in and certainly if I look at the diversity of the network that we have ultimate got we don't run an operation like CitiBank. CitiBank has very few branches in the rest of Africa, they are very much a wholesale bank and essentially they will do the normal trading. They generally have a very small staff generally in countries and all the back office work, etc., is done remotely either in New York or India or wherever that particular country reports in to. If you look at a Barclays type of situation, they run with a British bank mentality which is a very different environment to ultimately what we have, they certainly are a very tough competitor as they have been in many of these African countries for quite a long time, they have built up some very good franchises, but I think at the end of the day those tend to be very staid in the way they



	<p>have done things. ce into the various markets has introduced a new initiative and a new ability amongst the banks really to shake up the banking environment and provide local support on the ground where we ultimately can. I think one of the other fundamental issues is that many of the countries do have local shareholders in our business which is not necessarily the model which is followed by the rest of the banks. Not every one of our banking operations has minority shareholders, we still own many of our banks 100% but those are generally the traditional ones which are in close proximity to South Africa, but certainly the ones that are closer to east/west Africa we have tended to find that we have sold off portions of the bank and that has also put us in quite good stead with the local community in terms of we are not seen as one of those banks from overseas who have just come in to make money from the particular population, we are seen as one of those banks that are putting something back into the community..</p>
M	<p>You have mentioned that you are in 17 countries, 16 if you exclude South Africa. What is the ultimate target of FDI stock? Where is Standard Bank looking at going and how far? You are in 16 countries, any plans to go into more countries?</p>
D	<p>It is difficult to say. If the right opportunity should come along, and I am not really qualified to speak on ultimately where the next acquisition will happen - I know sufficient about the process to say that if the right opportunity comes along we will take it. If the opportunity presents itself and it is a good proposition we will look at doing it. To keep to the particular point, what we are trying to do is bedding down some of the new acquisitions we have made. We are intending to set up an operation in Angola as soon as we get a banking license. So over the next year or two we are certainly going to have sufficient on our plates to deal with. That doesn't rule out the possibility of a future opportunity presenting itself and we decidedly have the capability to handle it.</p>
M	<p>The next question is around generic factors within Africa from an operations perspective - what do you would think might affect the Standard Bank FDI stock expansion. By this I mean there is always talk in Africa about institutional voids or challenges of doing business in Africa and obviously the whole cost of doing business in Africa and some people feeling it is more expensive than in other parts of the world. What would you say are the factors that could affect Standard Bank moving into Africa i.t.o. your FDI stock expansion</p>
D	<p>I think in terms of operational factors, when you look at the opportunity that comes along, clearly when we look at a particular opportunity that presents itself there are perceived to be a number of potential show stoppers in any deal that you will ultimately do. If we look at the type of environment in those order of preference you have to have some type of structure to the financial markets that you are ultimately going to go into. So if a country has no absolute mayhem in terms of their financial markets we are going to be there. The fact is that it has to have some sort of structure, you have to have regulatory, governance, etc. in place which at least provides you with a reasonable opportunity i.t.o. showcasing your wares or alternately conducting an effective banking business. If you are in a particular market, and let's just take a case in point, I think anybody who determined in today's market that they were going to open up a bank in Zimbabwe given the current circumstances in the country etc. and the difficulties that we as commercial banks face in that particular environment at this particular stage, it sort of indicates to you the type of decisions that ultimately we as a bank would certainly make. We are not going to go into an environment that is going to create problems for you. The difficulties that we have around costs, around the laws in countries, there are some really robust laws in Nigeria around what we as an expat company can and cannot do</p>



	<p>and how much it c duties that you ultimately pay. The cost of conducting a business there is significantly greater than conducting a business in Johannesburg for argument sake. Ultimately the returns and rewards should take that into account. In a normalised environment and I am not talking about the normal economic situation we are facing at the moment you would tend to find those types of areas like Nigeria, like Angola, which are particularly costly as areas to undertake business you nevertheless will be able to, even though the regulatory environment can be ropy, the fact of the matter is if you get in there you can make money in those environments as long as you follow the right governance and issues in place. At time things are a bit cumbersome and lengthy but by the same token we experience those sort of difficulties with a number of central banks even our central bank in South Africa. If they are asked to make decisions they take their time and you can't rush them. I don't say it is an occupational hazard its just one of the factors of doing business. If you are in a banking environment you end up being fairly well regulated. Across the continent I don't know of one of the countries who would say that the central bank does not necessarily play but they might have fairly draconian rules but the fact of the matter is that they really try and manage the environment as well as they can. Just the other day in Nigeria they arrested and fired and got rid of five key regulators in major banks because their view was that these folk and their teams had acted irrationally and put depositors money in jeopardy with the kind of lending they had done.</p>
M	<p>The next question is around the type of African landscapes or markets that would be the focus for your emerging market strategy and I think you may have touched on that already. You have indicated that focus is really more on areas where if there is an opportunity and regulations are in place then Standard Bank would be looking to play in that field. Are there any specifics that you would like to add because there are two kinds of markets that a firm could consider, you could specifically decide to play in imperfect markets where loopholes create an opportunity for growth or similar markets. Obviously SA tends to be different and tends to stand alone from other African countries but as close as possible to the South African scenario. Would that be their approach or are you open to wherever the opportunity would be?</p>
D	<p>I wouldn't say that we are totally open to every single opportunity but I imagine we would look at opportunities. If we look at operating in a Muslim banking environment it would create quite a lot of challenges. We are looking at launching career banking in some of our countries that we don't necessarily have a lot of expertise or knowledge around so that could be quite a difficult environment to get involved. I think there again we have built our group over the last almost 150 years based on following a conservative approach, looking at what opportunities come along, and then making sure we want to be in an emerging market and emerging markets are not only in Africa but all around the world. We have established some fairly robust presence in Russia, Turkey, Brazil, Argentina and those sorts of things will continue. Africa is in actual fact, given where the potential growth can come from, particularly with regard to investment into those countries to really and truly uncover a lot of the mineral wealth that many of these countries sit on to us is for us a very exciting opportunity i.t.o. going forward. This is not just an Africa strategy but from a Group Strategy point of view as well this is one of the major reasons for the banks tie up with the bank in China.</p>



