Drivers of an African expansion in the South African banking sector

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ABSTRACT

Banking markets in Africa are becoming increasingly international through financial liberalisation and general economic integration. It has become commonplace for companies to embark on world-wide expansion programmes in their desire to remain competitive, and improve profitability and shareholder returns.

Internationalisation poses great challenges for banks. Market selection is one of the most critical areas of strategic decision-making. Yet, despite its importance, the approaches taken by many organisations in identifying profitable new markets are often based on intuition, rather than a formal structured attempt to match the organisation with appropriate foreign target markets.

The purpose of this report was to identify the drivers behind a South African bank's continent-wide expansion, which led to it becoming the largest Bank in Africa, and to determine the mode of market entry and the factors which influenced its market selection. A qualitative case study of Standard Bank was made. Findings showed that although Standard Bank had good penetration in the South African banking sector, the Bank saw that its opportunity for sustainable long-term growth in its domestic market was limited. It determined that growth could be best achieved by robust expansion into African markets. These emerging markets, with their high population growth and per capita increase in wealth gave Standard Bank the leverage it needed to differentiate itself globally, boost profitability and deliver superior shareholder value.

By using qualitative case study methodology this research aimed to provide valuable on-the-ground information that could assist other institutions wanting to expand in Africa. It highlights the importance of clear strategy and sets out the key factors that determine effective market selection and appropriate modes of entry into the growing and ever-changing African marketplace.

DECLARATION

I, George Rugonye, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

George Rugonye

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2012

ACKNOWLEDGEMENTS

To my wife Louise:

without your love and support this journey would have been impossible.

To my son Ittai:

my gratitude for sacrificing ‘Daddy time’ so I could complete my studies.

To Professor John Luiz:

without your understanding, insight and guidance this research would have not happened.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this study was to identify the drivers behind a South African bank's continent-wide expansion in Africa and determine its mode of market entry as well the factors which influenced its market selection.

1.2 Context of the study

Whilst Africa is still very much on the periphery of world markets and remains a tiny player on the international stage, it is beginning to court foreign companies actively by addressing the institutional business environment (Luiz and Charalambous, 2009). In 2006, about 40 African countries introduced 57 new measures affecting Foreign Direct Investments (FDI), of which 49 encouraged inward FDI (UNCTAD, 2008). The increase in FDI inflows reflected relatively high economic growth and strong corporate performance in many parts of the world (UNCTAD, 2008). Reinvested earnings accounted for about 30% of total FDI inflows as a result of increased profits of foreign affiliates, notably in developing countries. In Africa, FDI inflows increased from $18 billion in 2004 to $36 billion in 2006. This was due to increased interest in natural resources, improved prospects for corporate profits and a more favourable business climate (UNCTAD, 2008).

Africa is perceived by foreign entities as high risk relative to returns and location. But Africa is changing, and it is the right time to reconsider the latent potential of this vast, untapped market of 850 million people (Luiz and Charalambous, 2009). There is money to be made on the African continent and the returns on investment are already substantially higher in Africa than anywhere else. More importantly, the risk associated with doing business in Africa is declining as the institutional environment becomes more predictable and familiar (Luiz, 2006).

The 24 countries in Africa classified by the World Bank as oil and mineral dependent have, on average, accounted for close to three quarters of annual FDI flows over the past two decades. In recent years, just three countries (South Africa, Angola, and Nigeria) accounted for 55 per cent of the total (Morisset, 2000). The top fifth (10 out of 48 countries) account for 80 per cent, and the bottom half account for less than 5 per cent. This trend has held for at least the last three decades, with the top 10 countries accounting for more than 75 per cent of the continent's total FDI inflows. In sub-saharan Africa, the preferred FDI destinations were Angola, Equatorial Guinea, Nigeria and South Africa (UNCTAD, 2008).

The increasingly significant role of FDI in the growth dynamics of countries has created energetic interest among scholars and much research has been focused on the determinants of FDI, These are generally identified as comparative labour costs, country size, economic openness, the nature of exchange rate regime, return on investment (ROI) and political factors (Morisset, 2000; Asiedu, 2006).

Santor and Hejazi (2010) found that innovation of financial products, regulatory reforms, advances in information technology and the growth in international trade have contributed to the evolving role banks play in the international financial system (Santor and Hejazi, 2010). For banks, therefore, future prospects are increasingly determined by their banking activities outside their home country.

Buch (2003) claims that foreign direct investments in banking are largely irreversible. Therefore, when banks decide whether or not to go international, they have to take three important factors into account: fixed costs to enter the new market, fixed costs to leave the new market and operating expenses. When it comes to the kind of investment, the distinction between greenfield investments and the acquisition of domestic banks becomes crucial. With a greenfield investment, an entrant has to build up its reputation and a branch network from scratch, compared to an acquisition strategy where the entrant can benefit from existing customer contacts (Buch, 2003).

1.3 Problem statement

1.3.1 *Main problem*

Identify the drivers behind a South African bank's expansion into Africa and determine its mode of market entry as well the factors which influenced its market selection.

1.3.2 *Sub-problems*

The first **sub-problem** is to identify the drivers behind a South African bank's expansion into the African markets.

The **second sub-problem** is to determine the entry strategy adopted by a South African bank in its expansion into the African markets.

The **third sub-problem** is to identify the factors which influence its market selection.

1.4 Significance of the study

The study aimed to provide guidance to other financial institutions who are considering investing in the African banking market.

This research was intended to provide valuable information in helping such institutions address this problem and to promote understanding or inform practice for similar situations at other financial institutions.

Based on the above discussion, academics, practitioners and facilitators would therefore be interested in the outcome of this research.

This study is also important to academia since unusual access to senior management of the largest bank in South Africa by assets was obtained, providing an opportunity to investigate a problem that would otherwise have been lost to academic research.

1.5 Delimitations of the study

As a case study, the scope was limited to the expansion of Standard Bank into the African banking market. No attempt was made to investigate the expansion strategies of the other South African banks.

The study reflected the perspective of the bank that has made a significant continent-wide expansion in Africa and not the perspective of its customers.

1.6 Assumptions

There were no assumptions that influenced the outcome of the research.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

This chapter provides an overview of the literature that was used to derive the research questions and underpin the data collection process. The review investigates the following areas:

- Drivers behind the international expansion of banks
- Market entry strategies for banks
- Theories of market selection as they pertain to banks and
- Internal and external factors affecting market selection.

2.2. Drivers behind the international expansion of banks

Luiz and Charalambous (2009) argue that the arrival of foreign services monoliths like Barclays, Citibank and Standard Chartered in recent years has resulted in domestic markets no longer being safe havens for local players. This has exacerbated the already highly competitive and saturated domestic financial services markets, especially banking. With little or no growth opportunities in South Africa for many financial services firms and with profit margins under pressure, many of these companies need to look abroad to ensure future growth (Luiz, 2006).

2.2.1 *The need to provide service to multinational clients*

Following multinational clients has been mentioned as a motivational factor for banks to move out of their home countries to new markets (Goldberg, 1980). The suggestion is that due to imperfections in the market, multinational banks have unique knowledge of their clients. According to Sabi (1988) banks cannot sell their unique knowledge, following a client becomes an internalising factor which drives multinational banks to set up branches and subsidiaries in other countries.

Tschoegl (2005) concurs with the views of Sabi (1988) in which he observed that foreign banks can better serve the needs of these customers (particularly credit needs) than domestic banks because they already have a store of knowledge about their clients.

Thus, commercial knowledge is relevant to a bank's expansion into other countries. When a bank's customers go abroad, a bank can follow them and draw on the information about them quickly and at low cost. It is advantageous for the banks to respond to their customers' needs. If the bank does not follow, it gives other banks an entrée to its customers (Ball and Tschoegl, 1982).

As foreign banks move into new markets as they follow their clients, the motivation is not necessarily driven by monetary rewards. Ball and Tschoegl (1982) note that some banks expand abroad to be able to serve and retain important domestic customers with foreign operations, even if this does not translate into sizable interest margins.

2.2.2 *Profit opportunities in host countries*

Several studies offer support for the notion that foreign banks are attracted by profitable opportunities in host countries, since a significant determinant of a bank's choice of FDI location would be where the expected economic gains from such activity would be greatest (Claessens, Demirgüç-Kunt and Huizinga, 2001). The literature generally supports this, Brealey and Kaplanis (2004) find a positive relationship between host country per capita Gross Domestic Product (GDP) and bank FDI. Claessens et al. (2001), using data for 80 countries between 1988 and1995, found that foreign bank penetration was highest during that period where foreign bank profitability was highest, where taxes were lowest, and where per capita income was highest.

Focarelli and Pozzolo (2000) found that there was greater entry where the expected rate of economic growth was higher and the banking system less efficient. With respect to the efficiency of the banking market in the host country, they found a greater foreign presence where local banks had higher than average costs, lower net interest margins, fewer charge-offs and higher cash flows (signalling an inefficient use of capital). They interpreted these results as being consistent with the hypothesis that foreign investors envision using their expertise and human capital to restructure inefficient banks. They also found a greater foreign presence where the average bank size was smaller. They speculate that this was because it was easier to acquire banks in these markets and there was greater opportunity to increase market share after the restructuring (Focarelli and Pozzolo, 2000).

Focarelli and Pozzolo (2000) concluded that the driving factor behind bank choice of FDI location was the expected rate of economic growth of the host country. They measured this by assuming those countries with a low level of initial output, low inflation, higher levels of schooling and more developed financial markets were those most likely to grow. Their results are consistent with the notion that banks choose where to invest on the basis of profitability, though they also found that other factors such as distance, language and economic integration were also significant.

2.2.3 *Market seeking strategies*

A market-seeking strategy means that for some reason a bank needs to penetrate new international markets (Hellman, 1996). According to this strategy, the bank tries to find a new niche in the international market. It is supposed that a purely market-seeking strategy is associated with larger risks and uncertainty than, for example, a follow-the-customer strategy (Seth, Nolle and Mohanty, 1998). Thus it is mainly strong, experienced international banks that do this because they can afford to take a greater risk as only a few banks are large enough to penetrate home-country loyalties to attract new customers (Seth et al., 1998).

Medium-sized customers of banks are particularly interested in establishing trade relations and in collecting data about the existing political and economic situation as well as the institutional and cultural realities of the corresponding country (Ball and Tschoegl, 1982). These customers are often not able to acquire adequate, detailed information themselves. A bank can promote the desired business relations due to its own market-specific knowledge, experience and contacts. Through these services the bank facilitates the entry of medium-sized customers into new unfamiliar markets and allows companies with no foreign experience to expand abroad. Through these information and consulting services banks can enhance the loyalty of their clients (Berger, Demsetz and Strahan 1999).

2.2.4 *Increased home-host economic integration*

Many studies have found a positive and significant correlation between FDI in the banking sector and integration between home and host countries (Ball and Tschoegl, 1982; Brealey and Kaplanis, 2004; Goldberg, Sweeney and Wihlborg, 2005).

Most of the literature is biased towards testing the level of economic integration between the United States (US) and countries with whom significant inward and outward banking FDI has taken place. Goldberg (1980) examined US bank decisions to expand abroad during the 1970s and found that the level of US exports to the UK correlated positively with the level of US bank FDI there. Goldberg (1980) effectively updated the earlier work by studying a broader set of countries during the 1980s. They found a positive correlation between non-bank and bank FDI flows, as well as confirming the previous finding regarding trade flows (Goldberg and Saunders, 1980).

Goldberg and Saunders (1980) examined foreign bank decisions to enter the United States during the 1980s and again found that the most important determinants were non-bank FDI and trade flows. Brealey and Kaplanis (2004) provided a more recent study on the determinants of US bank expansion abroad and also found a correlation between non-bank FDI and bank FDI.

Outside the United States, literature on economic integration as a determinant of bank FDI flows has been somewhat disparate. Brealey and Kaplanis (2004) undertook an international study of bank FDI flows and found that the countries with the highest foreign bank presence were those with the greatest trade and non-bank FDI links. Buch (2003) found similar results for German banks. As

Buch (2003) have pointed out, these studies, in finding positive correlation between non-bank FDI and bank FDI, did not necessarily prove the ‘follow your customer’ hypothesis. A number of other variables, such as factors inherent in the host market which attract both bank and non-bank FDI, may equally explain the relationship(Miller and Friesen, 1982). In testing the ’follow your customer’ hypothesis, Brealey and Kaplanis (2004) found that in most cases, the majority of lending by foreign banks did not go to borrowers from the same home country.

2.2.5 *Geographic diversification and efficiency gains*

Claessens et al. (2001) showed that foreign banks were more efficient than domestic banks in emerging markets, although the opposite held true for developed countries. Literature maintains that banking FDI provides the opportunity for improved geographical diversification and should, therefore, improve a bank’s risk-reward trade-off and profitability (Berger, Demsetz and Strahan, 1999). Moreover, efficiency gains arising from economies of scale, scope and product mix may potentially arise from foreign expansion. This is consistent with Tschoegl (2005) who examined the phenomenon of Spanish bank entry into Latin America by interviewing top management of the main Spanish banks and relating their responses to FDI theory. He found that a significant motivation for expansion abroad was to capitalise on diversification and efficiency-gain potential.

On geographical diversification, Tschoegl (2005) found that there was no risk reduction from geographic diversification, arguing that the potential benefits were outweighed by the potential costs faced by the resulting large, complex bank. Berger et al (1999) summarised the literature on large domestic bank consolidation, concluding that there was little empirical evidence to support the notion that consolidation leads to efficiency gains.

