Standard Bank's entry strategy into Africa

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ABSTRACT

Emerging markets offer attractive business opportunities to international companies. This is due to their high margins, as a result of the risk-reward trade-off and the large customer base that can realise economies of scale in a short period of time. Concomitantly, South African banks are following their clients into Africa in order to provide them with corporate financial services. In addition, a largely under-serviced local population provides an ongoing customer base for retail banking offerings. Standard Bank has the largest presence of any South African bank in Africa, conducting business, as it does, in seventeen African countries. The current research has identified economic and political factors in emerging markets that are likely to have the most significant impact on Standard Bank's operations in Africa. Additionally, the implication that these conditions hold for the choice of entry strategy was also investigated. The findings indicated that Standard Bank's corporate strategy for Africa plays a larger role than do the emerging market conditions when deciding on acquisition versus Greenfield entry into a particular market. Standard Bank also derives a first-mover advantage (FMA) in both the corporate and retail banking spaces in new markets.

DECLARATION

I, Gareth Owen Armstrong, declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at this or any other university.

Gareth Owen Armstrong
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1 INTRODUCTION

1.1 Overview of the current study

Emerging markets represent major growth opportunities, due both to the conditions inherent in such markets and also the high level of competition in developed markets (Arnold & Quelch, 1998). Emerging economies provide additional markets for firms that have previously only operated in more developed economies (Bhattacharyya & Rahman, 2003). Companies need to develop corporate strategies that match the particular contexts found in emerging markets, rather than merely to apply the strategies that they have already successfully employed in developed countries (Khanna & Palepu, 1997). While excellent opportunities do exist, emerging markets represent a significant degree of business risk (Kendrick, 2004). At the very least, firms need to assess their appetite for risk and develop strategies that are flexible enough to deal with the prevailing emerging market conditions (Courtney, Kirkland & Vigeurie, 1997).

A key component of capitalising on emerging market opportunities is the mode of entry that a company wishes to follow into these markets. The two most common modes of entry are by means of a Greenfield entry strategy, or by means of acquisition (Meyer, Estrin & Bhaumik, 2004). While Greenfield entries are subsidiaries that are built up from scratch, acquisitions involve purchasing sufficient shares in an already existing company in order to obtain a degree of managerial control. A third option, Brownfield entry, has however, been proposed. Such an entry combines characteristics of both Greenfield and acquisition strategies, causing Brownfield entry strategies to have particular importance for emerging markets, as they inherently address some of the characteristics of such markets (Meyer & Estrin, 2001). The entry choice made by firms is based on a number of factors, most well-documented of which are transaction costs, as well as institutional and cultural context (Koghut & Singh, 1988; Hennart & Park, 1993). The presence of both tangible and intangible resources embedded in local institutions is a significant factor in determining the entry strategy to be followed. A strong argument has been posited that the resource-based view of a firm is the most important for evaluation of entry strategies (Meyer *et al*., 2004).

A further consideration for firms when developing an entry strategy is the timing of their entry into a market. A firm may adopt either a first mover or challenger stance with regards to its entry. The literature suggests that being the first mover offers certain advantages when entering an emerging market (Nakata & Sivakumar, 1997; Bhattacharyya & Rahman, 2003). The advantages gained in this way, however, are likely to vary between industries and different emerging market conditions experienced in various target countries.

1.2 Purpose of the current study

Most literature available on conducting business in developing countries reviews and highlights strategy formulation and implementation in Asian and South American emerging markets. Entry strategy research has thus far focussed on Japanese firms entering the USA and on firms entering Central and Eastern Europe. The amount of literature and research available on such topics regarding Africa is limited, despite Africa being seen as a major growth area for local financial services firms (Standard Bank Annual Report, 2004). Briggs (2005) research into the expansion of South African banks into Africa concluded that South African banks are expanding into the rest of Africa for the following reasons, among others.

- The banks have been forced to follow their customers' business activities, primarily as a defensive move in order to prevent other international banks already operating in the rest of Africa from stealing their customers.
- Africa is seen as the natural market for the expansion of South African banks and as an appropriate starting point for further international expansion beyond the continent itself.
- Host country regulatory authorities are facilitating the entry of foreign banks into local financial markets in order to improve the financial sector and encourage consolidations.
- The South African government is currently exerting pressure on South African firms to expand into other Southern African Development Community (SADC) countries by fostering favourable exchange control administration.
- In light of the substantial profit potential of African markets, South African banks believe that they can be more competitive than are other international banks currently operating in the rest of Africa.