M	And possibly also Bank Boston Argentina and you moving to other similar emerging markets. In comparing South Africa to other African markets what similarities do you look at in locations for FDI?
D	If we look at the type of investments maybe the banking type of environment is similar. We have some experiences in that so clearly we try and look for those opportunities that provide that. In the wholesale market you find that SA is, from a capital market point of view, a lot more sophisticated than many of the other countries. Also from a personal banking point of view, you find that your choice of product and opportunity that you have in SA is significantly more enhanced than what you get in the rest of Africa. The big challenge is the ability to leech your customer base particularly through electronic means. As you well know that is quite a lot of difficulty in communication across Africa. It is being looked at and improved but it is going to take some time for us to get to the level where we have anywhere near the type of connectivity that we have even in South Africa and it is a far cry from some of the first world countries like the States, Europe and the Far East.
M	What would those issues be that are in SA that you would want to see in other African markets as perhaps an aspect that you would consider when trying to determine whether or not you would want to go into that particular market within Africa?
D	The only situation that I think we would consider is not necessarily determine that there is a whole host of products. What has got to be in place is that you have got to have a fairly robust market in that particular country, a reasonably well developed banking environment. If the banking environment or financial industry is not well developed or robust there are infinite difficulties in getting involved in that particular country. For me, that ultimately would be one of the major prerequisites. The fact that you can go into that country and sell this product or that product or maybe you can't sell those three products but you can sell these two ultimately will determine if you can sell loans
M	The next question relates to the framework that SB uses in investigating a location for investment and what those components of that framework will be.
D	At the end of the day i.t.o. the research we have done we are sitting with a certain number of countries which would have a pin in them as potential countries for investment. We have done exhaustive research, and that would mean they have a literate population; GDP would be on the up; they have an established middle income market; there is an established banking market. There might be 10 or 15 of those factors that ultimately we have looked at. The opportunity has to present itself. In Angola we are going in on a green fields operation. We are going to go in and try and set up a bank and essentially we will start on a really small scale really looking at the wholesale market and depending on what transpires and how well we do, we will be in a position to determine if we can expand that to a Personal Banking or Business Banking franchise. When we look at the opportunities, we have got a due diligence manual which runs into hundreds of pages which will determine exactly what we will do and how we will assess a particular environment and a particular company and if we want to buy into that company or not. Prior to that we would have done some fairly robust work to make sure that the environment in which we are going into presents the type of opportunity we should be looking for in that particular country.



M	Any specific generic factors? I know that it can be country specific obviously depending on the dynamics of the country. But are there any specific, generic factors regardless of the country that Standard Bank would consider when assessing and entering a particular market.
D	Any number of those factors and I don't profess to have all of those. There are product related ones, operational related ones. What I have highlighted to you is the type of environment in which we are going to operate, if the environment is conducive, I am not saying that it won't be challenging, we invested a significant amount into Nigeria when they were in the process of rewriting the rules relative to financial institutions, trying to reduce the number of banks from close to 100 to a more manageable level. This is 3-4 years down the track of action by the governor and the governor is going to look at cutting the numbers further and provide us with a very different scenario. It is not like there is a manual that states these are the factors to look at. There are certain things you need in place if you are going to buy into a branch network. If there is an ability to secure property, to build, to maintain your branch network from a security point of view, you have got to have the right issues in terms of security. In SA we have experienced huge impact on banks in terms of robberies, cash in transit heists. If we have got that type of legacy in a country it adds huge cost to your infrastructure in terms of setting up. Those types of things would have all been worked out long before you even start. We are approached regularly by various parties to sell shares in banks and to get involved and I don't say we look at every one. I have been in Africa for 6 years and I can't tell you how many banks we have looked at across the continent.
M	I suppose you have answered the next question around local context factors that you consider critical. What I understand you to say is that obviously your investments, however generic, are really country to country in terms of what would be the factors at play within the dynamics of that particular society. Do I understand you correctly?
D	Our businesses are really very different and it depends on your invested capital that you have got to put in and ultimately what your expected return on that capital will be. As you are building a business your capital returns might not be as robust as what they would be in a market where ultimately you have done your capital investment and you now are reaping the reward and return on the investment that you have ultimately put in. It is ultimately very important that you ensure that the capital you ultimately put into your business a) is sufficient to meet the needs of that particular business and b) you can employ that capital in the best way possible ultimately ensure you get the best return. Generally the returns that you would expect out of these emerging markets are higher than you would expect to see in a normal type of market because your risks are a little bit different.
M	Other than what we have mentioned in the local context factors are there any other factors you would consider. I know you have mentioned quite heavily the issues of regulation and capital markets.
D	We will also do quite a robust investigation as a leading bank. We do quite a lot of investigation by virtue of what we determine country risk. That would be from an investment point of view. I don't have all the inputs on all the factors that they look at as that is not necessarily my domain – it is more of an economics debate than anything else. We ultimately sit down and determine, based on the country either that we are involved in or the country we want to get involved in, in determining what our appetite for that particular country will be. The fact of the matter is that we go through quite a



	<p>robust investigator of view because your capital is one thing you are going to have to lend into that market and fund in that market and you need to determine at what level or what exposure you are prepared to go into in that particular country because many of the African countries do not have the greatest track record when it comes to stability ito government etc. So you have to make sure that you are 100% sure around the investment you are putting in.</p>
M	<p>We mentioned this at the beginning. There are certain factors obviously within Africa, institutional voids hence people argue that it is not always so easy to do business. How do you address these factors once you have identified a market where location and how do you ensure that you are successful once you have decided to enter that market. Understanding the dynamics and even the limitations of the market you have decided to enter into.</p>
D	<p>I think the situation is pretty difficult. It is one of the most difficult things; any investor into a particular environment needs to have quite a lot of local support and knowledge before they can get involved. What we tend to try and do if we have an operation on the ground, in many of our countries we have local management, we appoint local boards, we have people we are engaged with ito setting up a framework of ultimately what we want to do, etc, so what you would try and do is to utilise that type of constituency to ensure that they would provide you with the type of support and guide you through the challenges you would ultimately face in a particular country. For argument sake, where you have potential outside shareholders and they are local, you would certainly expect those to support you and ultimately open doors and remove obstacles that you otherwise would have come across in setting up that particular business. It is easier said than done. The regulatory framework is quite difficult. We tend to stay very close to the central banks, areas like the bankers association; tax authorities and the minister of finance. You tend to have to stay very close to these guys so you can understand what they are thinking so at the end of the day you are in a position to react. If you can build the right kind of rapport with those folk, the legislators and the regulators it tends to make your business proposition easier to implement.</p>
M	<p>This question is really around the specific approach to market entry, from an operational perspective do you have a generic operations plan and say we have identified a specific market and we are going to enter and this is the approach we are going to implement to enter that particular market or does it differ from country to country and if so what would be the reason for this variation.</p>
D	<p>The only thing that would introduce a variation into that plan would be the scale or type of the business you would undertake. The way we implement a new business or new operation in a particular country ~ if we are acquiring a bank which is an existing concern the situation is that we would take control of that bank on an appointed day and in the negotiations we would have had relative to that bank we would have determined who the executives of the business are who would take the business forward. We would provide that country with a huge amount of support in converting their structures within that particular bank to what the group norms would be and we would spend a lot of time and effort to integrate that bank in a reasonable sort of way into our group so that they understand what the culture of the group is and the expectations and as seamlessly as possible we end up with a new bank in place. Clearly there are a lot of operational issues if you are buying a lot of branches as there are things like signage that needs to be changed, if the name is going to change, system changes, there are just a huge amount of challenges There is a whole document we go through from an operational point of view. We would ultimately determine the type of business that you</p>