2.3. Market entry strategies and selection theories

Entry mode is an institutional arrangement chosen by a company for operation in a foreign market (Kumar, Subramanian and Yauger, 1997). Kumar et al. (1997) state that the choice of entry mode is a crucial strategic decision, affecting future decisions and operations because, when entering a foreign market, the choice of entry mode is recognised to be a trade-off between risk and return. Adopting suitable entry modes may help a company achieve better performance and survival in foreign markets as it involves various risks (Choo and Mazzarol, 2001; Chung, 2003; Ekeledo and Sivakumar, 2004).

2.3.1 *Market entry strategies*

Albaum and Duerr (2008) found that there were three ways to conduct foreign direct investments in a foreign market: starting from the beginning with greenfield investments, arranging a partnership through joint ventures, or acquiring a company in the host country and participating in the foreign market through that acquisition. Each entry mode strategy has its benefits and drawbacks.

a. Greenfield investments

Paliwoda (1999) defines a subsidiary as a value-adding entity in a host country, which can perform a single activity or an entire value chain of activities. Greenfield entry involves the establishment of an institution from scratch. The institution established might require a capital infusion, but in some cases (such as a representative office or branch) this transfer is very limited or is even replaced by the transfer of human capital only.

Wholly-owned greenfield affiliates are preferred because the company can exercise full management control (Belderbos and Zou, 2007). Greenfield investments, however, are generally viewed as impractical, particularly in relation to personal markets, because of the high costs associated with the establishment of a physical presence in a foreign market (Albaum and Duerr, 2008).

b. ***Joint ventures***

Joint ventures are business agreements in which two or more owners create a separate entity (Harrigan, 1988). They may be either specialised ventures or shared value-added ventures. Specialised ventures are generally organised around functions such as marketing or manufacturing, while in shared value-added ventures, partners engage equally in value-adding activities.

Joint ventures are sometimes the best way to get started in an overseas market since they allow a company with limited capital and labour resources to enter overseas markets than would not have been possible if the company had had to establish subsidiaries (Paliwoda, 1999). The downside is that the profit may be less because all profits must be shared (Albaum and Duerr, 2008).

c. ***Acquisitions***

If the speed to market entry is important, then a merger may be more easily accomplished by acquiring a company already in the market as this effectively purchases instant market information, market share and channels of distribution (Paliwoda, 1999). This may be particularly advantageous for a company with limited international management expertise, or little familiarity with the local market (Hollensen, 2007).

One of the disadvantages is that, to obtain a high return from foreign operations, companies may require high resource commitment. However, this in turn increases the risk of international investment. Firms therefore have to exercise higher control over their foreign operations and affiliates (Kumar, van Dissel and Bielli, 1998; Sharma and Blomstermo, 2003; Ekeledo and Sivakumar, 2004).

Acquisitions can take one of the following forms: a representative office, a branch, or a subsidiary bank (Paliwoda, 1999).

The most basic banking presence is the representative office. Representative offices of foreign banks do not perform independent banking activities. They attract and arrange business for their parent company abroad. Often, representative offices of foreign banks also negotiate correspondent relationships with domestic banks (Buch, 2000). It offers the bank a low cost entry mode, allowing it to establish its name without requiring the capital cost and risk of setting up a branch or subsidiary. This is a particular advantage where the worth of the local market has yet to be proven or where the regulatory frameworks have a degree of fluidity. Should market development exceed expectations or certain lucrative deals be granted only to those banks present in the market, a representative office is a foothold (Paliwoda, 1999).

In contrast to representative offices, branches of foreign banks engage in regular banking activities (Buch, 2000). They are also legally dependent on their headquarters. According to that the decision-making is not fully delegated to the foreign branch, and the activities of branches are backed by the capital of the parent company. Foreign bank branches are subject to the banking supervision of both the home and the host country (Buch, 2000).

Subsidiaries of foreign banks, finally, are legally independent of their parent company and must back their activities by their own capital (Buch, 2000). Hence, foreign banks need to invest more capital abroad if they want to facilitate the same level of lending activity through a subsidiary, rather than a branch. Branches are an integral part of the parent: a branch cannot fail unless the parent fails (Buch, 2000).

A subsidiary may fail even though the parent is solvent and, vice versa, a subsidiary may be solvent even though the parent has failed. Under the Basle agreements, host country supervisory authorities are responsible for prudential supervision of subsidiaries and home country authorities for subsidiaries of the parent (Buch, 2000).

2.3.2 *Foreign market entry selection theories*

The interest in market entry mode choice originates from the theory of international investment (Hymer, 1960; Caves, 1971; Southard, 1976; Dunning, 1988). The choice of market entry mode is one of the most critical strategic decisions for Multinational Enterprises (MNEs) (Hofstede, 2001). It affects future decisions and performance in foreign markets. Hofstede (2001) emphasised that the choice of market entry mode is a critical strategic decision for companies intending to conduct business overseas.

There are a number of market selection theories that attempt to explain the international expansion of banks. The main ones are the comparative advantage theory, industrial organisation theory, international investment theory, internationalisation theory and Dunning's eclectic Ownership, Location and Internationalisation (OLI) theory which are discussed in this paper.

a. ***Comparative advantage theory***

The first of the theories to be discussed in this paper is the comparative advantage theory which was applied to the banking industry by Aliber (1976) who assumed that the banks most likely to become multinational are those located in countries with a comparative advantage in producing bank products or services. According to this theory, such banks will tend to dominate the world banking market. In this view interest rates are the primary factor in choosing a bank product (Aliber, 1976). The theory explains the optimal producer of a certain bank product, but does not explain the method or location of production. In addition, the theory does not discuss the issues of convenience, the nature of the capital used to fund the cross-border expansion or the transactions costs associated with the banking relationship. In expanding offshore the bank will expose itself to risks not present in its domestic market and customers of the bank, particularly depositors, will be concerned about how these risks will affect their on-going relationship with the bank (Williams, 1997).

b. ***Industrial organisation theory***

The second of the theories is the industrial organisation theory which was addressed by Grubel (1985), who developed a three-stream analysis in which he identified bank-specific advantages in various segments of multinational banking. In particular, most of a bank's moves abroad are the follow-the-customer type. This expansion may not be aimed at generating profits in the new location, but is instead aimed at preventing losses in pre-existing activities (Grubel, 1985). This theory does not analyse the costs of international expansion and the role capital plays in an international expansion (Khoury and Pal, 2000). International expansion should only be undertaken when the expected marginal cost of expansion does not exceed the expected marginal gain (Khoury and Pal, 2000). The theory can be regarded as a specific application of the general theory of internalisation. Khoury and Pal (2000) argue that the long-lasting growth of multinational banking may be understood to a large extent as an answer to the geographical expansion of home-country customers.

c. ***International investment theory***

The third theory is the international investment theory which argues that a major motivation for the existence of multinational banks lies in the existence of exogenous imperfections in the international financial markets (Spiller and Favaro, 1984). Concentrating on the situation of United States banks in the sixties, it highlighted the fact that the main reason for them to expand overseas was the stringent regulations on capital flows. Another argument belonging to the international investment theory is that the benefits gained from geographical diversification are higher than those of a purely domestic bank (Rugman and Kamath, 1987).

d. ***Internationalisation theory***

According to the internationalisation process theory, companies will follow a gradual process to internationalise their operations abroad (Johanson and Wiedersheim Paul, 1975). A company's behaviour during the establishment of international expansion starts from a low resources commitment to successively greater commitment and control. Companies primarily enter known markets which have less psychic distance from their home country. This theory assumes that for foreign operations, a company moves through four stages – from regular export activities, to export via host country agents, followed by exports through an overseas sales subsidiary and then, finally, overseas production by a wholly owned subsidiary (Johanson and Vahlne, 1993).

Several authors have criticised the internationalisation process theory (Melin, 1992; Andersson, 2000; Rasmussen and Madsen, 2002). The sequence of stages was restricted to a specific country market (Andersen, 1993). The theory ignored contractual entry modes and joint ventures (Sharma and Erramilli, 2004). In addition, this theory is too deterministic in nature and is only important in the early stages of internationalisation as markets become homogenous and psychic distance reduces (Melin, 1992).

e. ***The Eclectic theory***

To overcome some shortcomings of the internalisation theory (Dunning, 1981, 1994) propounded the eclectic theory (also known as the OLI theory) of FDI. This theory has ownership advantage, location advantage and internalization advantage as its key components (Ekeledo and Sivakumar, 2004).

The OLI paradigm explains that the FDI decision is affected by three factors – ownership (O), location (L) and internalization (I). It explains the reasons why firms decide to start investing abroad, what the specific preconditions are, where they invest in regard to the location advantages and why they select FDI out of many forms of foreign market entry (Dunning, 1981). The important aspect of the OLI theory is that the location and ownership advantages are a necessary but insufficient condition for FDI (Uiboupin and Sõrg, 2006).

Dunning (1988) suggests that the three main types of international production, namely market-seeking, resource-seeking and efficiency-seeking strategies, can be explained by the efficiency paradigm. In market-seeking strategies, the ownership advantage that can be exploited in the host country to get access to some specific market or resource defines the investment location. The resource-seeking motivation of FDI considers market size and other characteristics at home and in the host country to get access to production resources. The efficiency-seeking argument of FDI looks at economies of scale and scope, risk reduction through product diversification, and taxation (Uiboupin and Sõrg, 2006).

In Dunning (1994) another FDI motivation is added – strategic asset-seeking. Strategic asset-seeking is a motivation for sequential FDI. The aim of the strategic asset-seeking investment is to acquire resources that are important to enhance the capabilities and advantages of an investor. It is complex integration of strategies to seek markets where the corporation's general objectives can be best achieved.

Although the eclectic paradigm is widely applied to different industries, Dunning's OLI paradigm has been criticized broadly. OLI theory combines different earlier theories of internationalisation (Itaki, 1991). In critical assessment of eclectic theory Itaki (1991) argues that there is no need to stress ownership advantages to explain international activities of multinational corporations as they are already captured in the internalisation theory. Another critique of the eclectic theory is the lack of causality between the variables described in it. Williams (1997) argues that it is incorrect to assume that a multinational bank needs ownership advantage compared with domestic banks. Williams (1997) suggests that internalisation alone is enough to cover ownership advantages. He also argues that based on eclectic theory it is not possible to set up testable hypotheses (Uiboupin and Sõrg, 2006).

2.4. Factors influencing market selection

Generally, companies do not follow any special pattern to internationalise their operations because they face different environmental settings. They may enter a particular target market through different entry strategies based on their specific resources, capabilities and strategies. Two types of factors influence the international strategy - market selection and the choice of entry mode, the internal and external factors respectively (Anderson and Gatignon, 1986; Agarwal and Ramaswami, 1992; Choo and Mazzarol, 2001; Ekeledo and Sivakumar, 2004). Internal factors include company-specific resources and strategic considerations that can be managed by companies. External factors such as country factors and industry factors are those that are usually beyond the control of companies (Ekeledo and Sivakumar, 2004).

There are different approaches which are applicable in market selection and one of them is shown in Figure 1. The main aspects are divided into four groups – internal factors, desired mode characteristics, transaction-specific factors and external factors (Hollensen, 2007).

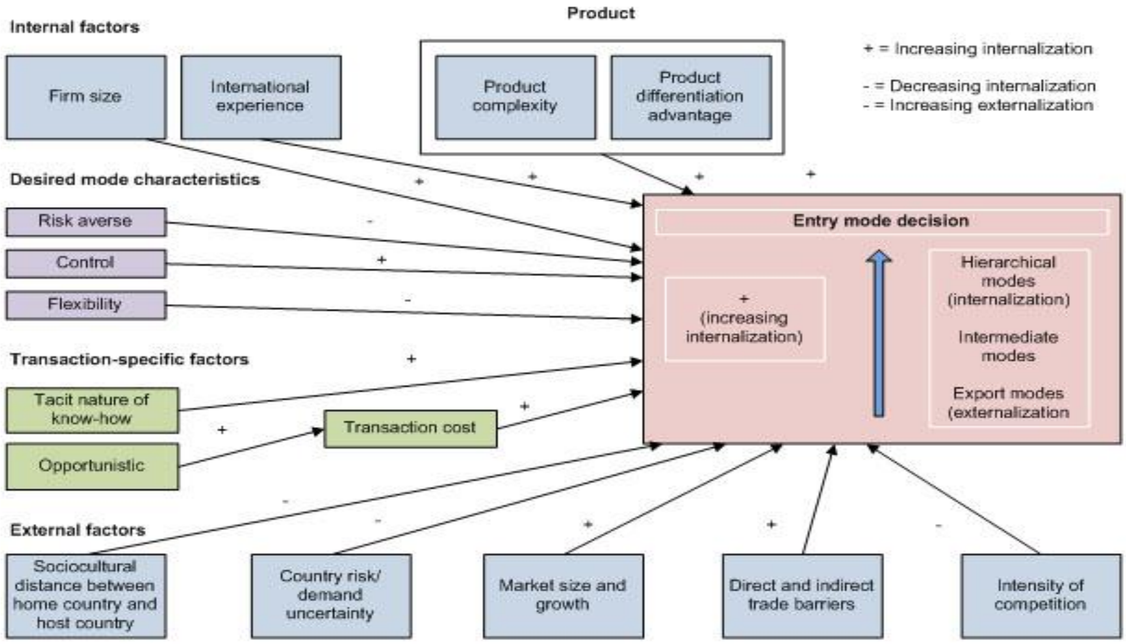

Figure 1: Factors affecting the foreign market entry mode (Hollensen, 2007)

2.4.1 Internal factors influencing market selection

The degree of centralisation of decision-making, organisational culture, international experience and size of the company have all been shown to play an influential role in internationalisation. Jaworski and Kohli (1993) argued that centralisation of decision-making is the amount of delegated authority throughout an organisation and the extent of participation by organisational members in decision-making. As centralisation is primarily a control issue, it can be argued that more centralised structures would prefer entry strategies that afford a high level of control for headquarters based in the home market. Moreover, decentralised or autonomous decision-making structures may be more willing to adopt low control entry strategies (Jaworski and Kohli, 1993).