The purpose of the current research is to investigate the entry strategy used by Standard Bank for its operations in Africa. The investigation will involve identifying the emerging market conditions that stand to significantly impact Standard Bank conducting business in other African markets. The second component of the research will consist of an investigation into the type of entry strategies that are likely to maximise the opportunities and best overcome the obstacles encountered in emerging markets. The conditions favourable to specific entry strategies will also be investigated. Furthermore, the research will indicate whether being the first mover in the designated market segment offers explicit advantages. The research will serve to identify the emerging market conditions that are most likely to have a substantial impact on banking in Africa and will result in the identification of entry strategies appropriate for the conditions encountered.

1.3 Delineation of the current study

- Standard Bank and Stanbic Africa, the African subsidiary of the Standard Bank Group, will serve as the focus of a single case study. Through trading under either the appellation Standard Bank or Stanbic, the banking group in question currently operates in 17 African countries. Standard Bank currently has the greatest representation in Africa compared to any other African bank (Stanbic Overview, 2005).

- The current study is specific to Standard Bank operations in the emerging markets in Africa. Rather than seeking to isolate entry into a specific country in Africa, the investigation will take place into conditions that determine the entry strategy used by Standard Bank, regardless of which country they intend to enter.

- The study will only focus on conditions that characterise emerging markets. As such, the first objective of the research is to identify any emerging market conditions that might significantly impact on retail banks.

- The literature consulted suggests that the emerging market conditions will dictate whether Standard Bank adopts a Greenfield or acquisition strategy. The same conditions will determine whether being a first mover into such a market is advantageous or not.

2 PROBLEM DEFINITION

The following research problem and sub-problems are posited for investigation in the current study:

Problem

Identify entry strategies for Standard Bank into the rest of Africa

Sub-problem 1

Identify the emerging markets conditions that are likely to have a significant impact on Standard Bank operations in Africa

Sub-problem 2

Identify under what conditions a Greenfield or acquisition strategy is likely to be most suitable for the maximum performance of Standard Bank in Africa

Sub-problem 3

Identify both the advantages and disadvantages for Standard Bank of being a first mover into African markets

3 LITERATURE REVIEW

3.1 Corporate strategy

3.1.1 Definition of strategy

Andrews, Learned, Christensen and Guth (1965) as cited in Hofer and Schendel, (1978:16), state that "strategy is the pattern of objectives, purposes or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is, or is to be". In addition, Hofer and Schendel (1978:11) define strategy as "the match between an organisation's resources and skills and the environmental opportunities and risks it faces and the purposes it wishes to accomplish".

Mintzberg, Ahlstrand and Lampel (1998) propose that, while no simple definition of strategy exists, agreement does exist regarding the following:

- Strategy concerns both an organisation and its environment, from which it cannot be separated.
- Strategy is complex, due to the novel combinations of circumstances to which an organisation is subject.
- Due to the importance of strategic decisions, strategy affects the overall welfare of an organisation.
- Strategy involves both content and process, including both the actions taken, as well as the formulation and implementation of the actions concerned.
- Strategies are not purely deliberate, but may be intended, emergent or realised.
- Strategies exist at different levels, starting at the corporate level, which dictates what business the organisation is in, followed by the business level, which determines how the organisation should compete in each market concerned.
- Strategy involves both conceptual and analytical exercises.

3.1.2 Strategy formulation

The strategies adopted by most firms are often poorly formulated and ineffectively implemented. In order to formulate a strategy effectively, many companies start by asking the following questions (Collis & Montgomery, 1997):

- What business is the company in?
- How should the company co-ordinate activities across businesses?

- How should the company measure and control performance?

The answers to most of these questions are derived from the nature of the specific company's resources, skills and capabilities. Only by way of thinking about strategy can corporate leaders conceive what direction the company should take in future (Collis & Montgomery, 1997).

Many different approaches to strategy formulation have been documented in the past. While some strategies are formulated as carefully devised plans that plot out an intended course of action, others may emerge as a company conducts its business and learns from its experiences. Most often, the realised strategy is a combination of the two approaches (Mintzberg, 1987). According to Campbell & Alexander (1997), sound planning is not a substitute for strategising. While planning seeks to address the immediate needs of an organisation, strategising considers its future. Strategy is derived from having a clearly articulated purpose, having sufficient understanding of a business to develop insight into its functioning and from enabling value creation that far outweighs that of its competitors.

Differentiating between purpose, objectives and constraints is essential to effective strategy formulation (Campbell & Alexander, 1997). While purpose defines what a company intends to do, and objectives consist of a number of interim targets aimed at achieving its purpose, constraints define what it is able to do. The more limited and defined a purpose is, the better is the chance that a winning strategy will be developed.

3.2 Emerging markets

3.2.1 Definition of emerging markets

While more mature markets are found in developed countries, emerging markets characterise developing countries. Emerging markets exhibit a level of growth and change that tends to lead to investment opportunities, when the citizens of the countries concerned gain access to realistic possibilities of improved economic, political and social conditions. The International Finance Corporation (IFC) categorises developing countries in terms of the size (market capitalisation) and liquidity of their markets (Barry, Peavy & Rodriguez, 1997).