	<p>are opening. For a [redacted] open in Angola which is more a more wholesale business which will be a head office type scenario with one or two branches which we are establishing from scratch. We know exactly what needs to do, what authorities we need to get, where we need to get those authorities, the rules of Angola, how we import staff into there, all of that stuff is something that we would study and understand and make sure that we implement that to the letter of the law. Your operational challenges would be similar but could be very different depending on the network and type of challenges that you ultimately have.</p>
M	<p>Any specific differences across the geographical locations of Africa. This is really to go to culture. I know when I was preparing this with my supervisor, one of the issues that he raised of interest was that it is interesting to see that Standard Bank is quite active in what one would call the Anglo Saxon type of countries and very limited play other than the DRC in the Francophone countries. Is there a particular reason for this or is it just something out of the history of Standard Bank?</p>
D	<p>I think it has got a lot to do with the history. If you look at the Francophone and Lusophone countries as a kick off. We have always had a strong presence in Lusophone. As a bank we own a significant share in both Banco Standard Mozambique and Banco Standard Chartered Angola many years ago. Something that not many people do know is that in Malawi, Tanzania and Kenya we actually established banks not on our subsidiaries in Standard Bank in London but as subsidiaries of Standard Bank of South Africa Limited and that was established 80 to 90 years ago. The history of where we have been generally in the initial early period of the 80's and 90's we clearly couldn't open up our bank far and wide because there were extensive sanctions that were meted out against South Africa so we could not operate in many of the rest of African countries. We always had Namibia as it was part of the South African banking network and then the two countries we have always traditionally held was Swaziland and Lesotho where we have had banks over an extended period of bank going back to the early 90's. We established a bank in Botswana and that was really to support the significant trade between Botswana and SA at that particular point in time. It was only in the mid 90's that we bought a bank Grindlays which was a British bank and generally operated in the Anglo Saxon countries so we ended up with a number of banks spread far and wide within Zimbabwe, Zambia, Tanzania, Kenya, Nigeria and Ghana. I think in actual fact there was a rep office in the DRC. We used to have a bank in the Ivory Coast but that was closed some years back in lieu of the significant security issues in the country as they were in the middle of a war and it got quite difficult to operate. To answer your question it is quite clearly because of our background and history but certainly it is our intention to operate in as many of the countries as we can given those countries ultimately can provide us with the type of returns we are ultimately looking for.</p>
M	<p>Do you find, in terms of operations, that there are geographical differences within Africa, west vs east, southern, central and so forth, affect the implementation of the strategy in the sense that they would result in differences based on culture</p>
D	<p>Absolutely. What you have to understand is that your challenges in Kenya are very different to the challenges in Nigeria and very different to the DRC and the way the business is run is very different across the countries and there are nuances that you have to take into consideration and those are many of the challenges we are faced with.</p>



M	What has the impact of that crisis been on Standard Bank's corporate strategy with a specific focus on your investment into emerging markets?
D	<p>The biggest challenge that we ultimately have, and I am not necessarily the most qualified person to ask that question ~ I think the big issue is merely just the appetite to play in these markets in the crisis we have been and are going through for the past 16 months. If you look in many of the countries in Africa they are experiencing quite a lot of challenge. A lot of the money that ultimately was coming into those countries has dried up. If you look at the aid agencies their budgets have been cut and there are some significant challenges around that. Many of the African countries today still rely very heavily on the impact of the aid donors or donor funds coming into their countries. 50 – 65% of the GDP of a country like Uganda more than likely comes from donor funds. When you have those sort of things impacting on it, it does play havoc, also your ability to negotiate borrowings in the open market and the pricing of those borrowings has become quite difficult because a lot of your counter parties in the western world are not prepared to take the risk. If they are prepared to take the risk they are pricing it up and it makes it very difficult to justify the type of schemes. Africa also needs a huge amount of development and a huge amount of infrastructure put into it and I think some of that has slowed down. If you look at SA as a case in point, apart from the stuff allied to 2010, a lot of the taps have been switched off and it has become quite difficult for guys across Africa to ultimately manage that. The good signs are that in many of the countries apart from Nigeria, Nigeria still has big challenges particularly in the banking environment, but some of the other countries we are starting to see some more positive signs but I think it is ultimately dependent on what happens in the rest of the world. That is why the challenge we have is that Africa does rely particularly on first world counties to provide quite a lot of direct support into what they do.</p>
M	Thank you for taking the time, I know you are very busy.



INTERVIEW WITH RESPONDENT E

Date	30 September 2009	Time	12h00	Venue	Teleconference
M	Thank you for taking time for this interview. Does Std Bank have a specific corporate strategy for expansion in Africa and what does it entail/involve?				
E	We are emerging market focussed and over the years and very current, Africa is very central to that as we regard it as an area of strategic advantage and differentiation for us. To put that into context you look at a lot of international banks that are on the continent (Stanchart/Barclays/ Citibank), probably the African market to those banks are secondary rather than primary. I think with our SA and African roots we see Africa as our primary rather than of secondary importance.				
M	Having decided that Africa is of primary importance, what products & services would you say are the FDI focus area investment?				
E	It is two fold. Firstly we regard ourselves as a universal bank therefore corporate investment banking and second personal and business banking. We lead with corporate & investment banking because from an infrastructure point of view the cost to establish a corporate and investment bank is far lighter than a personal and business bank. We typically lead with a CIB franchise and then off of that build a personal and business banking franchise.				
M	What would you say are Std Bank's firm specific advantages which give it a competitive advantage within Africa when you compare yourself to the other players in the market?				
E	The first issue is that Africa is primary to us and not secondary. In some markets Barclays may have a far bigger branch footprint but as we grow our businesses our advantage is a blend of our corporate investment banking focus and our personal/business banking focus as a universal bank where probably Barclays is more retail focussed, Stanchart is more business/corporate focussed, Citibank is very corporate focussed.				
M	So what you bring is a combination of both which helps you stand differently from the other banks.				
E	That is right.				
M	Presently you are in 17 countries what is your ultimate target of FDI stock in Africa for Std Bank?				
E	If you look at banking opportunity the lead indicator is measured by GDP. Opportunity for banks can't aggregately exceed the GDP of a country. If you see GDP growth of 5% banks collectively can't grow more than that they can only grow more or less than that. If you are growing more than GDP you are gaining market share and if you are growing less than GDP on a nett basis, inflation differentials put aside, you are probably under performing the markets. It is a lead indicator and the larger the GDP of countries is the greater the banking opportunity. Banking is a scale game, especially the universal model that we follow, and you only get scale where there is that lead indicator of GDP. If you look at the rest of Africa we are likely to go, longer term, into countries where there is larger GDP. I haven't got those off hand but countries like Egypt, Tunisia, some of the north Africa countries.				