According to Hollensen (2007), internal factors include company size, the degree of international experience, the desired mode characteristics, control and flexibility.

*a. **Company size***

The first of the internal factors is the company size. The greater the resources the company has available, the higher the probability it will become involved in international markets over time (Hollensen, 2007). Goldberg and White (2004) suggest that larger retailers, with greater financial resources, are more likely to use acquisition as a mode of entry, whereas small retailers will evaluate the relative benefits of franchising, concessions, distributors and agents. This positive relationship between company size and entry strategy is supported by the export literature which has found a strong association between company size and high control entry strategies (Kogut and Singh, 1988; Erramilli and Rao, 1993; Sarkar and Cavusgil, 1996).

*b. **International experience***

International experience is the second of the internal factors and has been shown to have important implications for market entry strategy selection (Anderson and Gatignon, 1986; Caves and Mehra, 1986; Brouthers and Brouthers, 2000). It is argued that as companies gain international experience, the level of uncertainty regarding operating in foreign markets reduces. This, in turn, increases the likelihood that such companies will use high-cost, high-control entry strategies. Correspondingly, those companies with less international experience are more likely to enter a foreign market through a joint venture as a means of sharing the risks and responsibility (Caves and Mehra, 1986; Erramilli and Rao, 1993). The international experience, which reduces the cost and uncertainty of observing a market, is of importance. The more experienced the management, the higher the chance of success when deciding about a new market and the way to enter it (Hollensen, 2007).

*c. **Control, flexibility and risk averse***

The distinguishing characteristics of management will affect an entry mode decision (Hollensen 2007). These include how risk averse the management is, the degree of target market control it desires, and the potential for flexibility in the new market.

Hollensen (2007) argues that a risk-averse management will want look for solutions that minimise the risk. A management that wants control over the situation goes for an entry mode that limits its dependence. Flexibility gives management the freedom to adapt to changes in the environment and market (Hollensen 2007).

Konopielko (1999) defines control as the level of authority a company may exercise over systems, methods and decisions of the foreign affiliate and suggests that an entry mode can be one of full or shared control. A full-control mode requires the highest commitment of a company's resources, which means that the company is exposed to the highest level of risk and should thus enjoy the highest return on investment (Konopielko, 1999). The shared-control mode requires low to moderate commitment of resources, low to moderate risk taking and an acceptance of low to moderate returns. Sharma and Blomstermo (2003) conclude that service companies are most likely to choose a high control entry mode.

Agarwal and Ramaswami (1992) found that when risk is high, companies tend to go for an entry mode with low costs and less involvement.

2.4.2 Transaction-specific factors

From the transaction cost perspective, a company's ownership decision requires minimising total transaction and production costs (Chen and Mujtaba, 2007). Market failure is the primary precursor to a company's decision to integrate and assume greater control. Chen and Mujtaba (2007) argue that the most important determinant of market failure is the presence of transaction-specific assets, when the high transaction costs of transferring proprietary assets incurred by multinationals leads to internalising market choices.

2.4.3 External factors influencing market selection

When a company embarks on an expansion strategy in a foreign market, it engages in internationalisation. The main reasons for internationalisation are to resist the international competition, domestic market saturation, business expansion, new market development and diversification (Jumpponen, Liuhto, Sõrg and Vensel, 2004). However, there exist many uncertainties and risks in the emerging global market and the transitional business environment, such as market demand uncertainty, competition, political risk and cross-cultural difference. It is important, therefore, for the company to understand how to measure the business environment in order to reduce the many uncertainties and risks in the host country (Jumpponen et al., 2004).

d. ***Socio-cultural distance***

Research into the factors affecting entry strategy has identified psychic or cultural distance as a key explanatory factor. Research suggests that greater psychic or cultural distance will lead companies to adopt an entry strategy that is more independent. This is attributed to the problems encountered by 'double layered acculturation', which requires a company to adjust to both a different national and organisational culture (Barkema and Vermeulen, 1997). This argument is supported by the results of Brouthers and Brouthers (2001) who found that high levels of cultural distance or investment risk were associated with the use of high cost, high control entry strategies.

Research also suggests that as the psychic distance between the home and foreign market increases, the perception of risk will be greater. Therefore companies will be unwilling to commit substantial resources to psychically distant markets (Hofstede and Bond, 1988; Werner, Brouthers and Brouthers, 1996). This argument is supported by the results of Kogut and Singh (1988) who found that cultural distance or psychological differences are related to the use of low cost, low control entry strategies.

Anderson and Gatignon (1986) argue that under conditions of high cultural distance, multinational corporations may require greater flexibility, resulting in preferences for modes of entry with lower control, such as licensing or a joint venture. According to Hofstede and Bond (1988) cultural distance involves differences in a country's legal system, incentives, administrative practices and working styles that increase an international company's cost of integration. Psychic distance usually refers to the obstacles to information flows between countries due to differences in business laws, education levels and business language (Johanson and Vahlne, 2003).

e. ***Country risk***

When the time comes to reflect on the possibility of entering a foreign country, a company must take into account that country's social, legal, economic and political framework (Hollensen, 2007). Country risk plays a major part in entry decisions: the higher the insecurity of the target market the more likely management is to choose an entry mode that involves low resource commitments. Examples of risk are exchange rate risk and political risk, and the company must make a full risk analysis of both the market and the method of entry (Hollensen, 2007).

f. ***Trade barriers***

Hawkins (2003) found that Brazilian authorities, for example, required foreign banks to hold a minimum capital amount double that of domestic banks, and also restricted foreign banks from opening new branches or acquiring smaller banks unless they purchased one of the troubled state-owned banks. Occasionally, foreign bank entry is restricted in order to encourage domestic shareholders to contribute new equity, thereby preserving the 'franchise value' of domestic banks (Hawkins, 2003).

Direct and indirect concerns include host government regulations, restraints on market entry, prohibition or limitation of foreign ownership, and fiscal controls (Javalgi, Griffith and White, 2003). Javalgi et al. (2003) further argue that in a service context, host governments use import tariffs, non-tariff barriers, local content requirements, currency and capital flow restrictions, ownership restrictions and requirements on technology transfer in an attempt to overtly control the degree of foreign competition in the service industry.

g. ***Competition***

If the competition in the host market is high, companies will do well to avoid entering that market, as such markets tend to be less profitable and therefore do not justify heavy resource commitments. The greater the intensity of competition in the host market, the more it will favour entry modes with less commitment (Hollensen, 2007).

2.5. Conclusion of Literature Review

In summary, there are three ways to conduct foreign direct investments in a foreign market: starting from the beginning with a greenfield investment, arranging a partnership through joint ventures, or acquiring a company in the host country and participating in the foreign market through that acquisition. Each entry mode strategy has its benefits and drawbacks.

A number of main theories attempted to explain the international expansion of banks. The comparative advantage theory assumed that the banks, which are most likely to become multinational, are those located in countries with a comparative advantage in producing bank products or services. The industrial organisation theory identified bank-specific advantages in various segments of multinational banking. In particular, a number of the banks go abroad to follow their customers. The international investment theory argues that a major motivation for the existence of multinational banks lies in the existence of exogenous imperfections in the international financial markets. The internalisation theory assumes that the international strategy of a bank that which develops its presence abroad does so in order to enable its customers to avoid the imperfections of the international markets. The last of the theories, the eclectic theory, suggests the importance of company and location-specific factors to explain international operations. The theory states that specific organisational skills give a company a competitive advantage in the marketplace.

Factors influencing market selection can be divided into two parts: internal and external factors. In the literature, internal factors are a set of strategies and characteristics of a company which influence entry mode. Internal factors are controllable and modifiable, while external factors are uncontrollable and affect entry mode decisions. With regard to external factors, a company's success in the market not only depends on environmental factors but also on the company's function and influence on the environment.

2.5.1. Research question 1

What were the drivers behind Standard Bank's expansion into Africa?

2.5.2. Research question 2

How did Standard Bank decide on its mode of entry into the African banking markets?

2.5.3. Research question 3

What were the underlying factors which influenced Standard Bank's market selection?

CHAPTER 3: RESEARCH METHODOLOGY

This chapter describes the methodology that was followed to answer the research questions posed in the previous section.

The chapter commences with a description of the chosen method and its implications for this research. The research design, case site and sample of interviews are then discussed. This is followed by descriptions of the processes that were used in data collection, analysis and interpretation. The chapter concludes with a discussion on validity and reliability.

3.1 Research methodology

The method of research used was a qualitative case research method. The research problem stated in Section 1.3 required the researcher to identify the drivers behind a South African bank's continent-wide expansion and determine the mode of market entry, as well as identify the factors which influenced its market selection.

Since a specific company was studied in-depth for a predefined period of time, the case study method was used (Perry, 2000). Leedy and Ormrod (2001) suggest that all forms of qualitative research have two things in common: the focus is on phenomena that occur in natural settings and the phenomena are studied in all their complexity and multiple facets. Qualitative research therefore lends itself well to the case study method used here.

According to Leedy and Ormrod (2001:101), qualitative research often starts off with general research questions rather than specific hypotheses and is followed by the collection of an "extensive amount of verbal data from a small number of participants". The subsequent organisation of data into a coherent format and the portrayal of the situation through the use of verbal descriptions are then used to state tentative answers to the research questions. The same process was followed for this research.

3.2 Research design

Rowley (2002:18) defines research design as the “logic that links data to be collected and the conclusions to be drawn to the initial questions of a study”. The main thrust of the research design used was the formulation of research questions, followed by in-depth interviews to aid the discovery of potentially new aspects not uncovered during the literature review.

Case research, according to literature synthesised by Perry (2000), is an investigation using interviews, observations and other multiple sources of data of a contemporary, dynamic phenomenon.

Perry (2000) and Yin (2003) argue for a middle-of-the-road approach in which both theory building (induction) and limited theory confirming (deduction) occurs. This is not to say a literature review is ignored in a case research approach. Perry (2000) and Yin (2003) argue strongly that a literature review forms an important part of case research.

While there is no precise guide to the number of cases to be included in case research Perry (2000) says it is usual to study multiple cases rather than a single case. However, Yin (2003) argues that a single case is appropriate if it meets at least one of the following criteria:

- The case is critical because it is the only one that meets all the conditions of the theory.
- The case is rare or extreme and finding others is unlikely.
- The case provides unusual access for academic research and if the case is not investigated it will result in a lost opportunity.

Perry (2000) states that validity and generalisations are limited in case research and findings are tentative, no matter how many cases are selected, leading one to question whether the benefits of multiple case research outweigh the costs in terms of time and resources required to research them.

In the context of this research, a single case was selected on the basis that it met both the second and third of Yin (2003) criteria: namely that the case was rare and unusual and provided access to senior management of Standard Bank who have been involved with the expansion of the bank into Africa since 1992. If the case was not investigated, an opportunity would have been lost.

3.3 Case site and interview sample

Since the case study method was used, this section describes the case site and lists the job titles of the individuals interviewed.

3.3.1 Case site

The Standard Bank Africa division of Standard Bank South Africa was used as the case site. Formal approval was granted to conduct this case research at the site. Only one case site, instead of multiple sites, was used. As mentioned in Section 1.4, the fact that this specific site provided an opportunity to investigate a problem through unusual access made it a valuable research topic that might otherwise have been lost to academic research (Perry, 2000; Rowley, 2002).

The Standard Bank Group, recognising the strategic importance of trade and investment between South Africa and the region, has over the past few years, substantially increased its presence on the African continent. The subsidiaries in Lesotho, Mozambique, Namibia and Swaziland operate as Standard Bank. As a result of the brand conflict with Standard Chartered Bank, operations in Botswana, the Democratic Republic of Congo, Ghana, Kenya, Nigeria, Tanzania, Uganda, Zambia and Zimbabwe trade under the name of Stanbic Bank. Against such an aggressive expansion strategy it was necessary to understand why Standard Bank embarked on the continent-wide expansion and what market entry strategies were employed, as well as evaluate the factors which influenced market selection.

3.3.2 Interview sample

The population for this research was senior executive management of Standard Bank who were stakeholders in the continent-wide expansion of the Bank. The population comprised the Group Chief Executive, Managing Directors and Chief Finance Officers of the African counties in which Standard Bank operates.

The non-probability sampling type method, termed judgemental sampling, was used to obtain a sample size. Judgemental sampling occurs when participants are selected by the researcher based on the strength of their experience of the phenomenon under study. With judgmental sampling, the researcher makes the decision prior to the commencement of the interview and does not pursue other contacts which may arise during the course of the study (Hussey and Hussey, 1997). The size of the sample, table 2 below, included 14 respondents across the Standard Bank Group. The sample size included the following mix of interviewees: four Chief Executive Officers of the Group, five Managing Directors of the subsidiaries and five Chief Finance Officers of the subsidiaries.

Table 2: List of respondents

Position of individual	**Standard Bank Group and subsidiaries**
Chief Executive Officer	Standard Bank Group
Chief Executive Officer	Standard Bank Africa
Chief Executive Officer	Corporate and Investment Banking
Chief Finance Officer	Standard Bank Africa
Managing Director	Kenya
Managing Director	Lesotho
Managing Director	Malawi
Managing Director	Swaziland
Managing Director	Uganda
Chief Finance Officer	Ghana
Chief Finance Officer	Mozambique
Chief Finance Officer	Nigeria
Chief Finance Officer	Swaziland
Chief Finance Officer	Uganda

3.4 The research instrument

A semi-structured interview schedule was used during the interviews to ensure that data collection was reliable and that the questions were answered as comprehensively as possible for thorough analysis. The interview schedule is attached in Appendix A. The interview schedule did not contain any structured, closed questions, and was designed to be flexible to allow relevant information to emerge. The open-ended questions focused on the 'why, what and how' of Standard Bank's continent-wide expansion. Some prompting was done towards the end of the interview to ensure that the open-ended questions were answered as comprehensively as possible.