Arnold and Quelch (1998) propound the following three tests, which do not all have to hold concurrently, for classifying a developing country as an emerging market:

- the absolute level of growth as defined by the per capita GDP;
- the annual GDP growth rate; and
- the ability of the marketing infrastructure to support a free market.

3.2.2 Business risk in emerging markets

Herring (1983:2) describes risk as “the possibility of an outcome that is less favourable then the expected outcome”. While every organisation carries some degree of business risk, evidence suggests that increased risk is involved in doing business in emerging markets (Dholakia, 1984; Friedman & Kim, 1988; Khanna & Palepu, 1997; Nakata & Sivakumar, 1997). Business leaders should be aware of such risks, so that they can plan accordingly. According to Kendrick (2004), risk management is an essential component of the strategic planning process (SWOT and PEST analyses). Where most companies take risk into consideration, what differentiates them is how well they assess the risk and communicate it to their shareholders and employees.

Emerging markets provide multiple risks and limitations for sound business practice, directly impacting the conditions under which an organisation plans to conduct its business. According to Khanna and Palepu (1997), the most important criterion for any market is the ability of the economy to bring buyers and sellers together. Ideally, the smooth functioning of markets is facilitated by a number of institutions – an area in which developing countries often fall short. Mohr and Fourie (2004) state that markets are unable to function efficiently in the absence of governmental enforcement of contractual rulings of private households and firms. Khanna and Palepu (1997) propound three main sources of market failure:

- Buyers, employers and investors lack access to reliable information that might otherwise enable them to evaluate the goods and services that they intend to acquire and the investments that they intend to make.
- Political goals over-regulate the economy in such a way as to distort the natural functioning of markets. While such regulations may serve to add some social stability to the economy, they also often restrict companies from taking advantage of opportunities in the marketplace which they might otherwise have utilised to their benefit.
- The judicial system is unable to secure enforcement of contracts, preventing it being able to ensure that companies within its jurisdiction abide by contracts into which they have entered.

Herring (1983) found, in investigating the management of international risk, three of the most common and important risks prevalent in emerging markets to be the following:

- foreign exchange risk, in terms of which fluctuations in the exchange rate may negatively affect the profitability of any transactions conducted;
- country risk, in terms of which the governing party of the country concerned may interfere with the repatriation of profits and payments; and
- the degeneration of the rules, regulations and practices governing international trade and investment.

Friedman and Kim (1988) agree that political risk (violence and civil strife), mercurial government policies and fund restrictions tend to hinder the business prospects of companies wishing to become operational in emerging markets. Government interference, ineffective legislation, and financial exchange risks serve as major deterrents to the exploitation of business opportunities in emerging markets. Bremer (2002) draws attention to the role played by robust churches, unions, independent courts and other organisations in providing a buffer between a government and its citizens. In addition, several social aspects, such as poverty, poor health, illiteracy and lack of social security, significantly limit the size and number of potential market segments (Dholakia, 1984). An underdeveloped infrastructure, such as communications networks, postal services, water and electricity, also negatively impacts on business development (Nakata & Sivakumar, 1997). According to Bremer (2002), the flow of capital into emerging markets poses its own inherent risks. In an attempt to attract foreign direct investment (FDI), governments may indeed cut their traditional subsidies in order to balance their budgets, resulting in increased nationalism that vents itself in negative feelings towards, and perceptions of, foreign companies.

Kendrick (2004) has developed a framework encompassing the assessment of risk awareness and responses. The framework can be used to gauge an organisation’s ability to manage risk, as well as both to protect and create value, which form central concerns for any organisation planning to enter a business venture containing a considerable amount of risk. In terms of the framework, two dimensions to understanding organisational risk exist: “attitude and behaviour”, referring to organisational and personal attitudes towards risk, and “external and internal environment”, referring to business and project risk. Four challenges to strategic risk thinking in an organisation are reflected in the framework (see Figure 1).

Figure 1. Four challenges to strategic risk thinking in an organisation

Attitude and Behaviour

External and Internal Environment	Organisational attitude to risk	Personal attitude to risk
Business risk environment	**Challenge 1** Do we understand the shareholder value risks of our strategy choices?	**Challenge 3** Is the risk appetite of the organisation consistent with the risk appetite of our staff?
Project risk environment	**Challenge 2** Do we understand the risks that our structure and processes pose for the implementation of chosen strategies?	**Challenge 4** Are we confident that our staff is effective and efficient in reacting to and dealing with risks?

Source: Kendrick (2004:71).

All organisations should clearly understand their attitude to risk, as well as their ability to manage and use it in order to create value. Such an understanding is particularly important for those companies wishing to operate in emerging markets characterised by a high prevalence of risk and uncertainty.