M	What are the generic factors within Africa, although critical GDP aside, do you believe will hinder or prohibit Std Bank from looking at a particular country?
E	Banks are not pioneers. If you look at Std Bank's history in SA, we started in the 1860's in Port Elizabeth, the next big thrust was into Kimberley and the next big thrust Johannesburg because of gold. Typically Banks are followers and we are following our customers. Very much we would expand into Africa where our customers go. If some of our key multinationals clients, e.g. MTN and Breweries, went into other markets often give us reason to go. Client activity and client movement is a very good indicator of that as well.
M	What type of African landscapes and markets would be a key focus for FDI stock expansion? Do you want to go into markets that you can exploit because of its imperfections/opportunities or do you want to go into markets that are similar to what you are accustomed to, to enhance and grow based on your core competencies. What scenario does Std Bank look at in terms of growth?
E	There is another dimension to that which is called opportunity. Very often acquisitions and mergers happen because of opportunity rather than because of strategy. From a strategic point of view, in the long term, I think it would be countries that offer opportunities where we could exercise our capabilities of being a universal bank.
M	South Africa's landscape tends to vary from landscapes in Africa, are there any specific similarities that you look at when determining your location?
E	I am quite categorically saying "no" to that because as I travel around Africa the one point I have continued to make to people is that we are in 16 countries outside of south Africa, and every single one of them has their own dynamics from regulations to market dynamics. If you think you can take a SA recipe or even a Ugandan recipe into Nigeria you are mistaken. There are some generic factors that predicate a sound banking model and we would always have that in mind but I think every market has its own unique opportunity.
M	What generic factors would that be?
E	GDP / population size / bank population / competition in the market / infrastructure ito telecommunications as we are very reliant on systems and process in banks / communication / logistics.
M	With regards to a framework you have mentioned quite a few, is there a specific framework that Std Bank uses to ascertain their location for investment and what would the components of this framework be?
E	Outside Africa where we are focussed on the big countries (Brazil, Russia, India, China) the choice of those countries is very obvious because they are the largest emerging markets and in terms of population and in terms of emerging markets they are large economies so you come back to the factor of GDP. They become major trading partners and the intra-emerging market trade is rapidly growing around the world ~ Typically they called it the east/west or north south trade. Historically SA's biggest trading partner has been Europe. You may have seen in the press in the last week that China has become SA's biggest trading partner. So our trading patterns change so things like trading patterns would come into it as well and also typically in these markets we think by leveraging off the group African footprint we can create a niche in those markets for us as well.



M	I understand from you that GDP is a critical issue for your own analysis and also trading patterns being one of them. With regards to trade do you try to follow where the trade may be in terms of emerging markets.
E	In corporate and investment banking very often, in one form or another, it is predicated by either trade or investment flows that leads to banking opportunities. If there are flows of money we do the transactions.
M	Do you work off a framework or are these just economic indicators or economic factors that you consider.
E	I am not in a strategy team that works closely with these but the framework is probably some of those factors that I have already mentioned. I probably can't answer in terms of framework I am just giving you some factors I would consider.
M	Once you have decided on the location, what other generic factors would you consider in your process of assessment and entry into a market?
E	Have I not given you those ~ population/and all those factors mentioned.
M	On the assessment and entry side. For example you have decided Egypt has a large population, GDP is doing well, trade is great, would there be any other factors would you consider?
E	Then it comes to is it about establishing a new business or acquiring an existing business.
M	So it is either green fields or brown fields or mergers and acquisitions?
E	Growth or acquisitive growth.
M	You have indicated that there is no 'one size fits all' and you can't work on similarities between SA and other markets, what would you say are the local context factors that you consider critical for the investment into a location?
E	Regulatory environment/ stability in the political environment / economic factors. It is possibly political, economic, regulatory in that order.
M	Any other, other than the three that you have mentioned, that you think would be critical?
E	Those are probably sort of macro factors, I would then come back to the other factors I have mentioned being GDP, population, etc.
M	My next question relates to institutional voids. There has been a lot of talk, especially within Africa, that sometimes the cost of doing business in Africa is obviously high because sometimes people lack the necessary infrastructure in some of these countries to effectively conduct business ~ simpler better faster Std Bank used to say. How would Std Bank then address the absence of factors they believe are critical for investment and successful localisation/entry into a particular market?
E	I suppose the first question is, if it is not conducive to some of those things I have mentioned, would we participate? If there was political instability, if there weren't economic prospects and an unfriendly regulatory environment we probably wouldn't go in the first instance. Sometimes it is pretty catered and I come back to that issue of opportunity. It is an opportunity, in a relative sense the cost might be low and I don't say we will take a gamble but we would take a judged decision if all three of those factors, regulatory political economic, weren't lining up in the short term we might take a long term view on improvement. A very good example over recent years is what has happened in Nigeria ~ the banking landscape has changed significantly. We have been in Nigeria a good number of years but the acquisition that we made in 2007 of IBTC for which we paid \$600M was very well judged and was part of a banking consolidation



	happening there. I think the main reason for this is validation, in other places it could be about the lack of competition that might take you in there.
M	What I hear you say is that political economic regulatory are key factors but in addition to that the cost of entry would be weighed against that investment and obviously whether or not there are long term returns for Std Bank.
E	Yes.
M	You may have answered this question already but I will shoot anyway. With regards to the approach for market entry and whether it differs from country to country, I understood you to say that it would be determined by the opportunity there and how you decide to enter would be based on return on investment that you would see either it would be green fields or acquisitions and mergers.
E	One of the factors and I am sure if you haven't come across it yet in your studies professors should be talking about if you are looking to expand in a multi-national sense the lead indicator to success in new markets is that your home market is secure. You find very few successful companies, the three south African ones I think of outside Std Bank are SAB, MTN Shoprite, have got very strong local franchises that underpin their entry into new markets.
M	What you are saying is for you to do well in the next country, critical is to protect your home advantage from the next multinational that would come in a take over your market.
E	If you lose your market, if you lose the primary driver of your business, in view of Std Bank 70 – 80% of our profit is still generated in SA.
M	I saw that 77% of your earnings last year was from SA.
E	That's right
M	With regards to differences employed would you say that there are any differences based on geographical or cultural issues within Africa that result in Std Bank changing the implementation of the Strategy?
E	To my earlier point, even the countries we are represented in they are culturally diverse. Angola & Mozambique are Portuguese speaking, but for the rest I think by and large English is a business language which is a commonality, I don't say it is a key issue, but a commonality and probably one implication of having that is in our systems. If you had multi-languages it would create complexities in systems and process which then adds to cost. That is a factor that I haven't mentioned before. I can't think of cultural issues otherwise keeping us out of markets. In Muslim countries we haven't got a strong sharer background and if sharer banking was an absolute precursor to the banking model required in a country something like that would be less of a priority to us than others.
M	So language certainly a factor.
E	A big one.
M	Not so much culture but offering. You mentioned Muslim countries. One of the things my supervisor mentioned was that it is interesting to see your presence is Anglo Saxon countries, very limited in Francophone countries ~ I think only DRC, and now you have Angola and Mozambique. Would you say language differences play a role in Std Bank deciding whether or not to go into a country or is it more culture?
E	We have got businesses in China, Brazil, Russia, Argentina, Nigeria, DRC ~ I am just illustrating the language differences. It is not an overall impediment to us. I don't think it is a language issue it is more around opportunity. Coming back to West Africa, if you look at those economies some are bigger than others but not dominant ones like Nigeria.