No other standardised instruments for data collection were used, since data collection occurred through interviews and observations made by the researcher. Although open-ended guiding questions were used, the interview was directed to areas of interest that came up during the interview. This assisted greatly in exploring the research topic and contrasts with the view of Leedy and Ormrod (2001) who argue that the lack of a fully structured interview schedule might have had drawbacks.

This researcher found the semi structured interviews to be powerful data collection tools that yielded very useful information. Questions were asked not only about people's perceptions on why and how Standard Bank undertook its continent-wide expansion, but also included issues such as their beliefs, feelings and motives about present and past strategy relating to the expansion programme (Silverman, 1993).

3.5 Procedure for data collection

Three sources of data were used: interviews, observations by the researcher and appropriate, relevant documentation (Yin, 2003). These three sources allowed for triangulation.

3.5.1 Interviews as the main data source

The primary method of data collection was in-depth interviews. The interviews were conducted at the interviewees' respective offices for those in South Africa and telephonically for those in the other countries. Each interview typically lasted 60 minutes.

At the start of the interview, the interviewee was told that the objective of the research was to determine the drivers behind Standard Bank's expansion into the African markets, examine the mode of market entry and identify the factors which influenced its market selection.

The researcher took notes during the interviews which were then transcribed into formal data almost immediately after each interview. Appendix A provides a complete list of questions asked during the interviews.

Two further points bear mentioning on the number of interviews conducted: the number of interviewees only has a bearing on the validity of research when a sample population is used to represent the entire population and, secondly, the quantity of interviews is less important than the quality (Patton, 1990). As pointed out by Patton (1990:185) the "validity, meaningfulness and insights" of qualitative research have more to do with the "information-richness of the cases and the observational/analytical capabilities of the researcher" than with sample size.

The approach used in interviewing participants largely followed the recommendation by Perry (2001) that a less structured approach to interviewing be used in case research.

3.5.2 Other data sources

The data obtained from interviews was complemented by observations made by the researcher during the interviews. Care was taken not to confuse observations with the interpretation of data.

Other documentation such as newspaper articles on the Standard Bank's Africa expansion, brochures, memoranda, organisation charts and formal reports were also used as data sources.

3.5.3 Triangulation

Triangulation arises from the need to confirm the validity of the research process (Stake, 1995). It is used when data obtained from multiple sources, each of which may possess different types of errors or weaknesses, needs to be appraised in a more objective way.

Rowley (2002) argues that one of the great strengths of case studies (when compared to other research methods) is that it allows for evidence to be collected from multiple sources.

Data source triangulation was employed in this case as multiple methods of data collection were used in order to solicit a variety of views of Standard Bank's expansion into Africa. The interview process was followed by a process where additional information was gathered from company documents and relevant newspaper articles about the Bank's expansion into Africa. The cognitive summaries and maps developed from the primary narratives were viewed in the context of the transcribed and observed data to ensure that both the "theories in use" and "espoused theories" were aligned when producing the research findings.

3.6 Data analysis and interpretation

Data analysis and interpretation formed a crucial part of the research process (Eisenhardt, 2002). Since qualitative data were collected, considerable use was made of inductive reasoning during data analysis and interpretation.

3.6.1 Data analysis

Data analysis using this research method did not follow a typical linear phase where analysis only starts once data collection has been completed. Because of the nature of the research, data analysis and interpretation took place to a certain extent during the data collection phase (Miles and Huberman, 1994; Leedy and Ormrod, 2001). Care was taken not to confuse observations with interpretations. The three research questions that shaped the data collection process were also used as the framework for data analysis.

Content analysis using code groups to easily identify and group themes and characteristics is a useful way of organising qualitative data (Miles and Huberman, 1984; Perry, 2000). In this research notes and transcripts from interviews, along with other documentation, were analysed to reveal key themes and concepts. Notes were made in identifying and labelling these themes. With the literature review in mind, cross-checking and analysis was then performed to narrow these themes and concepts into broad categories including data relating to process, dynamics, power and information. Cognitive maps were developed to capture essential information in convenient and appropriate categories for further analysis.

Content analysis in the true sense of the word was not performed in this research. The focus was on how many people raised a specific issue, not how many times the issue was raised. This was done in order to prevent a situation in which the views of very vocal respondents may have placed undue emphasis on certain aspects of the data and affected the weighting.

Miles and Huberman (1994) view data reduction as an important component of data analysis. The data analysis initially took all collected data into account, and then relevant parts of the data were extracted, simplified and condensed. Data reduction also played an integral part in data display.

3.6.2 Data display

To induce structure and summarise the data, the method of cognitive mapping was employed. Cognitive mapping is a method of data analysis used to make sense of written or verbal accounts of problems.

The analysis of the data was displayed mostly in cognitive maps, depicting the relationships between various elements and issues that were uncovered during data collection. According to Miles and Huberman (1994) cognitive maps can hold a great deal of information that can be analysed readily. Cognitive maps show people's representation of concepts about a specific issue, indicating the relationships among the concepts and using descriptive text to explain the various concepts (Miles and Huberman 1994).

Cognitive mapping allowed the main themes to interact across findings and was dependent on the researcher's ability to be able to identify and connect varying degrees of information.

3.7 Limitations of the study

Most of the data gathered came from interviews and other data sources. The analysis and interpretation of this data was subjective.

Limited generalisation can be made, as the purpose of case study research is to add to theory-building and to articulate patterns rather than to generalise to a population (Amaratunga and Baldry, 2001). Rowley (2002) argues, however, that generalisations can be made if the research design has been informed by theory and is therefore seen to add to theory-building.

Apart from the interview schedule, no additional standardised instruments were used, since data collection occurred through unstructured interviews. As much care as possible was taken to guard against any subjectivity and bias of the researcher or respondents and its potential impact on the research's validity and reliability.

3.8 Validity and reliability

Validity is concerned with whether the instrument (in this case, interviews) "measures what it is supposed to measure" and whether it will lead to valid conclusions about Standard Bank's expansion strategy (Leedy and Ormrod, 2001). Since qualitative research in the interpretative paradigm was conducted, there were some obvious validity concerns. These concerns are addressed below in the discussion on the various types of validity.

3.8.1 External validity

External validity is concerned with the extent to which research findings can be applied (generalised) beyond the scope of the case to the general population (Perry 2001). If research is externally valid, then the same results will be obtained regardless of the researcher, the context or the period. Limited generalisations can be made in this type of research, as the purpose of case studies is to add to theory-building rather than to apply them to a population.

There are two views (not totally dissimilar) with regard to case studies, which can be followed in this regard. Yin (2003) suggests that external validity might be established even for a small domain to which the findings can be generalised. Rowley (2002) suggests that generalisation can be performed if the case study design has been informed by theory and is therefore seen to add to theory-building. She also suggests that case study protocol will assist in ensuring external validity.

The second view was used as the main way of countering potential problems with external validity. Case study protocol in this case entailed free access to, and the use of, multiple sources of data and the explicit statement of the research questions.

3.8.2 Internal validity

Internal validity refers to the extent to which the instrument allows inferences about the causal relationships between data elements (Leedy and Ormrod

2001). Therefore, internal validity is more relevant in studies that try to establish a causal relationship and not as relevant in most observational or descriptive studies, such as the case research method (Rowley 2002). There are various types of internal validity: construct validity, content validity, face validity and criterion-related validity (Leedy and Ormrod 2001).

3.8.3 Construct validity

According to Yin (1994) construct validity is vital to case research because researchers are trying to establish agreement or disagreement about what a construct means. A number of steps as proposed by Yin (1994) were followed in this research to enhance its construct validity. Firstly, an extensive literature review was conducted prior to the start of the field work in a bid to refine an understanding of social dialogue. Secondly, a flexible approach to the research was adopted including the development of research questions rather than propositions or hypotheses. Throughout the research, the interviewees' responses and the literature were compared and cross-checked to allow a more clearly defined understanding of the issues to emerge.

Constant triangulation between interviewees and documentation relating to the case helped to get a clearer picture through convergence.

3.8.4 Reliability

Reliability refers to how consistently a technique measures concepts so that the results may be replicated by other researchers (Perry, 2000). In this case, the procedures used in data collection and analysis and the detailed record-keeping of the data (interview transcripts, notes, coding and analysis processes) helped to ensure reliability. In addition, Perry (2000) proposed that the use of a supervisor to assist in the design and monitoring of the research could enhance reliability. The supervisor of this researcher has extensive experience in the methodological approach used in this research, thereby enhancing the reliability of this research.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

This chapter outlines the key findings of the research results. Responses to the in-depth interviews are discussed, as derived from the ‘concept mapping’ technique. A detailed discussion of the results is discussed in Chapter 5.

4.2 Demographic profile of respondents

Scheduled in-depth interviews were conducted to test the propositions.

A total of 14 interviews were conducted over a period of three months. The interviewees represented a variety of departments within the Standard Bank Group. All of the respondents were senior management acquainted with Standard Bank’s continent-wide expansion. The Chief Executive Officer of Standard Bank South Africa, Managing Directors and Chief Finance Officers of the Standard Bank of South Africa operations were interviewed to obtain their perspective and insights.

All the respondents were male and had 10 or more years of service within the Standard Bank Group. The respondents had an educational background in subjects ranging from banking, accounting and economics, to human resources, risk management and strategy. Their experience ranged from 8 to 30 years in banking.

4.3 Results pertaining to Research Question 1

Research Question 1 considered the drivers behind the Bank’s expansion in Africa. The specific research question was: “What were the drivers behind the Bank’s expansion in Africa?”

The results obtained for Research Question 1 relate specifically to the data collected from Interview Questions 1 to 4.

4.3.1 *Drivers for expansion*

Interview Question 1 was designed to facilitate discussion with the respondents and to provide a starting point for the interview. The major themes for Standard Bank's expansion into Africa are shown in the cognitive map below.

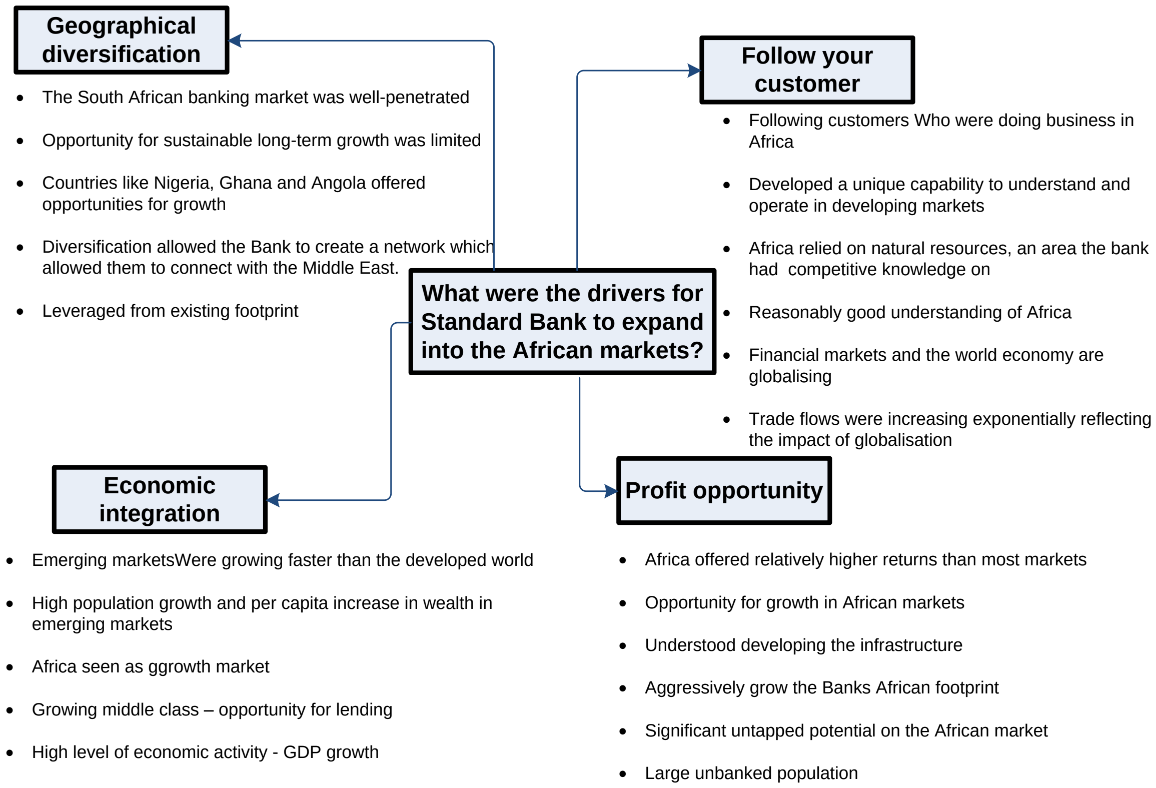

Figure 2: Cognitive mapping for Standard Bank's drivers for expansion

4.3.2 *South Africa banking landscape before expansion*

Interview Question 2 was framed to obtain an understanding of the South African banking financial market before the Bank decided to expand into Africa.

The results for this question indicated that the management team at the time recognised that the Bank in South Africa would experience good growth for – at that stage - the next decade or so but that, in the longer term, the Bank would grow at approximately GDP plus inflation. A growth strategy was therefore required and the management team saw this growth coming from emerging markets, particularly the African continent.