Although significant business risks and the potential shortcomings of emerging markets have already been illustrated in this paper, highlighting why increasing interest is being shown in these markets is also important. According to Nakata and Sivakumar (1997), emerging markets provide attractive business opportunities. The following three main factors are responsible for creating these opportunities:

- New customers can be gained relatively quickly, thus providing the potential for immediate sales.
- In many sectors, developed markets have already reached maturity, resulting in flat or declining sales, creating the best opportunities for growth in emerging markets.

- The strength of emerging market economies is increasing rapidly, providing investors with the opportunity to secure a favourable return on their investment, with the potential of out-performing developed markets.

Modern risk management tends to focus on increasing shareholder value, rather than just protecting it (Kendrick, 2004). Given the high degree of risk associated with emerging markets, such markets definitely provide substantial business opportunities for the generation of shareholder wealth. Investigating how the limitations of emerging markets impact on the suitability of conducting business under such conditions should reveal how, in some instances, they may be used advantageously, especially in terms of pioneering strategies.

3.3 The impact of emerging market conditions on business operations

Companies in developed markets may separate their business functions in order to focus on a few, core business competencies resulting in the disinvestment of one or more of their business activities (Prahalad & Hamel, 1990). Their ability to do this is enhanced by the number of institutions and companies that are likely to support such activities, thereby enabling them to improve their profitability or market share by means of focusing on their core activities. However, the same does not hold true for emerging markets, in which companies often need to be involved in a diversified range of business activities in order to succeed (Khanna & Palepu, 1997). Due to the lack of available support for their peripheral business functions, such companies do not have the luxury of being able to focus only on their core business activities. According to Khanna and Palepu (1997), this is the main reason why corporate strategies cannot simply be transposed from developed to emerging markets. As a result, companies must adapt their strategies to align with the "institutional context" in which they wish to conduct business. Khanna and Palepu (1997) note how "institutional context" drives business strategy (see Table 1). The institutional dimensions tabulated are described in further detail in the following sections of this paper.

Table 1. A summary of how institutional context drives strategy

Institutional Dimension	United States (an example of a developed market)	India (an example of an emerging market)
Product market	Reliable enforcement of liability laws; the efficient dissemination of information; many active customers	Limited enforcement of liability; little dissemination of information; few active consumers
Capital market	Equity-focused; monitoring by disclosure; corporate control	Underdeveloped; illiquid equity markets and nationalised banks; weak monitoring by bureaucrats
Labour market	Many business schools and consulting firms containing much talent; certified skills enhancing mobility	Few business schools and little training; management talent scarce
Government regulation	Low degree of regulation; relatively free of corruption	High degree of regulation, corruption common
Contract enforcement	Predictable	Unpredictable
Result	Diversified groups posing many disadvantages	Diversified groups offering many advantages

Source: Adapted from Khanna & Palepu (1997:150).

3.3.1 Product markets

Inadequate communication channels due to power shortages, underdeveloped communication infrastructure, inefficient postal services and high illiteracy rates makes it difficult for marketers to communicate with consumers in emerging markets (Dholakia, 1984; Nakata & Sivakumar, 1997). By the time that relevant market-related information finally reaches consumers, few mechanisms exist by means of which they can corroborate claims made by the suppliers of the goods and services involved. Government watchdogs yield little power in such markets and analysts employed to rate products are often unconvincing. Consumer complaints about inadequate supplier performance in such markets, if voiced at all, tend to meet with ineffective law enforcement and a lack of extrajudicial arbitration facilities (Khanna & Palepu, 1997).

This lack of information makes it more expensive to build a brand in an emerging market than in a developed market. The upside, according to Khanna and Palepu (1997:152), is that “established brands wield tremendous power”. Companies with a sound reputation for a particular product or service are, in such instances, able to use their brand names across multiple business lines, including those essentially unrelated to their core product or service. Use of successful branding thus provides companies with the appropriate incentive for maintaining their brand quality.

3.3.2 Capital markets

The lack of relevant information present in emerging markets also tends to affect capital markets as investors tend to show little tangible interest in business ventures with which they are unfamiliar. The number of institutions (including government watchdogs, the independent financial press and communities of analysts) that developed markets have available for accurate financial reporting and the dissemination of information are often absent from, or ineffective in, emerging markets. Capital is therefore only available to established companies with a proven track record in such markets, which often makes these companies the primary source of capital for smaller new enterprises. Such a source of funding supports the concept propounded by Khanna and Palepu (1997) that diversified companies are often the most successful in emerging markets due to the support that they provide to their suppliers and customers, which serves somewhat to stabilise both their up- and downstream business activities. The lack of knowledgeable financial advisers and fund managers in emerging markets often makes large companies such as these targets for those wishing to invest in the fast-growing emerging markets (Khanna & Palepu, 1997).