M	What impact has the crisis had on Std Bank and its investment into emerging markets?
E	If you look at the crisis of '98/'99 it was very much an emerging market crisis. Emerging markets are volatile and that by nature is something that says you need a different risk appetite if you are going to be managing businesses in emerging markets. Risk and reward are correlated in that typically higher risk, higher reward and if you do get the emerging markets right the rewards are potentially very high. In emerging markets I suppose fundamentally it is about the opportunity because typically whether it be population, the number of un-banked people, business opportunities or banking opportunities is much larger because there is typically less competition or competition is less developed and we can bring the group capability to impact on that and develop those markets and play a role in those markets..
M	Would you say the present global crisis has had an impact on your investment into emerging markets?
E	It hasn't changed our outlook first and foremost. We are even more committed to emerging markets because I think the general consensus among international economists is that the emerging markets are going to recover more quickly than the developed markets and then from an opportunity point of view, every crisis brings opportunity because what has happened is asset values have declined so in terms of acquisitions and you will find that assets and acquisitions are better priced than before in fact if anything the opportunity is bigger than 2 years ago.
M	Thank you for your time.



Date	30 September 2009	Time	14h00	Venue	Teleconference
M	Thank you for taking the time for this interview, I understand you are very busy so I will and be as brief as possible with my questions. The first question relates to strategy around SB Africa market itself to understand if there is a specific corporate strategy for expansion into African markets and what does it entail in comparison to the other markets SB would consider going into?				
F	The specific strategy is really to become a bank of scale in Africa as that is our home market. If you go and look at an emerging market brief that is very wide and if you look at most companies that become successful multinationals/international companies they first need to be successful in their home base. You can say it is arrogant to think that Africa is our home base because South Africa really is home base. When you go and look at our operation in Mozambique, we have been in Mozambique for more than 100 years so we can say that at least Southern Africa is our home base. We need to at least become a bank of scale in the home continent which I think is probably a more specific and dynamic part of corporate strategy than it is at this point of time for the rest of the world emerging market.				
M	The next question relates to products and services. Specifically Africa, yet again, what are the focus of FDI Investment into Africa and why? Obviously Std Bank offers investment, personal, business and there is the wealth side of it. What would you say is the focus area out of your product portfolios going into Africa for investment and why would you pick that particular one?				
F	The short answer is 'you don't pick one'. Std Bank is a universal bank, which says we are not a niche bank. We are not only playing in a particular product arena. Generically if you look at a mature bank we have in Africa we cover all products and we are not focussing on one particular one. I think there is a sequence in which you do things. You don't necessarily do all these things at once. It depends on the commercial viability and the need in the country. It is usually cheaper to start with an investment banking trade capable operation and then from there branch into business banking and then eventually retail banking. Retail/personal/business banking is quite expensive from a point of view that you build branches, install computer systems and run ATM's. It takes quite a time to be profitable because it is a big investment whereas corporate banking in specific areas is profitable much quicker. We tend to be corporate and investment banking led followed by personal and business banking but it really depends on the market. In some markets, like Namibia and Uganda we are dominated by personal and business bank as opposed to corporate banking. It really depends on the market need.				
M	The next question is in relation to your competitive advantage. You have mentioned that you want to use Africa as a platform to go into other emerging markets. What are the advantages that SB has over other banks like Barclays, Citibank and all the other banks out there all fighting for a share of the African market. What makes Std Bank stand out? What are Std Bank's core competencies or competitor advantage niche that would ensure that Std Bank succeeds in Africa.				



F	<p>The important thing for us is the brand name and the capital base. The capital base is big and strong. You look at the economic meltdown and scares that some of those other banks you mentioned went through. We didn't go through a similar scare. You saw in a lot of countries the flight to safety so I think that is the important piece. I think what is important to us in the Africa countries we are a local bank, in some countries we are listed on the local stock exchange, we have got local shareholders in the country and we successfully compete with other local banks. We are also an international bank as we have a global trade and global market opportunity which some of the local banks cannot offer. We are both a local and international bank and not all the banks can say that. If you look at Barclays Bank or Citi Bank we certainly are much more local than they are in Africa generically. If you look at some of the big West African banks they are not international, we are. So we can offer deal making from London, from New York, from Sao Paulo or even from Shanghai, they can't do that. We also have a strong Chinese shoulder which is a unique positioning which the other guys don't have. And we are not niche, we are pretty universal and can offer a customer a wide spectrum which the other banks can't or don't.</p>
M	<p>You are presently in 16 African countries, excluding SA, what is your ultimate target of FDI stock in Africa for Std Bank?</p>
F	<p>Impossible to answer that question. We are waiting for a banking license in Angola. Then we think we need to be more penetrated into Western and North Africa over time. So there might be one or three or four countries. Where you are going to see us in the foreseeable future, I am not sure, somewhere between where we are and 20 I guess. We haven't set our mind on a particular number.</p>
M	<p>Any generic factors with regard to FDI stock expansion in Africa that you would say could affect your investment into African markets? I suppose this question seeks to determine what factors would affect your expansion into Africa or would make you think we don't want to go there but we may want to go there.</p>
F	<p>I think it is the normal stuff, nothing special. You have to look at the country risk, stability, commercial laws, ease of setting up operation, property laws, banking control, laws/rules around that, economic viability, and capital position and options that the bank has got. You might have various options and you want to choose the one that will be best for your long term position and the shareholders. There are a lot of factors you have to look at.</p>
M	<p>I suppose this ties into my next question which is really to determine the type of African country landscape you will be interested in. The reason for this question was to perhaps understand what motivates Std Bank expansion. There are two or three schools of thought around this, the first one could be an organisation or firm could choose to go into a market that it considers perfect so that it could exploit that market for its advantage, the whole efficiency seeking theory or it could go into a market that is similar to your own from a strategic perspective so that you could enhance your firm's specific advantages or offerings in markets similar to yours. Within that context the question really is what type of African country landscapes or markets would you focus on considering the two types of scenarios I have presented to you.</p>