There was a strong feeling that the market in South Africa was saturated. The consensus from the respondents was that the Bank was close to being the dominant bank in South Africa, slightly smaller than the consolidated ABSA Group. The Bank decided to explore opportunities for clients who wished to grow beyond their South African roots and for multinationals that were starting to trade across developing markets and needed a banking group able to take the local market risk required.

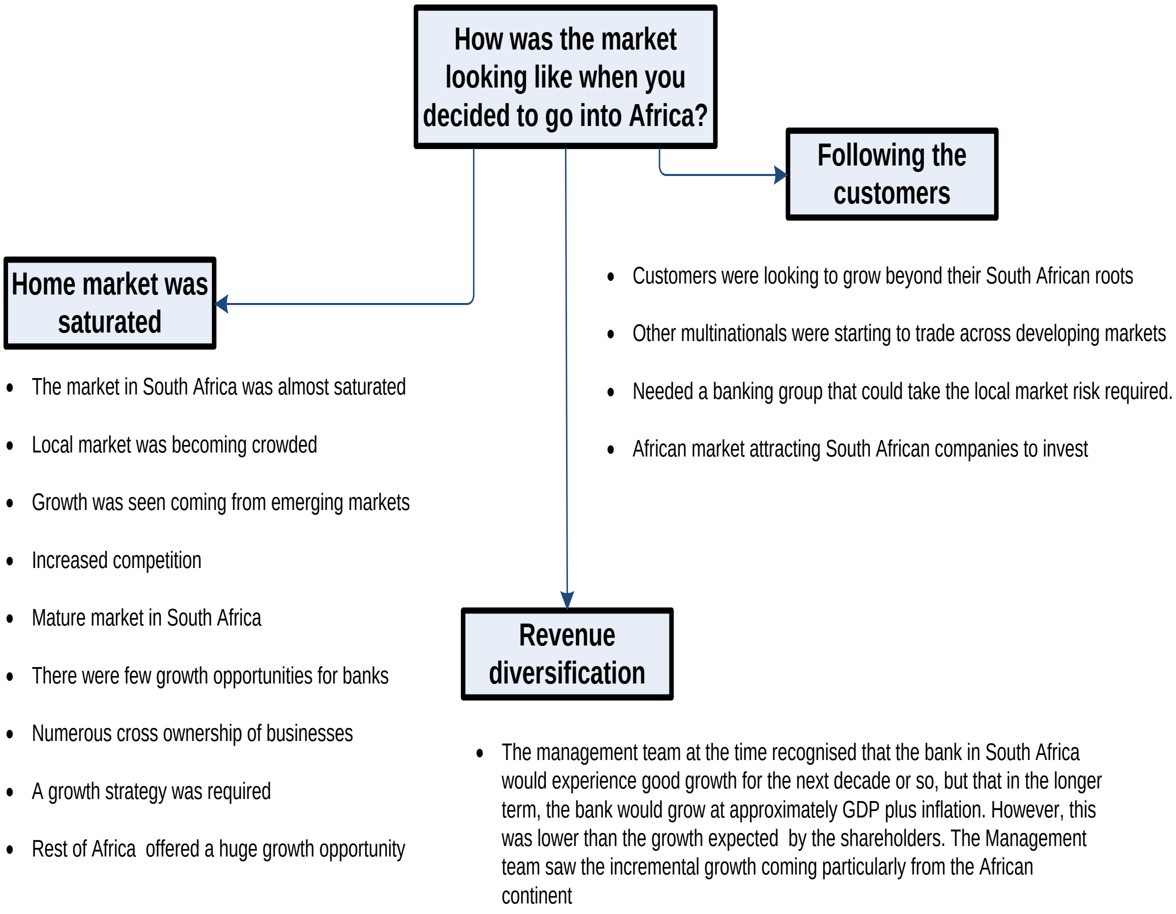

Figure 3: Cognitive mapping for the domestic banking situation

4.3.3 Was the motivation proactive or reactive?

Interview Question 3 was designed to understand whether the motivation to go into Africa was a proactive or reactive process. The results that follow indicate that the motivation to go into Africa was clearly proactive. To pursue an emerging markets strategy, the Bank decided to increase its footprint on the continent and began with the establishment of a branch in Swaziland. The emerging market strategy was predominantly profit-driven as the Bank had recognised that there were several high potential growth countries in Africa which were key to providing future growth for the Group.

In addition, the Bank wanted to grow and fulfil its mandate of being an African Bank, as well as exploit efficiency gains.

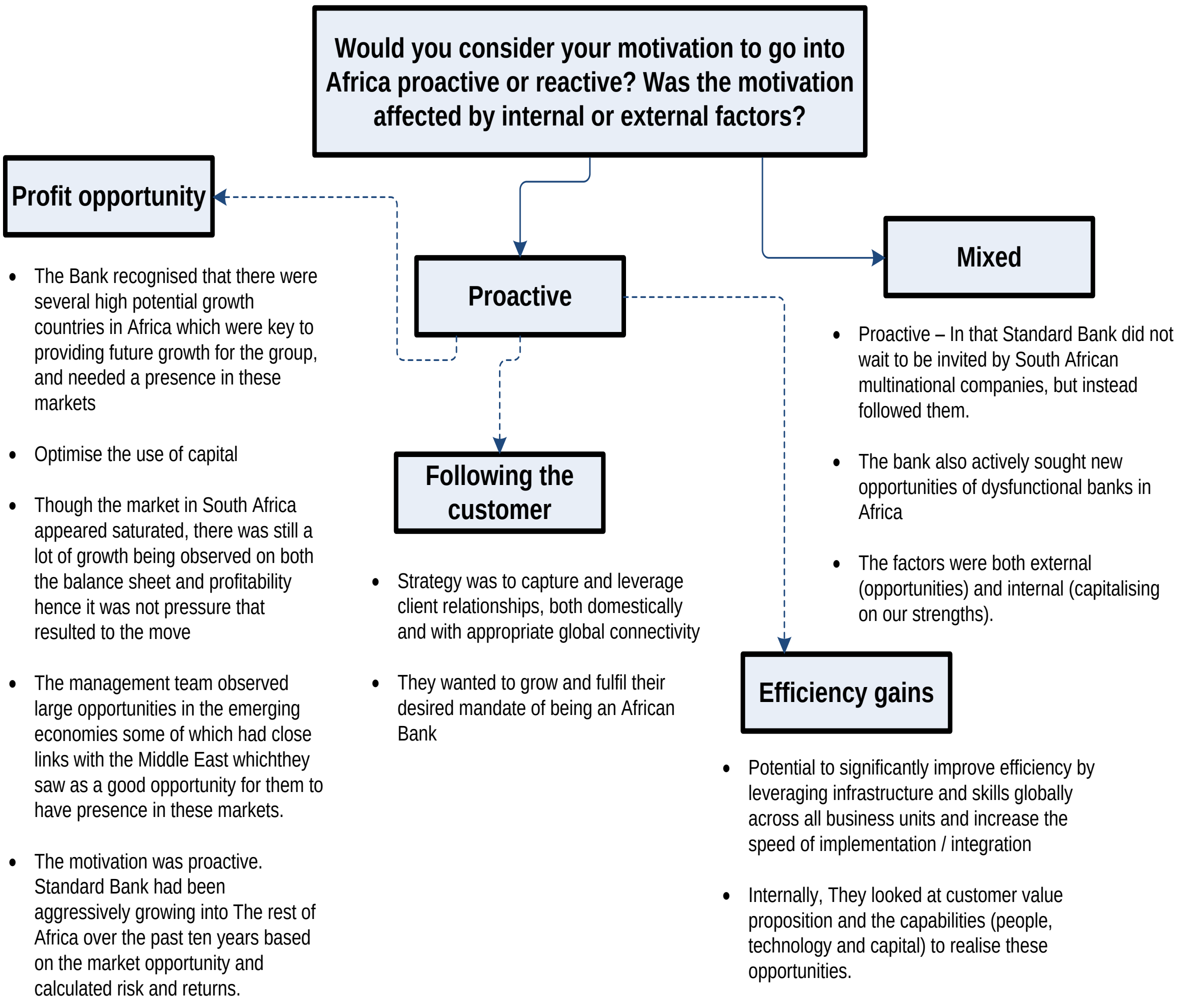

Figure 4: Cognitive mapping for the motivation to expand into Africa

4.3.4 Company specific advantages during expansion

Interview Question 4 was designed to test two issues: whether the Bank had any country or company-specific advantages when it decided to venture into Africa, and to understand whether the liberalisation of regulations played a part in its expansion programme.

The results indicated that Standard Bank did not see its company size as a restraining factor in its expansion into Africa. The Bank looked at its sources of competitive advantage, particularly people skills, that could leverage the Group's capability to maximise cross-border transactions. With regard to regulation, the Bank did not believe this was an issue. The deciding factor was the business opportunity and shareholder value that it was intended to create.

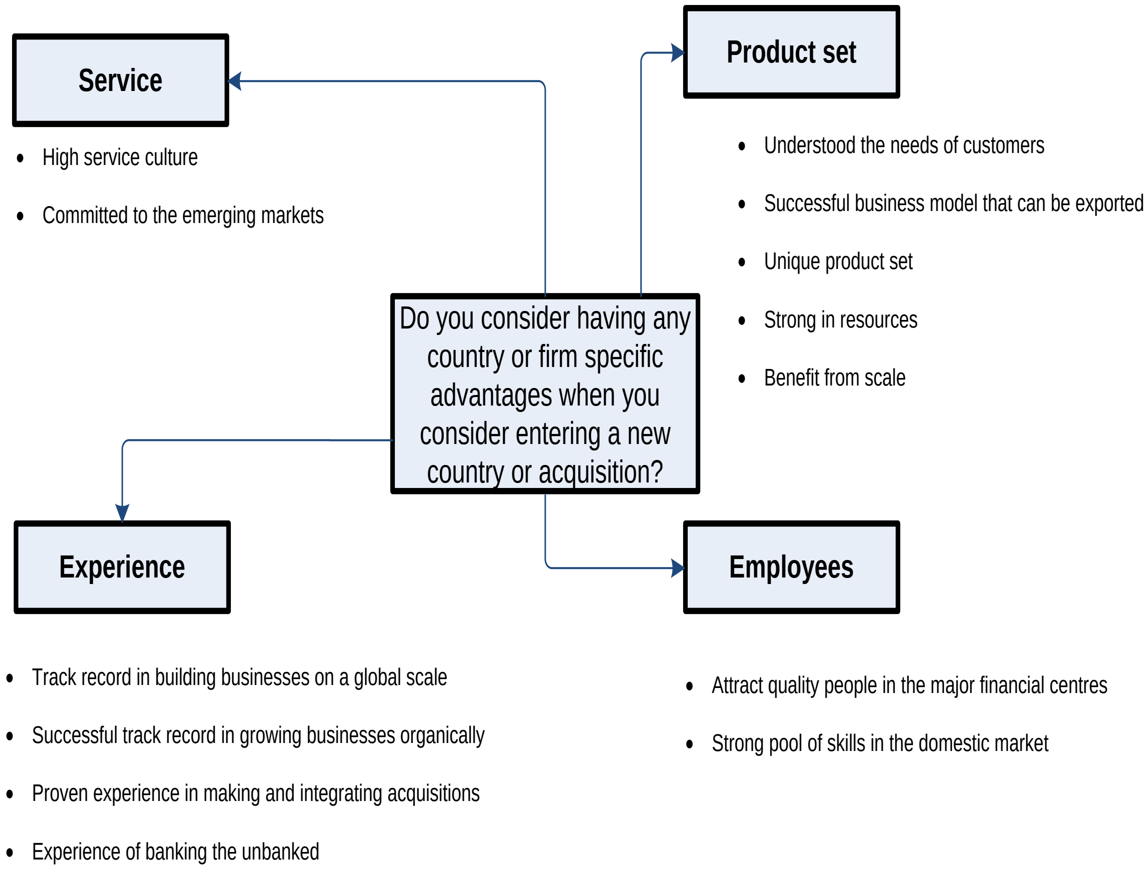

Figure 5: Cognitive mapping for country and bank specific advantages

4.4 Results pertaining to Research Question 2

Research Question 2 examined the market entry strategy. The specific research question was: “How does the bank decide on the mode of entry to implement in their expansion into Africa?” The results obtained for Research Question 2 related to the data collected from Interview Questions 5 to 7.

4.4.1 Strategies for entering the African banking market

Interview Question 5 was structured to obtain an understanding of the Bank’s strategy for entering the banking market in Africa.

The results for this question indicated that the Bank’s preferred method of entering the African banking market was through an acquisition. The acquisition of existing operations led to the building of subsidiaries in the process. The preferred model was 100% ownership to maintain brand identity and manage its subsidiaries in relation to overall Group vision and values. The respondents confirmed that they would never enter a country as the minority shareholder.