3.3.3 Labour market

In light of the general lack of tertiary education possessed by role-players in emerging markets, many of the companies concerned tend to lack the skills required for successfully conducting business in such markets. Once more, diversified businesses gain an advantage over their competitors by being able to spread training costs of their staff across multiple business units. Diversified companies are also able to create internal labour markets, which assists in countering government regulations that otherwise make it difficult to retrench workers. An oversupply of employees in one business unit can be remedied by transferring the surplus staff to another area in the company where the demand for their labour is greater (Khanna & Palepu, 1997).

3.3.4 Government regulation

Governments with control over emerging markets tend to intervene far more in business operations than do governments in developed markets. In emerging markets, therefore, relationships between business and government assume much greater importance. Diversified groups are able to spread the costs of maintaining such relationships across a number of their business activities. Predicting the action of regulatory bodies is often difficult. According to Khanna and Palepu (1997), companies not only tend to invest financially in building relationships, but also in training those responsible for making regulatory decisions. By so doing, they facilitate a sounder understanding of the way in which international businesses are financed and administered.

3.3.5 Contract enforcement

Governments in emerging markets may be largely ineffective regarding the enforcement of contracts. According to Meyer *et al.* (2004), emerging markets tend to have an underdeveloped institutional framework, which, compounded with reduced law enforcement and a prevailing lack of confidence expressed in the judicial system, makes for difficult working conditions. Large companies working in such an environment, when able to leverage their reputation for honesty and reliability based on their proven track record, are able to gain a significant competitive advantage. Honouring agreements with customers and suppliers is especially conducive in such an environment to the creation of amicable and lasting relationships (Khanna & Palepu, 1997).

3.4 Strategy in emerging markets

Determining what constitutes good strategy in uncertain business environments is important (Courtney *et al.*, 1997). A number of options present themselves for conducting business in these environments, including the following:

- creating operational or distribution alliances;
- making limited investments that reserve a company's "right to play";
- investing in flexibility, which enables a company to adapt to changes in the environment without incurring excessive costs; and
- adopting a 'wait and see' strategy by delaying large investments until any prevailing uncertainty diminishes.

Firms operating in highly volatile business environments need to be flexible and to have the ability to adapt to changing market conditions (Peng & Luo, 2000; Uhlenbruck, Meyer & Hitt, 2003).
According to Courtney *et al*. (1997), traditional strategic planning processes are not always useful in emerging markets. Discounted cash flow analysis aimed at evaluating likely scenarios is often only useful in stable environments. Planning and capital budget forecasting often result in uncertainties concealed in the cash flow, leading to underestimation of the possible effect of uncertainty. Such underestimation may prevent companies from defending themselves against threats, as well as from making use of opportunities that may present themselves to them. At the other end of the spectrum lies the possibility of deciding that the market is so completely unpredictable that all analysis is

abandoned in favour of responding to a gut feeling. Critical strategic decisions are then avoided, with the emphasis being placed on measures such as cost cutting and reorganisation, which are inadequate substitutes for efficient strategising.

3.5 Entry strategies

3.5.1 Strategic choices

While the overall business strategy for a firm may be developed in terms of both a medium- and long-term view, of more immediate concern is the strategy that a firm adopts for entering a market. In developing an entry strategy the overall strategy of the firm, embodying both its purpose and objectives, needs to be taken into account. Dikova and Van Witteloostuijn (2004) suggest that firms have two major strategic decisions to make when entering a market:

- whether to buy an existing organisation (acquisition), or to start the business from scratch (consisting of the Greenfield method); and
- whether to enter the market on their own (as wholly-owned subsidiary) or to bring in a business partner (in a joint venture).

Greenfield versus acquisition

Both the Greenfield and acquisition options have distinct advantages and disadvantages. In terms of Greenfield entry, a firm can import its culture and technology with little resistance. Resources are hired and trained using the investing firm's management, technology and capital (Meyer & Estrin, 2001). Unfortunately, use of such a strategy delays the establishment of meaningful business networks and relationships. While Greenfield entry strategies avoid the many costs associated with an acquisition, substantial relocation costs are involved in terms of recruiting international resources. A number of additional costs may also have to be incurred, such as the adaptation of technology and other organisational assets to the local culture. Firms may also have to undergo extensive rebranding exercises (Meyer & Estrin, 2001). Acquisitions involve purchasing a sufficient amount of stock in an existing company to provide the investor with a certain degree of control over it (Kogut & Singh, 1988). While providing instant access to local resources, acquisitions often require significant post-integration management in order to ensure blending of the cultures and technology of the two firms involved. According to Meyer and Estrin (2001), such restructuring can be so extensive that the resulting firm eventually ends up resembling a Greenfield operation. The option of either the Greenfield or the acquisition entry strategy is known as the diversification mode choice (Brouthers & Brouthers, 2000).