F	<p>The short answer is you always do both. You don't do just one or the other. If you look at really where we want to be focussing you clearly want to focus on the activity hubs in Africa and where you think the growth is going to be. As far as we see it, it is certainly East, West, North Africa will grow faster than South Africa so that is where we will put our money. We are also quite fully penetrated into Southern Africa so I don't think we have a dramatic need to expand there. So the answer is there is always a mix. You have to look at, from our perspective, not just at the country economy but how that country economy is linked into the rest of the world. You have to look at the build up in the country, the business capabilities, the business potential in the country but then you also have to look at how much does that country trade, with who does it trade, have we got an in there, could we get a market share of the finance, trade flow in and out of the country with the imports and exports and the investments. How much infrastructure investment is sitting in the country, where is the money coming from to fund that, who do they have relationships with, have we got ties, can we get in there. That is all the sort of stuff you look at.</p>
M	<p>Are there any similarities between SA and other African markets that you consider or you wish to exploit when trying to identify a location for FDI. You have mentioned now that perhaps Southern Africa might be a bit saturated ito Std Bank footprint other than from the branch side what would you say are the similarities that you would want to see in other markets that you would want to venture into?</p>
F	<p>With respect, I think that is a theoretical question. If you go and look at banking across the world there are a lot of similarities and there are a lot of dissimilarities. If you look at products, the basic product is the same. The basic way that banks work is the same. But if you go and look at the rules and market conditions and customer behaviour and requirements they are different from country to country. There is much less similarity than one would expect and as you get into these countries and really look at it you will understand the difference between East and West Africa and Southern Africa.</p>
M	<p>So you would say it is not so much the similarities but the opportunities for growth or investment in that particular market.</p>
F	<p>I don't think it is a similarity discussion. I think it's potential in that market.</p>
M	<p>The next question relates to Std Bank itself. You use your own in-house framework to assess markets - if you could talk me through this framework ito the components of this framework in relation to investigating your locations for investment.</p>
F	<p>Are you talking at the country level or branch level?</p>
M	<p>Country level.</p>
F	<p>Philosophically it is market size, customer potential, the commercial viability, ease of doing business, regulations, all of those sorts of things we look at.</p>
M	<p>Any other generic factors you would consider when identifying the market specifically from an entry perspective?</p>



F	Clearly look at the economic construction, what is making up GDP, infrastructure capability because people will need to be able to get to the branches and we will need to be able to transport cash, we need to be able to run computer systems, it is all that sort of stuff. If you look at a place in Kenya where we have diesel generators in all our branches. In a lot of the other countries you don't need that. Some of the countries have good network capabilities. Other countries may not have that. A bank needs those things. You don't open a bank where they don't have power or telecommunication capabilities.
M	What local context factors does Std bank consider critical for its investment into a location? The objective here is to determine the important of local issues that would possibly be different from country to country.
F	I think I have already listed a lot of them.
M	Those would be regulation and so forth, am I right?
F	Yes and the stuff I have just mentioned.
M	Economic factors, GDP and so forth?
F	Yes and infrastructure capabilities and quality. Availability of resources, etc.. For instance, for me to manufacture stuff here and ship it deep into Angola takes you days to get there. I want to buy bank counters there I don't want to manufacture them here and fly them in.
M	Any other factors that you would like to mention. You have mentioned certain economic factors, infrastructure, gdp, market issues, regulation, capital which is related again to GDP. Anything outside those?
F	No
M	What is critical for successful localisation and investment in a market? This speaks to the point that has been raised several times in business where everybody goes on about the cost of doing business. For example in Africa and in emerging markets generally there has been the argument about what is termed institutional voids - the absence of certain systems in a market add to the cost of doing business in that particular market. Now understanding that Std Bank wants to be a player of note in emerging markets, and certainly in Africa and beyond Africa, how does Std bank address these issues of institutional voids or challenges around infrastructure that might hinder your success in that particular market once you have identified it?
F	There are only two options, you buy it or you build it. If you go into a market you must decide what capabilities you want and then you find source of that capability from local and if you can't then you bring it in. That applies to people, that applies to resource requirements, that applies to systems. That is what we do. You do it on a fit for purpose basis and make certain that in local and international terms you make the right choice on it.
M	Does Std Bank have a specific approach for market entry? What is that approach, does it differ from country to country and what is the reason for these variations?
F	I have answered that already.
M	This is in relation to, you have assessed and now you want to enter. Do you have a particular approach, this is how we want to go in ...
F	I have answered that.
M	Is that in relation to is it brown field, is it green fields is it mergers and acquisitions? The idea was to try and determine the variations in your strategy implementation and the reason for same



F	Our process is, be k at the attractiveness and that sort of thing. Once we have decided to go in we will specifically look at the market needs and potentials and we go in with those things where we can make a realistic return in a reasonable time. You don't do it in the first few months but you certainly would want to make a profit in the first few years. You have to look at the things that are going to give you that. It normally starts with corporate banking, things that are later on physical investment and then you would move to the harder and more physical investment like retail banking. We typically start with some representatives/representative office and start doing investment banking and some trade deals and some funding deals. Then we start building up fully fledged banking services and getting into retail banking later unless there is a massive opportunity and it depends on whether you are going green fields or acquisition or investment or joint venture but that really depends from market to market.
M	You mentioned that you look possibly at North or West Africa for possible expansion of the Std Bank footprint in Africa. A point of interest, you are very active in the Anglo Saxon countries, in the Francophone countries it's the DRC, and now Angola on the cards as well as Mozambique. Would you say there are specific strategic differences employed based on geographical location and culture and how would these affect the implementation of your strategy. Or is it one size fits all?
F	It is never one size fits all. Can't be one size fits all. Again we have to look at the bank capability and especially the trade flows. Francophone has been, especially with the West African French speaking countries has been quite unknown to us, we don't have a lot of links there, we don't have a lot of South African companies that do business there in a big way that have prompted us to follow them into the country. It really depends from country to country or area to area. We have traditionally not been active in the French speaking part of Africa but it is starting now and it might progress if we go to West and North Africa. It is likely to happen at some time.
M	Would you say the implementation of your strategy is affected by cultural or geographical differences across Africa? What would you do differently in Nigeria as opposed to Kenya or the Congo for argument sake?
F	The way business happens is very different in Nigeria and Angola. Are there are particular cultures we don't want to go into ~ No, that doesn't exist. I think it is a fact about how the commercials get put together and what the opportunities are. I don't think it is so much a cultural debate.
M	It is an opportunity debate?
F	It is an opportunity debate.
M	The last question relates to the impact of the present global crisis on the Std Bank strategy, specifically your investment into emerging markets. Has this been affected? Do you foresee a change for Std Bank going forward because of the present global crisis that the world is trying to recover from.
F	Give me one bank that has not been affected seriously and I will tell you that is not a serious bank. Every bank has been affected in different ways. It really depends on what your bank's positioning and exposure has been in the various markets. If you look at the common approach was that Africa was not going to be heavily affected by the downturn. But is has been dramatically affected, why, because a big piece of the Africa exports are energy, resources, food produces, etc. all of which are being bought less of by the developing markets. Exports are substantially affected therefore the profitability of those companies are affected so they borrow and bank less with us. So how has it affected us? We have all started looking after our capital, we have been