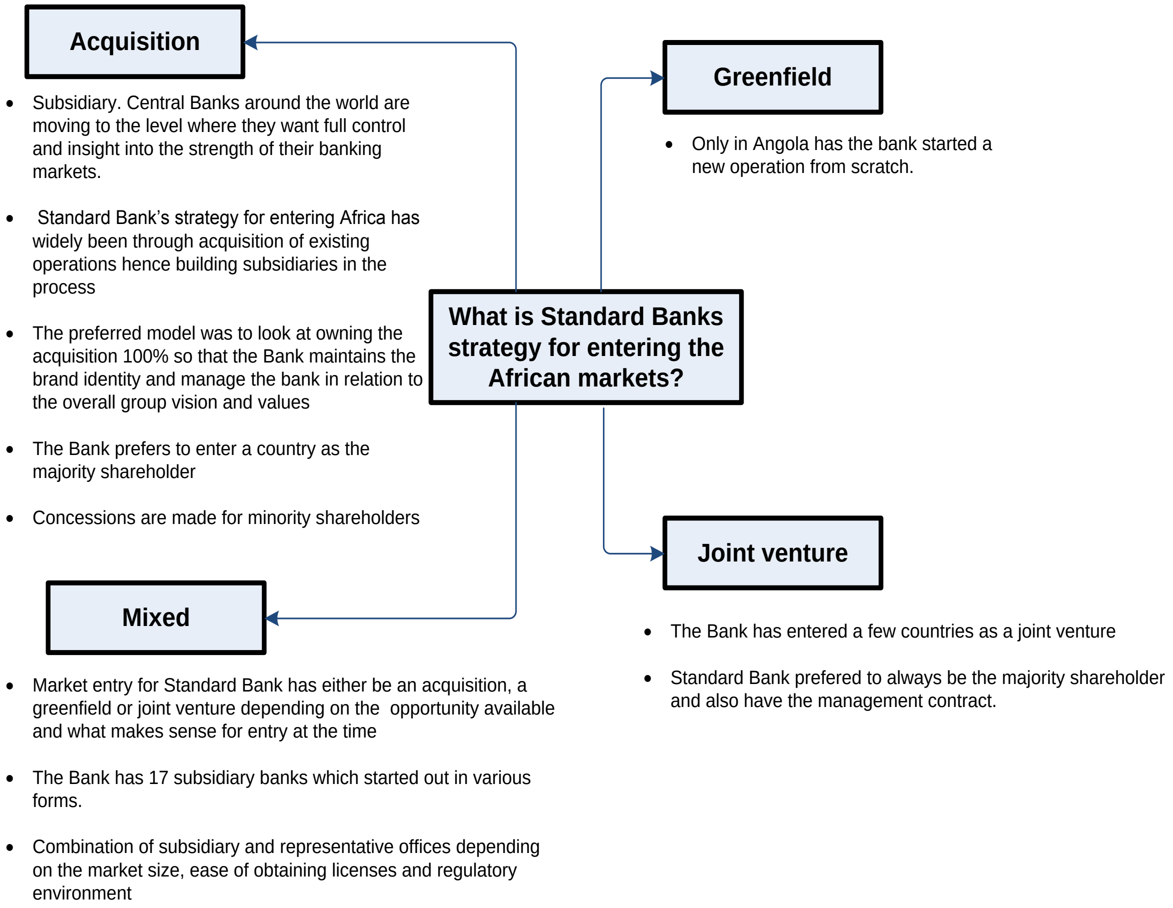

Figure 6: Cognitive mapping for strategies for expanding into Africa

4.4.2 Would the Bank choose a different strategy?

Interview Question 6 was included to understand whether the Bank would choose a different strategy knowing what they know now. The general consensus for this question was that the preferred mode of entry was through the acquisition of an existing bank as this was a proven strategy and it allowed the Bank quick access to market share.

4.4.3 What kind of services do you start with?

Question 7 was included to confirm which services the Bank would introduce initially when they expanded into Africa. This question was designed to assist the researcher in confirming the answers to the questions on the Bank's preferred mode of entry strategy.

The responses to this question were unanimous: the Bank entered a country as an investment bank, offering advisory and financing products and then developed corporate banking relationships. The final step was to provide banking services to personal and business banking customers through a branch network.

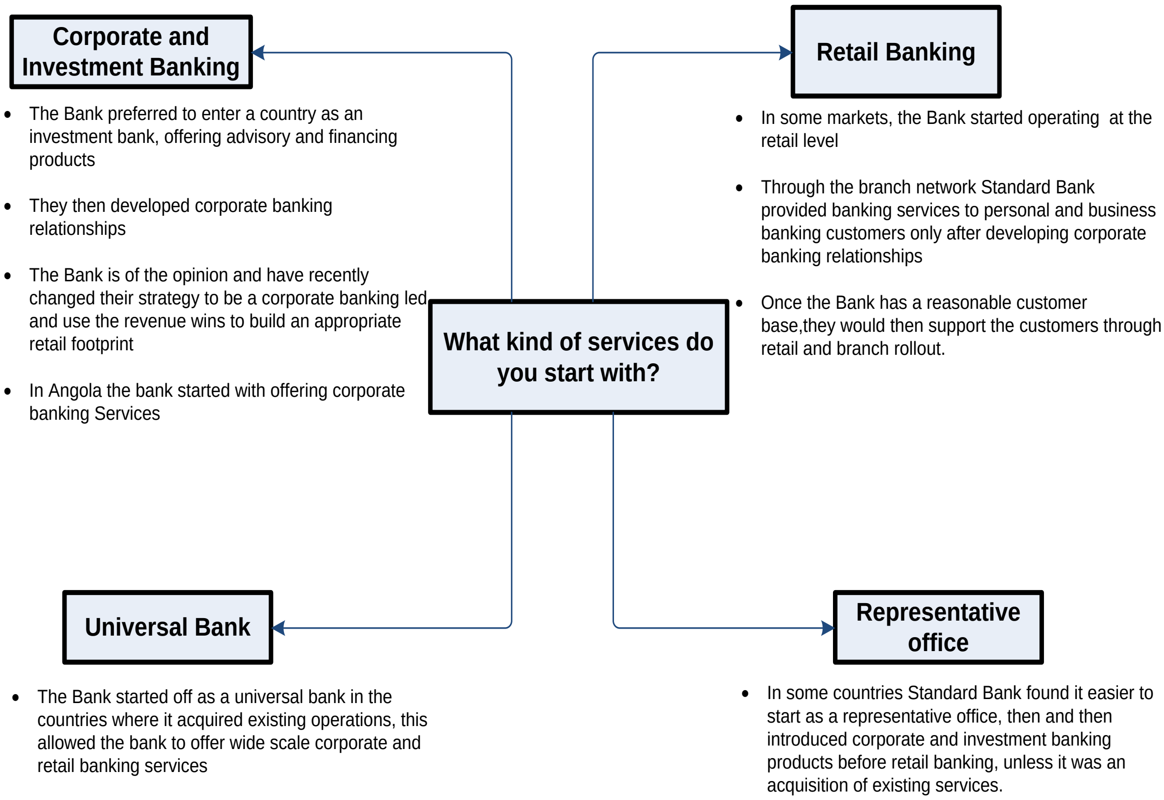

Figure 7: Cognitive mapping for the services that Standard Bank starts with

4.5 Results pertaining to Research Question 3

Research Question 3 evaluated the underlying factors that influenced the Bank's market selection. These factors comprised market size and potential growth, country risk (risk associated with political, economic and financial upheavals) and the effect of cultural distance on market entry selection.

The specific research question was: "What are the underlying factors which influenced the Bank's market selection in Africa and have these been successful or not?" The results obtained for Research Question 3 related to the data collected from Interview Questions 8 to10.

4.5.1 *Obstacles which the Bank encountered during expansion*

Interview Question 8 evaluated the obstacles that the Bank faced before and during its expansion into the African banking markets.

The results are shown in the cognitive map that follows. They range from regulatory concerns, staffing issues and cultural integration challenges, to infrastructure and technological challenges.

Reliance on specialist skills from South Africa posed a challenge as the investment in personnel was in foreign currency. Exchange rate volatility of the South African Rand increased the cost of doing business.

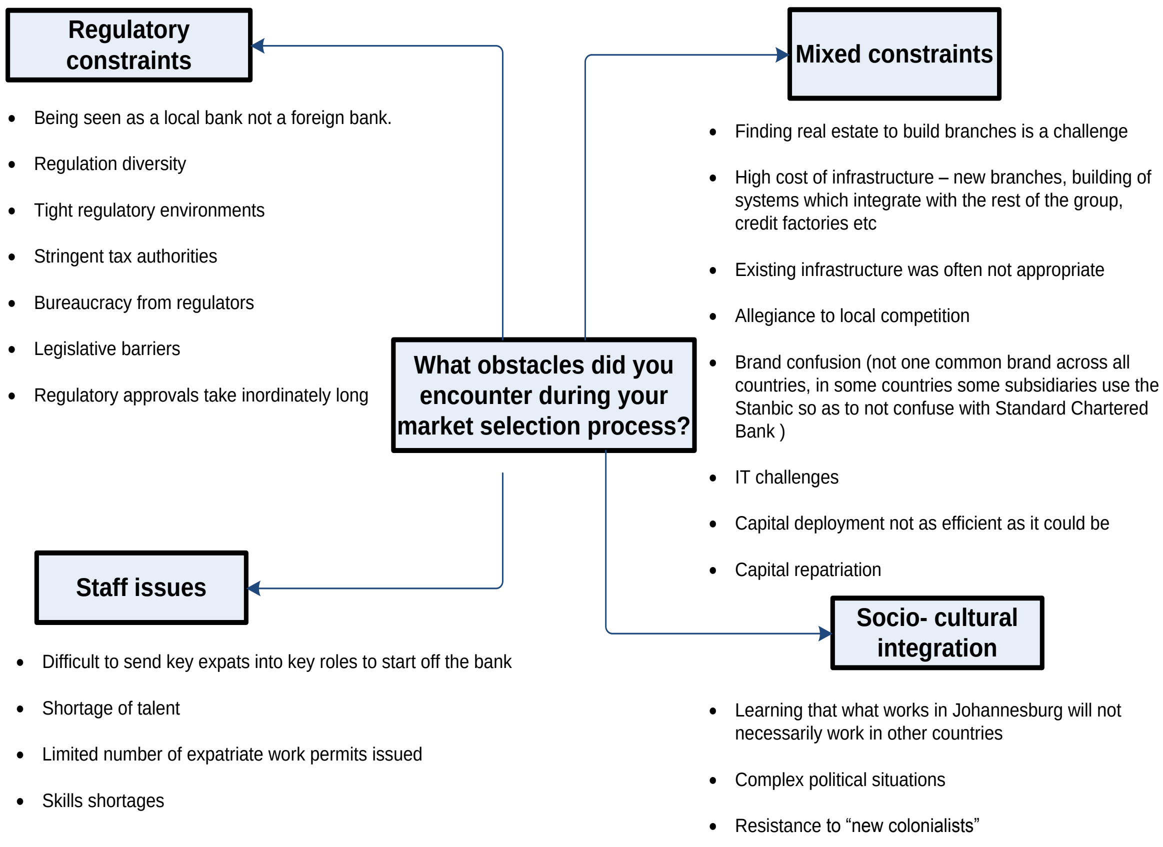

Figure 8: Cognitive mapping for obstacles during market selection

4.5.2 *Cultural concerns*

Interview Question 9 was included to assist in evaluating whether cultural issues affected the Bank’s market selection.

The results show that Standard Bank initially invested in countries in Sub-Saharan Africa where English is widely spoken. The Bank has tended to continue with this strategy since these countries have cultural similarities..

The respondents mentioned that cultural issues did not affect them since they invest in countries with a sound legal framework and enforceability of rights. However, more recently, they have started to focus on the Francophone countries.

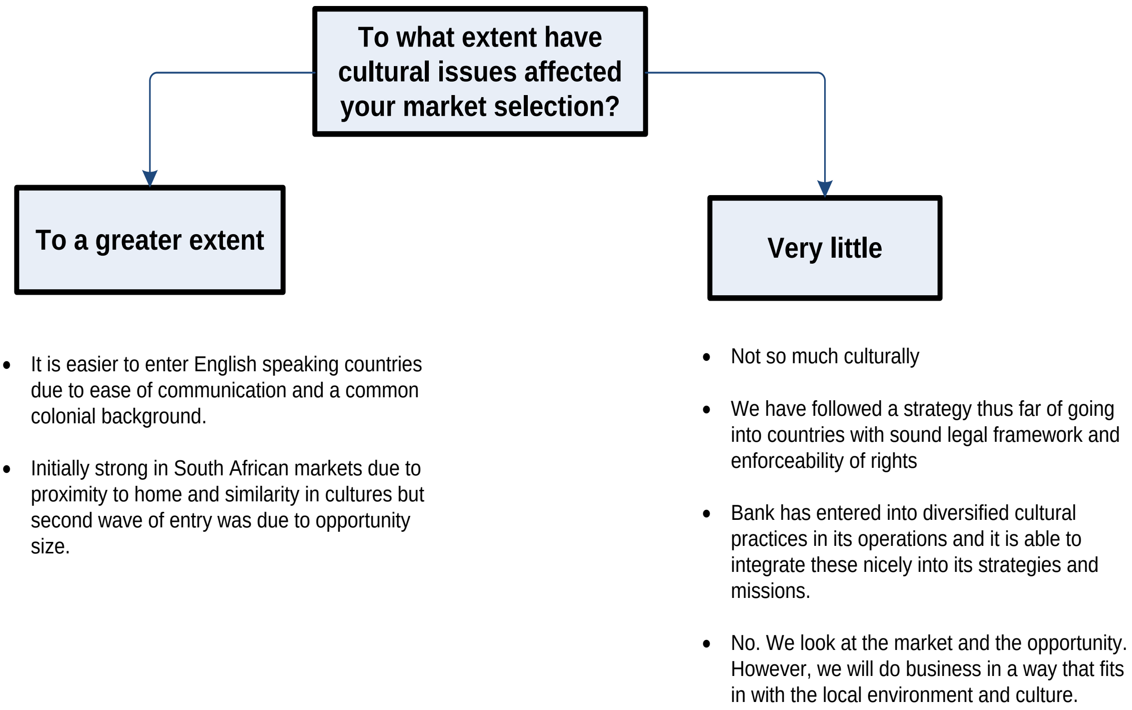

Figure 9: Cognitive mapping for cultural issues

4.5.3 Psychic distance

Interview Question 10 was designed to evaluate whether the distance from South Africa influenced the Bank's market selection.