Joint venture versus wholly-owned subsidiaries

On the one hand, while joint ventures are able to harness the experience and resources of a local operation, they also have to deal with diverging ideas and visions relating to the future of the organisations concerned. On the other hand, wholly-owned subsidiaries enjoy autonomy and control over their own business operations, but may lack the reassuring presence of a local partner to remove the doubts usually associated with a foreign firm. Determination of the percentage of ownership in a foreign venture is known as the entry mode choice (Brouthers & Brouthers, 2000). According to Muller (2000), the two options available differ mostly in terms of risk, resource commitment and level of control.

The current literature review focuses on the diversification mode choice: Greenfield versus acquisition. Meyer and Estrin (2001) have proposed an alternative known as the Brownfield entry strategy, involving the following of an acquisition strategy in terms of which the resources utilised by the entry firm dominate those of the acquired firm. The Brownfield entry strategy will be discussed later in this section.

Two major schools of thought have emerged regarding the factors that influence the diversification mode choice. One is a transaction cost-based theory that has been developed to include institutional and cultural contexts, while the other is a resource-based view that suggests that resource endowment is the primary deciding factor in the selection of an entry strategy.

3.5.2 Transaction cost view

Hennart and Park (1993) and Cho and Padmanabhan (1995) use the transaction cost-based method to explain the Greenfield versus acquisition diversification mode decision. Transaction costs refer to operational costs and the efficiency of organisational structures, specifically with regards to the knowledge transfer of skilled labour (Madhok, 1997). Meyer and Estrin (2001) describe transaction costs as those costs associated with obtaining resources previously held by other firms. Costs may be incurred in searching for suitable resources, in analysing their economic viability and in negotiating with the various parties involved, including management, owners and government authorities. When choosing between Greenfield and acquisition entry strategies, Robbins (1987) and Kogut and Singh (1988) suggest that the transaction cost-based method should be supplemented by the institutional and cultural context.

Transaction costs

Due to the sophisticated levels of control that diversified firms often exhibit, such firms tend to prefer acquisitions, as they can then transfer the systems involved to the new organisations, thus more readily benefiting from the resultant operational efficiency. Diversified firms may also have experience of the entry strategy by way of previous acquisitions (Caves & Mehra, 1986; Yip, 1982). Less diversified firms may prefer to employ the Greenfield ventures, due to their comparative lack of such skills (Brouthers & Brouthers, 2000). According to Kogut and Singh (1988), the more averse a firm is to uncertainty, the more likely it is to prefer a Greenfield entry strategy, as employees who are less willing to accept change would have such change imposed upon them by way of acquisition (Harzing & Hofstede, 1996).

Institutional context

The institutional context refers to both tangible and intangible assets (Madhok, 1997). Important institutional considerations include the size of the investment, the degree of technology used by a firm and the degree of experience embedded therein (Cho & Padmanabhan, 1995; Hennart & Park, 1993). The size of an investment includes both the financial investment made, as well as the number of resources required. Large investments tend to favour acquisition strategies. As the amount of technology used by a firm increases, the more likely the firm is to adopt a Greenfield entry strategy. Firms with substantial international experience tend to favour their chances with a Greenfield entry strategy, as they have the know-how to survive on their own; whereas, firms with less experience make use of acquisitions in an attempt to leverage additional expertise (Hennart & Park, 1993).

Cultural context

According to Brouthers & Brouthers (2000), the cultural context determines the specific risk and potential profits or losses when entering a new market. Two different theories explain the relationship between market growth, or profit potential, and the diversification mode. The first theory postulates that fast-growing markets allow sufficient space for the adoption of Greenfield entry strategies (Andersson & Svensson, 1994). In slow-growth markets, weaker competitors may be available for acquisition as the increase in capacity in the market will be negligible and therefore stifle retaliation experienced from competitors (Muller, 2000; Yip, 1982). The second theory is the complete opposite of the first. Opportunity costs for non-participating firms in fast-growth markets are high, so that acquisitions are the quickest way in which firms can benefit from such favourable market conditions (Andersson & Svensson, 1994; Hennart & Park, 1993). The cultural distance between the home and target country also contributes to the cultural context in which firms find themselves. According to Dunning (1993), cultural differences have a direct impact on managerial effectiveness and thus on potential firm-specific advantage. Firms that perceive low levels of cultural distance between themselves and the prevailing culture in the target country utilise Greenfield entry strategies to maximise their advantage. Conversely, firms perceiving high levels of cultural difference prefer to follow an acquisition diversification mode, thereby reducing their risks (Hofstede, 1989; Yip, 1982). A summary of the institutional, cultural and transaction cost factors influencing Greenfield versus acquisition diversification modes is given in Table 2.

Table 2. Institutional, cultural and transaction costs impacting the diversification mode decision.