	careful with our e) servative and all the banks will give you that answer. The short answer is we have become more conservative. Less expansionist. But does it mean that we will not expand? No, as you have seen we have just invested into Russia. We are still investing but on a much more conservative basis. On the other side of the coin we have opportunities which we didn't have before because banks are dramatically cheaper and we will buy some banks.
M	But is hasn't necessitated necessarily a change or a redraw of the Std Bank emerging strategy?
F	Yes it has. If you are much more conservative things that you would have done you don't do any more. So has it changed the strategy fundamentally, no but it will be implemented differently to if we didn't have the crisis.
M	That was the last question, thank you very much for your time.



INTERVIEW WITH RESPONDENT G

Date	30 September 2009	Time	16h00	Venue	Teleconference
M	Thank you for taking the time for this interview. As indicated on my questionnaire the idea is around Std Bank as a case study and how Std Bank chooses its markets for entry with a specific focus on emerging markets and Africa which is why I thought I would concentrate on the Std Bank Africa operations given your vision really to focus or retain your focus on Africa while using it as a platform to venture into other markets.				
	The first question being around corporate strategy : Is there a specific corporate strategy for expansion into African markets and what that entails?				
G	Yes there is and the strategy is bring Africa to the world and the world to Africa.				
M	I have seen that that is one of the objectives of the emerging market strategy. The idea behind this question was to determine whether African markets are viewed differently from other emerging markets which I would imagine would be the case if you have a specific strategy for Africa.				
G	We have a specific Africa strategy. There are overlaps with the other emerging markets and that is not to say that we focus on the Africa part to the exclusivity of other markets.				
M	In terms of products and services, what is the focus of your FDI investment into Africa and the reason for that particular focus?				
G	I would describe the strategy as Corporate and investment banking led, but the ultimate model is a universal banking model and the reason for that comes up with the rest of the questions.				
M	Universal banking but corporate led, is there a reason for this?				
G	It is obviously easier than the first instance to disappear into a new market with a suitcase it doesn't require a great infrastructure for commitment once you get to know the market and then you build more of a presence and then you build more of a universal offering, this is a natural sequence of events.				
M	Looking at Africa, obviously in Africa there are various players what would you say are Std Bank's firm specific advantages which would give it a competitive advantage within Africa when you compare it to the other players within the market.				
G	First of all you have to appreciate that Africa is developing. Std Bank group does have a unique positioning as it has the biggest foot print on the Africa continent, has a significant ownership by the world's largest bank and China's largest bank and also has some links with India. Again that is the base, it is not the start and finish of the story. It may be the start.				
M	So would you say that your specific advantages lie around the fact that you have a large footprint in Africa and that one of your shareholders comes out of an emerging market, I see you mentioned the China ICBC deal.				
G	We are well connected into the two most dominant emerging players in the scramble for the Africa resource.				
M	You are presently in 17 African countries, is there an ultimate target for Std Bank its FDI stock?				



G	No. There isn't a specific number there are a series of priorities in terms of most attractive investment destinations and there are some significant markets where we don't have a good presence. Our planning goes up to 2015 and within that there are 8 or 9 specific country targets that is not to say that we will not look at other countries in the meantime.
M	So you are looking to grow from the 16 to possibly 25 over the next 5 – 6 years.
G	That's right.
M	In terms of generic factors within Africa that you believe would affect Std Bank's FDI stock expansion what are the issues which would hinder or limit your expansion as you see it within Africa over the next couple of years.
G	Quite obviously one of the hinderances is corruption and lack of stability. If you talk about countries which do have potential but have such limitations historically such as Angola which is starting to unwind, historically such as the DRC, those are countries that show up some of the obvious inhibitors for investment in Africa. Again having a presence in 16 of the countries and which include the two which I just mentioned which do have some of these problems, I think puts us in a better position than many other emerging market players not necessarily other African players but certainly the foreign players. You are going into those situations off an experience base.
M	What I understand you to say is that political stability is key in determining whether or not you would go into a particular market.
G	Political stability, the rule of law and the whole corruption issue are critical.
M	What type of African landscape or markets are the focus of your FDI strategy and why. To explain, ito of theory there is always the argument that one could look at expanding into 'imperfect markets' where you can exploit the inefficiencies or you could look to expand into markets with a similar type of dynamic
G	Realistically, from a business case perspective, it is looking at the inhibitors and engaging the strength of the inhibition. If you wanted to make an investment, lets take the DRC as an example, corruption remains rife, political stability is a moot point, rule of law and enforcing properly rights is a major problem so notwithstanding the huge potential that that country undoubtedly has you are going to have it in a kind of a 'wait and see' space rather than 'boy put your foot on the gas pedal quickly' space. You have to consider the inhibitors but by the same token you have to look at the other side of the equation, how fast is that economy growing. We described Angola to you as possibly having some similar bait but the difference with Angola is that it has the fastest GDP growth rate and that is an important consideration.
M	The next questions speaks to similarities between South Africa and other African markets ~ what similarities does Std Bank consider in trying to isolate a location for their investment?
G	Obviously you have the opportunity to use what has developed in SA. SA is one of the most sophisticated economies on the African continent and there is a lot that you can lift off that learning base with a large emerging relatively low age group population coming into job markets, growth of the informal sector, all of the features that you are going to find even more so in many places on the African continent. There is an ability to lift all of those learnings and which is going to set you apart from another emerging market that may not have these specific experiences. There are things like the AIDS experience which we have lived through in South Africa, understand and relate to in terms of what it means to potential non performing loans evolution. We've seen the