The results indicated that Standard Bank's continent-wide expansion was not affected by distance. Initially they invested in countries close to South Africa as these countries were "low-hanging fruit", easier to both enter and establish a presence.

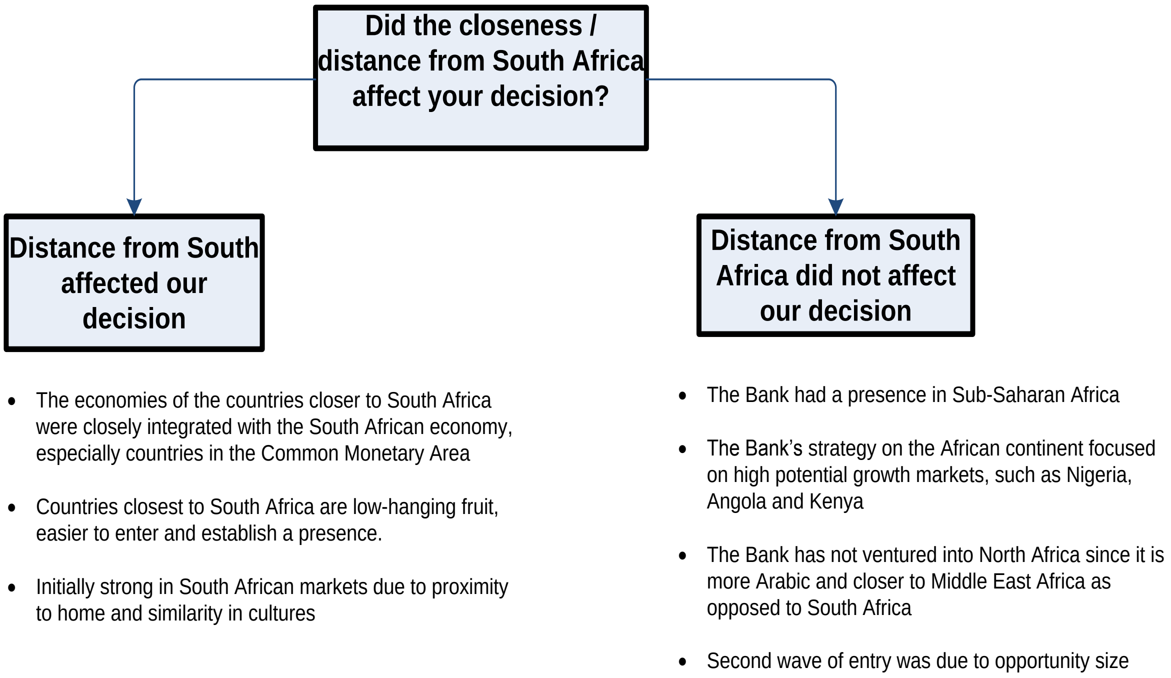

Figure 10: Cognitive mapping for psychic distance

4.6 Summary of the results

The results captured in the cognitive maps indicate a direct relationship between market entry strategy, market selection constructs and the motives behind the continent-wide expansion. This indicates that Standard Bank developed its company-specific advantages in South Africa which helped them in their expansion into Africa.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

The research findings are discussed in finer detail in this chapter and are directly linked to the literature review conducted in Chapter 2. The research questions and in-depth interviews were formulated within the context of the existing literature on internationalisation strategies. The data was gathered through a systematic process of 10 interviews conducted with the present executive team of Standard Bank of South Africa, managing directors and chief finance officers who have been involved in strategy and in the actual process of the Bank's expansion into Africa.

The data analysis allowed for the aggregation and refinement of the data, providing unique insights into the process followed by the Bank in its continent-wide expansion.

5.2 Discussion pertaining to Research Question 1

5.2.1 Motives for expansion into Africa

One of the motives for Standard Bank's decision to make foreign investments was to survive profitably in the long-term as the South African market had become saturated.

The majority of the respondents were of the view that for a long time Africa, coming off a low base, should grow faster than many other parts of the world. This growth would not be as fast as the BRIC (Brazil, Russia, India, and China) countries, but certainly faster than in South Africa where the Bank's Head Office is located, and definitely faster than in the developed economies.

Sub-Saharan Africa was relatively well served by two British banking groups, Barclays and Standard Chartered Bank, at the time the Bank decided to enter the region via the acquisition of the African operations of ANZ Grindlays Bank. Despite the competitive threat posed by these well-established banks in the region, Standard Bank believed that its South African experience would stand it in good stead when it came to managing banks effectively on the rest of the continent. A strong presence in Africa allowed them to better serve their South African and British customers who were beginning to invest in the region.

Standard Bank saw big growth opportunities within developing economies in sectors like food, infrastructure, telecommunications, commodities, and energy. One of these countries was Nigeria, which had a vibrant and substantial consumer market.

In a world where customer preferences are volatile, customer identities change and technologies for serving customers continually evolve, an internally focused orientation cannot provide a secure foundation for long-term growth (Grant, 2002). To survive in the long term, a company has to look at its heritage, business model, vision and values. Standard Bank is a universal African bank with 150 years of history built on a South African base strong in commodities and natural resources.

According to Jack Maree, the Bank's Chief Executive Officer, one of the reasons why Standard Bank embarked on its international expansion strategy was because of the limits to growth in a competitive market where it already enjoys a market share of 20% and more. Faster economic growth in the rest of Africa and other emerging markets were other reasons for the expansion – and that is why other South African banks have looked north in the continent too. They also see an opportunity for growth in African markets.

The literature on foreign bank expansion has confirmed that profit opportunities in host countries is internationally regarded as one of the primary drivers for a bank's expansion beyond the borders of its parent company, and Standard Bank appears to be no different in this case.

The other motive for Standard Bank's expansion into Africa was the desire to position itself as the "go to" bank for the African continent. The Bank has built a successful domestic business in South Africa, and they are also building cross-border businesses. The respondents echoed that they were building scale businesses locally and then using that platform to link those countries to other emerging markets.

The question for Standard Bank was where to start. It decided to start in Southern Africa and expanded northward but not as far as French-speaking Africa. The respondents mentioned that if their strategy remained successful, it will only be a matter of time before they find themselves in more countries. North Africa, it was noted, would probably be the last move for Standard Bank since those countries may see themselves as closer culturally and economically to the surrounding Mediterranean countries and the Middle East.

Standard Bank is represented in 17 African countries. The leadership believes this significantly positions it as a bank that can assist multinationals with the full spectrum of financial solutions across the continent. Furthermore it gives it the ability to link emerging markets in Africa to its network in Argentina, Brazil, China, Russia, and Turkey, to name a few. The respondents commented that they could not do this without a significant number of countries in its portfolio.

5.2.2 Proactive or reactive motivations

Jumpponen et al. (2004) state that proactive and reactive motivations are drivers for internationalisation, with internal and external triggers. Standard Bank said that it has gone from being reactive to proactive in the past 10 years. When it initially expanded into Africa, the main motive was to service existing customers who had invested in Africa, a reactive and external trigger. Its motives were now proactive, both internally and externally. The stated internal triggers were to diversify revenue streams and reduce concentration risk across products and geographies.

The Bank also saw visionary leadership as an internal trigger. Further on, proactive external triggers that motivated the Bank were the high potential growth expected in several African countries.

Comparing the theory with Standard Bank's actions, there is a strong correlation on the proactive motivations and a weaker relationship on the reactive part of the theory.

Standard Bank said that the pull effect induced it to go to many countries, particularly Nigeria, Angola and Kenya. Country specific advantages are benefits associated with locating certain activities in particular countries. These benefits may arise from structural imperfections such as government regulations as well as the potential to economise on transaction costs by reducing risks to benefit from local opportunities.

5.2.3 Regulations

Privatisation opportunities also contributed to the ease of access for Standard Bank into the African banking markets. As stated in the literature, the adoption of market-based policies by emerging economy governments raises important issues for strategies adopted by private enterprises. Privatisation is a means of increasing the number of joint ventures or acquisitions by foreign companies, with subsequent restructuring, downsizing and adaptation to Western practices (Prasad, 1999). The early establishment of relationships with government can result in tangible benefits such as the granting of one of a limited number of licences.

On the theoretical side, Claessens, Demirgüç-Kunt and Huizinga (2001) write about the effects of deregulation on internationalisation. Standard Bank's internationalisation started in 1988 so deregulation did have an effect on its expansionary ambitions. The literature review confirmed that the entry of foreign banks in developing countries was often highly dependent upon the efforts of host country regulators, while in more developed economies market forces played the stronger role. The intervention can be seen as an attempt by African host country regulatory authorities to bolster their financial services sectors by encouraging increased competition and driving consolidation in an effort to minimise bank failures.

5.2.4 The home market situation

Standard Bank wanted to expand its operations because of saturation in the South African banking market. Entering the African banking market was a logical step since it wanted to grow and at the same time diversify revenue streams, risk and products across geographies.

5.2.5 Company specific advantages

Merrett's (2002) study on gaining an advantage in the international markets, through country- or company-specific advantages, was compared against the data collected. Standard Bank had country-specific advantage because of the preconceived idea that the financial service industry in South Africa was more developed than the rest of Africa.

A company-specific advantage noted by Standard Bank respondents was its ability to conduct successful acquisitions and integrate them. The success behind the Bank's acquisitions was its belief in a mixed approach to the employment of locals and teaching them the Standard Bank way of doing business.

The responses from the interviewees also focused on the Bank's unique African footprint which positions it as *the* African Bank. The bank has a successful business with exportable and replicable cost-effective and efficient systems, as well as products and solutions which it delivers through high quality customer service, all underpinned by robust risk and capital management practices. This finding was consistent with the literature reviewed and also correlated with the ethnic appeal that Standard Bank uses to lure customers who share the same background and national origin (Merrett, 2002; Tschoegl, 2002).

5.3 Discussion pertaining Research Question 2

Research Question 2 identified the mode of market entry adopted by Standard Bank in its continent-wide expansion.

Standard Bank, like most multinationals, has four drivers for expansion. These are market-seeking strategies (where decisions are based on market size), resource-seeking strategies (where decisions are based on low cost, skilled labour or physical infrastructure), efficiency-seeking strategies (which is linked to workforce productivity) and, lastly, strategic asset-seeking strategies where a company is motivated to enter a market to protect its competitive advantage within the global context (Dunning, 1988).

5.3.1 Acquisitions

According to Jacko Maree, Standard Bank's Chief Executive Officer, the Bank's strategy was not cast in stone as its market entry strategy was dependent on the opportunity available and what made sense at the time. The bank has 16 subsidiaries which started out in various forms. In Angola, for example, the bank was opened as a representative office, while the original Standard Bank Nigeria was injected into IBTC and then subsequently, both Standard Bank South Africa and IBTC had a controlling stake in the merged entity called Stanbic IBTC Nigeria.

Acquisition as a mode of market entry allowed immediate access to a local network of clients. The added advantage of acquisitions for Standard Bank made it possible to enter both the local and regional markets rapidly as opposed to entry through a greenfield investment.

Standard Bank was supportive of local partners in their subsidiaries for all the right reasons, as long as the bank has a minimum 51% controlling share. Eight of its subsidiaries had local partners, while a further four were listed on local stock exchanges across Africa. In Nigeria, for example, Standard Bank owned 50.1 percent of Stanbic IBTC Bank. The remaining shares are owned by the general public and the founder of IBTC. The respondents were of the opinion that the structure helped them mitigate the risks as they positioned themselves as a local institution with local shareholders.

Jacko Maree said: "Typically, when we enter a market, we start by doing investment banking. We get to understand the capital markets, and then we move into corporate banking and trade finance. Once we know the country better, we might look at an acquisition, and try to service the smaller businesses. Only as a last step, if the regulation and laws are user-friendly, do we start to enter the retail market and roll out credit cards, vehicle finance, mortgages, etc. It's an evolutionary approach."

Tschoegl (2002) says that the survival for newcomers is a function of prior experience as a representative office. Jacko Maree disagreed with the theory of having a representative office first. He believed that a bank expands abroad because of customer needs. However, a bank may have a representative office for a while while they wait for regulatory approval, as was the case for Standard Bank when it moved into Angola. The regulatory approval process was onerous and it took close to three years before approval was received from the Central Bank of Angola to open a fully-fledged subsidiary.

Commitment to market is closely linked to the desired level of control as substantial financial and management commitment will increase the degree of market commitment. Ekeledo and Sivakumar (2004) suggest that the mode of market entry is largely determined by levels of political stability which, in turn, play an important role in risk factors. The literature further suggests that when a large amount of fixed capital is required, companies tend towards partnerships with governments, acquisitions or joint ventures. These modes of market entry can assist in the reduction of financial risk and provide the company with assistance from the local partner.

Standard Bank had the assets in terms of size to develop differentiated products. Agarwal and Ramaswami (1992) state that the size of the company matters in emerging economies, and influences whether it is a strategic player or not. Governments are more welcoming to companies with significant balance sheets because these companies have the capacity and commitment to deal with the risk or regulations and can delegate legal bodies to deal with uncertainty.

Standard Bank says that it found that having a local partner was the most obvious way to go. The respondents commented that when setting up in a foreign country, they needed advice from those who understood the local environment. In a number of the countries in which they operated, they chose to work in formal partnerships. In some geographies, they tried to position Standard Bank firstly as a local player and secondly as a multinational.

For major multinationals looking to expand on the African continent, a key question is whether the available resources are adequate to tackle the challenge. Standard Bank found in a number of the countries in which they operate that initially they used a lot their own resources rather than rely on local skills.