Factor	Condition	Diversification Mode	Literature Source
Institutional Context			
Financial and managerial resources required	Many	Acquisition	Caves & Mehra (1996); Hennart & Park (1993)
	Few	Greenfield	Hennart & Park (1993)
Technological intensity	High	Greenfield	Cho & Padmanabhan (1995); Hennart & Park (1993)
	Low	Acquisition	Cho & Padmanabhan (1995); Hennart & Park (1993)
International experience	High	Greenfield	Cho & Padmanabhan (1995)
	Low	Acquisition	Cho & Padmanabhan (1995)
Cultural Context			
Market growth	High	Greenfield/Acquisition *	Andersson & Svensson (1994); Caves & Mehra (1996); Hennart & Park (1993)
	Low	Acquisition/Greenfield	Yip (1982)
Cultural distance	High	Acquisition	Hofstede (1989); Yip (1982)
	Low	Greenfield	Hofstede (1989); Yip (1982)
Transaction costs			
Firm diversification	High	Acquisition	Caves & Mehra (1986);Yip (1982)
	Low	Greenfield	Brouthers & Brouthers (2000)
Uncertainty averse	High	Greenfield	Harzing & Hofstede (1996); Kogut & Singh

			(1988)
	Low	Acquisition	Harzing & Hofstede (1996); Kogut & Singh (1988)

Note: * Two opposing theories exist that explain the impact of market growth on diversification mode in fast-growing markets.

Brouthers and Brouthers (2000) researched Greenfield versus acquisition entry strategies using a sample of Japanese firms entering Western Europe. Their research used the transaction-based cost method and incorporated the suggestions made by Robins (1987) and Kogut and Singh (1988) regarding the inclusion of the cultural and institutional context. Their results indicated that Greenfield entry strategies were preferred by firms with high levels of technology and experience responsible for making relatively small investments in high-growth, high uncertainty-averse markets. These findings agreed with the majority of findings prevalent throughout the relevant literature. Their findings did, however, differ from those of Hennart and Park (1993), who found that high-growth markets resulted in the adoption of the acquisition diversification mode.

3.5.3 Resource-based view

The resource-based view is seen as an alternative to the transaction cost-based diversification theory proposed by some authors (Cho & Padmanabhan, 1995; Hennart & Park, 1993).

According to Meyer *et al*. (2004), firms tend to adjust their corporate strategies to the conditions found in emerging markets, largely due to the resource endowment available in the local context. Due to the limited technical and physical infrastructure, firms operating in emerging markets often have to look to resources to gain a competitive advantage. Hennart and Park (1993) suggest that a firm’s competitive advantage comes from superior organisational abilities, technical expertise or its labour force. Meyer *et al*. (2004) researched entry strategies into emerging markets and compared Greenfield and co-operative strategies from a resource perspective. The study sought partly to determine how emerging market characteristics can affect a firm’s ability to utilise local resources, consisting of created assets, especially skilled labour. The authors suggest that different types of resources are required, depending on the local business context.

The resources concerned include, among others, the following:

- strong networks with businesses and government authorities that become especially important where legal systems are poorly developed, as networks facilitate the enforcement of contracts;
- capabilities that enable firms to be flexible in a volatile environment, to build networks, to manage a largely low-skilled workforce and to interact in the political arena with government officials (Henisz, 2003); and
- tangible and intangible assets that provide a competitive advantage, such as access to a natural resource or low-skilled labour (Estrin, Hughes & Todd, 1997).

The resource-based view is built on the premise that firms entering emerging markets intend to make use of local resources and to supplement them with resources obtained from elsewhere (Meyer *et al*., 2004). Formulating an entry strategy with an optimal resource mix that allows firms to be competitive in the local context is crucial to their success. Kock and Guillen (2000) and Peng (2003) state that, while resources in developed markets tend to have industry-specific capabilities as their competitive advantage, resources in emerging markets are equally adept regarding dealing with locally contextualised knowledge.

Resources are usually found in local firms and hence a co-operative strategy may be required for an entry firm to benefit from such resources. An important component of a firm's strategy in emerging markets is obtaining the correct skills and expertise to enable it to carry out its business operations. Sams (2005) posits three guidelines for leveraging expertise in emerging markets:

- Companies look to differentiate between core and non-core business processes. Instead of sourcing non-core business processes based on cost, they now look critically at specialised third-party suppliers that are capable of providing world-class skills from management to product development.
- The best way of capitalising on skills in emerging markets is to build relationships with local suppliers, government officials and research institutions. The development of a network of local relationships in order to create a local market presence before attempting to compete on a global scale is important.
- In order to tap into global expertise, business and technical standards should be consistent across companies, in order for them to be able to utilise expertise wherever they are.