	movie here, that is definitely learning points that create a logical base for SA to be and experiences to use to make the right decision in the lending operation.
M	Any other similarities that you would look at or comparisons or other than the learnings that you could take out of SA? You have spoken quite substantially about the lending experience here.
G	There are a number of them and I haven't compiled a list of them but there are an extensive number of things where the experiences we have had in this market do translate directly into what a new bank coming in would have to build
M	Does Std Bank have a specific framework in investigating location for investment and what are the components of the framework
G	Basically successful analysis, political, economic, social environmental, technological.
M	Other than pestel any other generic factors considered by Std Bank when identifying markets for assessment and entry?
G	Obviously you start mining your own base and their interest in going into that particular market. It is the day to day interaction with customers that gives you a view of what you customers are thinking.
M	Obviously you have a customer base and based on their needs you would investigate what other opportunities are out there?
G	One of the factors you consider is following your customer base.
M	Local context factors are considered critical for investment in a location and what would those be?
G	Lots of these things. Not something I can answer easily. There is a whole lot of analysis about how we would compete in particular markets because usually there is a competitive framework, some are very different particularly if I think of some of the former Francophone colonies to what we have been used to in some of the other spaces we are in. There is the whole Arabic spectre. You have to think about all of the cultural issues about all of the economic issues, rule of law ~ all of these things should come out if you have done your pestel analysis properly. This should come out of the homework you do to come to a conclusion of where you could compete and need to compete.
M	You have mentioned already cultural issues, economic factors, political factors from a rule of law perspective, any other factors that you think beyond pastel in addition to following your customer base that you would consider?
G	All of these things drop out of a rigorous pestel analysis.
M	There has been a lot of talk in Africa and emerging markets about what has been termed institutional voids, sometimes the lack of a proper market structure to assist with ensuring business is done effectively, perhaps the ease of doing business, the cost of doing business and so forth. From a Std Bank perspective, how do you address the absence of factors you consider critical in localisation and investment understanding that within emerging markets there is always talk about the fact that in some instances you might not have the infrastructure, if you do it takes longer and the cost of doing business in Africa is argued to be comparably higher than the cost of doing business in the western world.



G	<p>Of course it is. There is a whole analysis that goes about country risk. The margins are not the same from country to country. Where you have a higher risk you expect a higher return. Be that as it may there are certain 'no go' areas. As a bank there are certain countries on the top of the corruption list and they are a no go. If they are run on socialist lines like some of the African economies are you have an absolute inhibition, a free market environment in which a conventional bank cannot operate, those are no go's. In those that are open to investment clearly there would be an interaction with the local regulator and part of the regulators attitude is the critical issue and would be something we take into consideration.</p>
M	<p>How would you address institutional shortcomings or voids in market</p>
G	<p>We find ourselves in many of the countries that we are in, in a position where we are able to guide some of the regulators and we play quite an important role as a catalyst in influencing regulators. Quite clearly regulations are independent and make their own decisions but clearly they will also gather learnings of those who do operate in multiple geographies and will use them to assess what works and what doesn't work and what we should and shouldn't be doing. But also this works the other way round we are also a sounding board for that regulation and catalyst for improving the functioning of the bank.</p>
M	<p>Does Std Bank have a specific approach for market entry and does it vary from country to country and if so what is the reason for this variation?</p>
G	<p>There are never two acquisitions that are the same. Generically it is unlikely that you are going to pull off a corporate and investment bank model. You are there because you have a small but significant number of customers and that evolves into a more universal approach over time. Part of an acquisition may be to assist that security and part of it may be to get in, in the first place, those are two completely different models. Each bank has a particular profile with different strengths and weaknesses and therefore integration of those things is very complex.</p>
M	<p>Are there any specific differences employed between the different geographical locations of Africa and how do these affect the implementation of the strategy? Having had a look at where you are presently one could dissect it into west Africa, Ghana, Nigeria, east Africa, east African countries, Congo, central southern Africa and now Mozambique and Angola. Do you see differences into implementation of your strategy based on this geographical and cultural dimensions and how does this affect strategy implementation from a corporate perspective.</p>
G	<p>You have to start with the dimension of scale. If you are talking about a Nigeria with a 140M population and talking about a Swaziland with a 1M population you are in a different league. Scale is the first thing you have to get your head around. There are definitely scale issues. Secondly there are significant cultural issues. If you are talking about north Africa and the that Arabic aspect and sheerer banking that is different league from Zimbabwe which is very similar to SA. Francophone countries are not only different culturally but legislation as well. There are a whole range of different factors which come into this.</p>
M	<p>Does that result in a variation to the implementation of you strategy?</p>
G	<p>Yes.</p>
M	<p>To what extent?</p>



G	<p>You end up with a portfolio analysis. If you draw an axis in 4 quadrants and on the top half you have counties where you are currently present countries and you still have inorganic growth ambitions and your non-presence countries where you have ambitions. Again you would put them into different categories. You would have a portfolio that says these are the small countries where we are maxed out in terms of the kind of share that we aspired to, this is a mature model in a mature market. On the other hand you may have a small share in a big market that has high growth potential, that would be on the other end of the scale. You have to be aggressive about getting the foot on the gas pedal in these places. So you would have something around grow and invest where your aspiration is but it is not necessarily the most important piece of the equation. The same applies to your appetite for investment in your non-presence countries.</p>
M	<p>When I was preparing for these interviews my supervisor mentioned that it was interesting that you had limited play in the Francophone countries, except of course for the DRC, and obviously a huge presence in the Anglo Saxon countries, now Angola and Mozambique. Was that a cultural issue or historic issue?</p>
G	<p>There is a bit of both historically you have to understand that many of the countries we inherited acquisition out of Grindlays some while back. So there is a historical angle. If we would start to talk to you about Cameroon, it is one of those countries that sits in the middle of our non-presence portfolio and it is a francophone country. In consequence of their particular political framework, their particular approach to banking, their legal framework it is actually not that easy to get your money back if somebody defaults. That is a 101 thing when it comes to banking. You do not find a whole pile of Anglo Saxon banks clamouring to get into Cameroon because there are some fundamental issues there.</p>
M	<p>So it boils down to risk and property right basically?</p>
G	<p>Yes. If you are a bank and you make your money out of lending money you need to be pretty sure that you are going to get your money back if things go wrong. It is 101 stuff. Legal framework doesn't allow you to go and register your property rights and take them to a court of law if they default and get your security back. If you are in an unsecured lending model it is very restrictive.</p>
M	<p>What has the impact of the present global economic crisis had on the Std Bank corporate strategy of investment into emerging market, obviously specifically with focus on Africa with the present economic climate the world is trying to recover from. You have mentioned that up to 2015 there are a certain number of countries you want to have at least tried to go into. Have you seen a change in the implementation of the strategy in terms of goals and objectives over the medium term?</p>



G	<p>This creates quite a few debates, obviously. If you go back to some of the more recent acquisitions we have made, we made them outside of the global crisis. Generically when you buy other businesses at the top of the economic cycle you are likely to pay a big premium. When you go through a global crisis here you are buying a business that probably has a higher risk profile than you might have assessed it as having. There is a great deal more long term value to be had. This is a double edged sword, you can buy a good clean business in a good economic cycle or you can take on a business that has its problems particularly with post global crisis and you will probably get better returns out of it in the long term. The answer is yes and no. Has our assessment or risk hurdle rate changed ~ yes. Has opportunity presented itself ~ yes absolutely. It sounds like a contradiction in terms.</p>
M	<p>In business, even in the darkest hour, there is always an opportunity to be had if you are prepared to look hard enough. Thank you for your time.</p>