5.3.2 Would Standard Bank choose a different strategy?

When asked whether the Standard Bank would have chosen a different strategy to that of an acquisition, all respondents answered negatively. The chosen mode of entry allowed the Bank quick access to market share. The strategy of acquiring banks that predominately offer corporate banking had low capital requirements. Only when the bank had a reasonable customer base would it then support customers through retail and branch rollout.

5.3.3 First services offered

The general consensus from the respondents was that Standard Bank first offered advisory and financing products and then developed corporate banking relationships, with the last step, through the branch network, of providing banking services to personal and business banking customers.

The respondents noted that private banking was more difficult in Sub-Saharan Africa because of deficiencies in the legal system, coupled to the lack of property ownership which makes the lending of money to individuals high risk. Their focus was on business banking and they looked to value-adding product offerings, tailor made for the customer, in order to attract clients at decent margins.

5.4 Discussion pertaining Research Question 3

The findings on Question 3 are similar to characteristics of emerging markets as stated by Chen and Mujtaba (2007): inadequate commercial infrastructure to include communication, power generation, legal framework and unique cultural behaviours. There is limited personal income and products are value-engineered to be affordable. Chen and Mujtaba (2007) further state that emerging markets are characterised by high import duties, high levels of indirect taxation, and other bureaucratic hurdles which include investment controls, policy reversals and a lack of co-ordination across government ministries and custom duties. Often the regulatory environment is stifling, or corrupt, and poses significant infrastructure challenges.

5.4.1 Labour considerations

Labour considerations include all aspects of the local labour supply, such as relative wage costs, reliability, productivity, level of skill and, to some extent, the ability to ‘upskill’ local labour.

When analysing responses, most respondents highlighted the skills shortage in African countries. The required skills, particularly management skills, were not readily available and meant that the Bank had to spend a fair amount in training local labour to the required level. Although some well-educated resources were available they tended to lack practical management experience. Scarcity of jobs also meant that the sheer press of applicants made identifying the right people difficult.

The respondents concurred that Standard Bank was generally pleased with the latent local talent they encountered in the countries in which they operate. Although specific banking skills may have been lacking, general education levels were fine, so that the company had no problem in equipping locals with the requisite banking skills. It should also be noted that Standard Bank paid more than lip service when it came to the training and development of its staff members. Their Global Leadership Centre in Johannesburg, South Africa provided accommodation for delegates from their affiliates all over the world.

Courses were aimed at executive, middle management and junior management. The cost of training local people was balanced by importing the required skill sets. This was done by sending senior expatriate management for a period of two and three years to develop the local management. It was recognised that employing expatriates was not necessarily the best long-term solution, as living conditions can be tough for them and importing skills slows the process of transferring skills to local talent.

Although expatriates are an important part of Standard Bank's business model, they were not primarily sourced from the Bank's home base, but rather from the countries in which they operate an approach that was different to many other multi-national corporations. For example, a Kenyan runs their Ugandan operation, a Nigerian runs Stanbic Ghana, a Zimbabwean runs Swaziland and another Zimbabwean runs their Malawi bank. This more inclusive African expatriate cadre took the edge off local criticism aimed at expats, as well as set the Bank apart from its peers who relied heavily on seconding South Africans to their African operations.

However, an interesting theme which emerged is that there was an element of negative reciprocity towards Standard Bank in other African countries as employment equity considerations for senior positions applied to the bank's expatriate community. The ease of obtaining work permits for expatriate staff was also raised as a concern, as the respondents viewed it as critical to be able to send foreign skills in and out of the countries as required, to ensure that the shareholders received an appropriate return for their investment.

The perception given by the respondents is that Standard Bank gave adequate attention to organisational design in order to improve its business effectiveness. The Bank said that it had over the years, as part of its core strategy, focussed on redeveloping its key structures and management procedures.

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5.4.2 Market size and demand conditions

A number of the respondents pointed out that the markets had to exhibit long-term sustainability as well as prospects of good growth and profitability before making investment decisions. The size and growth of the target market affected the entry mode decision; high potential markets tended to get more involvement from the management.

5.4.3 Socio-cultural challenges

One of the key cultural considerations raised was the language spoken by the locals. Conducting business in a country where English was not spoken was viewed as a hindrance which resulted in high costs of management control. Standard Bank initially only ventured into Anglophone countries. However, acknowledging the difficulty that language barriers present, this was not viewed as a deal breaker as the Bank had subsequently ventured into the Portuguese-speaking countries of Angola and Mozambique.

Cultural considerations include familiarity with differences in a country's legal system, incentives, administrative practices, language and working styles that increase the Bank's cost of integration. From the cognitive mapping, this factor was interpreted as being important.

When companies enter foreign markets, greater similarities between cultures enable them to access new customers at a lower cost, establish and successfully manage manufacturing corporations and compete with a relatively homogeneous group of local firms.

The culture and value system of a country and its people dictates to a large extent how a company operates, from brand perception and relationships, to how business is conducted in a foreign country. Cultural considerations should be carefully considered before entering a new market (Kirk and Miller, 1986). This sentiment was echoed by the respondents.

They mentioned that understanding risk is more than just a financial matter. The Bank had to be mindful of ensuring that they were seen to be helpful and relevant to the local economies rather than just extracting profits by providing a service. Visiting government officials and major corporate customers were known to ask: what are you doing for our country? The Bank could not simply say, “Well, we’re just here to help you with your transactions or your financing requirements.” It believed in being are involved with and committed to the communities in which it operates.

5.4.4 Infrastructure considerations

Poor infrastructure was mentioned as posing major challenges to the servicing of Automated Teller Machines (ATM’s) and inhibits retail growth in the rural areas. Also mentioned was the fact that electricity supply in the urban areas in some parts of Africa had been outstripped by growth: thus the cost of business was higher as generators are generally more expensive and not economical.

In retail banking, the majority of the targeted customers did not have identity documents or physical addresses, and lack of credit agencies further compounded the challenge as there were no records of credit history for potential customers.

The absence of national identity systems in a number of the countries meant that basic banking fundamentals were not in place. Growth in the banking sector is driven by mortgages, vehicle and asset finance as well as unsecured personal loans. Lack of security due to the non-availability of credit records forced the bank to release a huge amount of equity resulting from loans which had become non-performing.

A learning point for the Standard Bank was that what worked in Johannesburg did not necessarily work in other countries and building fit-for-purpose banks has proven to be more profitable.

5.4.5 Geographic considerations

For Standard Bank, closeness to the markets was not as important as similarity to culture – the latter was an important factor in making entry smoother.

5.5 Conclusion

5.5.1 Conclusion – Research question 1

Standard Bank's strategy to go into a continent-wide expansion was mostly influenced by its heritage, business model, vision and values. The Bank is a universal bank with a 150-year history, built from a strong South African home base with a robust heritage in commodities and natural resources. At the time of expanding into Africa, South Africa was - and still is - well-penetrated in the banking sector and the Bank saw the opportunity for sustainable long-term growth as limited. It saw the opportunity for growth in African markets. With the globalisation of financial markets and the world economy, emerging markets are growing faster than those in the developed world, with trade flows increasing exponentially. The population growth and per capita increase in wealth in emerging markets and diversification of revenue, risk and the effect of economic cycles across products and geographies were also cited as motivational factors for the Bank's expansion into Africa.

5.5.2 Conclusion – Research question 2

Standard Bank's market entry strategies were not cast in stone - they were dependent on the opportunity that was available and what made sense for entry at the time. The Standard Bank Group's strategy for entering Africa was largely through the acquisition of existing operations, and the building of subsidiaries in the process. The preferred model was to look at owning the bank 100% so that it maintained brand identity and the application of Group's vision and values.

5.5.3 Conclusion – Research question 3

Finding real estate on which to build branches and the high cost of building information technology systems which integrate with the rest of the group were mentioned by several of the respondents as factors which influenced their market selection.

On cultural issues, the Bank had tended to stick to Anglophone countries where English was widely spoken. To reduce cultural impediments, local management was employed, assisted by expatriates, to manage the banks.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The case study of Standard Bank was designed to answer why Standard Bank entered the African banking market, what strategies were employed and how these strategies affected its market selection.

6.2 Conclusions of the study

The following paragraph is an extract from the interview with Jack Maree, Group Chief Executive Officer for the Standard Bank Group articulating expansion into Africa as a core strategy. :

"Africa has always been core to our strategy; we have recently begun to "up the ante" in Africa, in line with our refocused strategy articulated late in 2010. Our aim is to build ***the*** *leading African financial services organisation using all our competitive advantages to the full. We will focus on delivering superior sustainable shareholder value by serving the needs of our customers through first-class, on-the-ground operations in chosen countries in Africa. We will also connect other selected emerging markets to Africa to each other by applying our sector expertise, particularly in natural resources. Africa is at our core and we will continue to build first-class on-the-ground banks. We are convinced that this strategy is sound."*

6.2.1 Motives for the continent-wide expansion

The motives for expansion into Africa that were echoed by all the respondents were that of saturation of the South African banking market and new profit opportunities. The South African market is well-penetrated in the banking sector and the Bank saw the opportunity for local sustainable long-term growth as limited, compared to the opportunity for growth in African markets. Its primary strategy was less to follow its customers rather it is to take advantage of the an exponential increase in trade flows as a result of the globalisation. The high population growth and increase in wealth in emerging markets offered an opportunity for Standard Bank to increase its profitability.

When it came to proactive and reactive motivations, Standard Bank was a bank with proactive motivations to grow. Following its customers seemed to be a secondary factor. The management team recognised that the Bank in South Africa would experience good growth for a time but that in the longer term, the Bank would grow at approximately GDP plus inflation. Therefore, a growth strategy was required and the management team saw this growth coming from emerging markets, particularly the African continent.

To pursue an emerging markets strategy, it was necessary for the Bank to increase its footprint on the continent. It began to re-establish its African links in 1988 with the establishment of a branch in Swaziland and then acquired the ANZ Grindlays operations in 1992. Since then it had made some significant acquisitions on the continent in Uganda, Mozambique, Kenya and Nigeria. The Bank recognised that there are several high potential growth countries in Africa which were central to providing future growth and it needed a presence in these markets.

6.2.2 Market entry strategies

Standard Bank's market entry strategies were not cast in stone: they were dependent on the opportunity that was available and what made sense for entry at the time.

However, its strategy was proactive, and with its leadership, the Bank searched for new markets and to acquire banks that were in good standing and profitable. It used representative offices in countries that were more risky or had onerous regulatory approval processes. It did not believe that it was necessary to first have a representative office before acquiring a new bank. The Bank now has 16 subsidiaries which started out in various forms; it is only the Angolan bank that was initially opened as a representative office.

6.2.3 Factors which influenced market selection

Standard Bank is an asset seeker. It wanted to find new markets to grow and increase its profits. Therefore, as an opportunity arose, it would enter the market and work around the impediments.

Finding real estate on which to build branches was another challenge. The costs of rolling out branches and information technology platforms, and building credit factories and systems that integrate with the rest of the Group was high. A learning point for the Standard Bank was that what works in Johannesburg did not necessarily work in other countries and building fit-for-purpose banks proved to be more profitable.

Physical infrastructure such as roads was not viewed as important. However, information technology and telecommunications were deemed to be particularly important by the respondents as they relied on these to support their banking proposition.

6.3 Recommendations

The study has filled a gap. Although much has been published on the causes of the internationalisation of foreign banks into emerging markets, little was found in peer review journals on the expansion of African-owned banks into Africa. This research has aimed to provide valuable information to assist other institutions that want to embark on a continent-wide expansion programme. This study is also of importance to academia since unusual access to senior management of the largest bank in South Africa by assets was obtained, providing an opportunity to investigate a problem that may otherwise have been lost to academic research.

The following are the recommendations for companies considering expanding into Africa, as well as points of interest to academia: it is important for managers and practitioners to formulate a clear strategy regarding market entry modes; it is crucial to have clearly stated objectives and a clear view of the current situation when entering the African banking market; it is important to look at both the internal and external factors which will influence the possibility to successfully perform a market entry; and it is advisable to evaluate opportunities in terms of past experience to maximise the profitability and minimise risk.

6.4 Suggestions for further research

This research has provided a better understanding of the drivers behind the expansion of Africa's largest bank into Africa as well as an assessment of the impact of internal and external factors, its choice of market entry strategies and internal and external factors affecting the choice of market selection.

However, it would be of interest to conduct a similar study on a larger scale to explore in greater detail both the importance of a representative office when entering new markets as well as customer's views on banks that choose to follow them abroad. Furthermore, a study investigating the impact on competition in the host countries of foreign banks moving into Africa could improve our understanding of how this impacts on the entry strategy of a bank planning to expand into Africa. Finally, it would be of interest to investigate the impact of internal and external factors on the entry mode of a non-African bank entering the African banking market.

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APPENDIX A- ACTUAL RESEARCH INSTRUMENT

Motives for the continent wide expansion

1. What are the drivers for Standard Bank to expand into the African markets?

2. How was the market looking like in South Africa when you decided to go into Africa? Did this affect you decision?

3. Would you consider your motivation proactive or reactive? How do you classify the factors, external or internal (explain)?

4. Do you consider having any country or firm specific advantages when you consider entering a new country or acquisition? Did the liberalisation of regulations help this decision?

Market entry strategy

5. What is Standard Bank's strategy for entering the African market? (Subsidiary, representative office, branch and affiliate)?

6. Would you choose a different strategy knowing what you know?

7. What kind of services do you start with?

Factors influencing market selection

8. What obstacles did you encounter?

9. Where there any cultural reasons regarding the choice of countries to enter?

10. Did the closeness / distance from South Africa affect your decision?