Meyer *et al*. (2004) showed that institutional context and the ability of the resources accessed determined the entry strategy of firms targeting emerging markets. Skilled resources are often embedded in local firms, so that the absence of resource-rich firms reduces the attractiveness of co-operative strategies. Sound entry strategies seek to combine corporate advantage with locally available resources. Firms were found not to follow strategies that would give them access to management or technological resources, as these were often poorly developed in developing countries. The initial findings of Madhok (1997) confirmed the skills that are relevant in the domestic business context are what entry firms find attractive, while a lack of potential business partners serves as a constraint. After having undertaken a thorough comparison of transaction costs and organisational capabilities, Madhok (1997) concluded that organisational capabilities exceed transaction costs in terms of weight carried towards a diversification mode decision. In such a context, organisational capabilities refer to resources and the sustainable value that they add to a firm (Madhok, 1997). Meyer and Estrin (2001:580) summarise the factors that impact on the diversification mode choice from a resource perspective. The authors state that "mode choice depends first on the resources required for the envisaged project and on the resources available in local firms, in the investing firm, and on local markets".

Dikova and Witteloostuijn (2004) conducted research into diversification modes in both Central and Eastern Europe. Their results indicated that a firm's international strategy, as well as its level of technology, influenced the diversification mode. In addition, the institutional context of the host country was found to play a significant role in choosing the diversification mode. Unstable institutional environments discouraged acquisition strategies, largely due to post-acquisition incompatibilities when trying to adopt various aspects of the parent company. Institutional context was measured using factors such as political and social stability, the repatriation of income, law enforcement, the prevailing levels of corruption, the efficiencies of government agencies and institutions, any restrictions on foreign ownership, government incentives to foreign investment and the communications and transport infrastructure.

3.5.4 Brownfield entry strategy

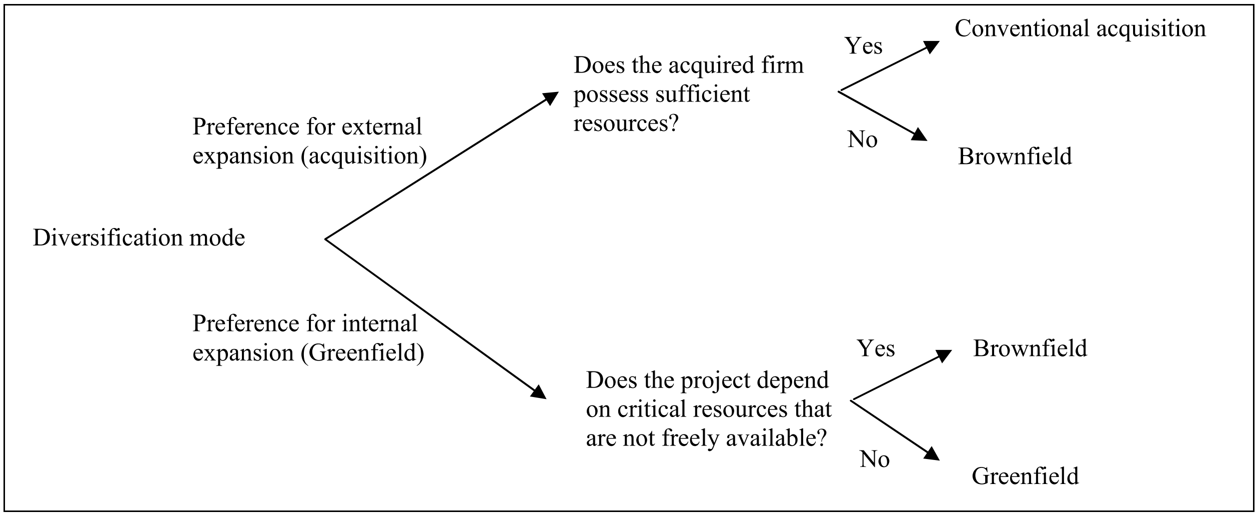
As previously mentioned, Brownfield entry follows an acquisition strategy whereby the investing firm's transferred resources dominate over local resources. According to Meyer and Estrin (2001), this "hybrid" mode of entry is particularly relevant in emerging markets. The authors suggest that Brownfield entry is most suitable when local resources are necessary, but not available, and when the transaction costs of traditional entry are prohibitive. Once again, this research took place in Eastern and Central Europe, where the institutional environment and resource pool are poorly developed. As seen throughout the current literature review, such characteristics are common in emerging markets. The acquisition of a local firm does not mark the end of the road for a Brownfield entry strategy. As previously mentioned, costs need to include the time-lag involved in the integration of the two firms and in generating the ability to utilise the existing networks. Such an integration process needs to be considered when evaluating an acquisition entry strategy. Meyer and Estrin (2001) cite the following considerations:

- A firm's prior experience with acquisitions will assist it in managing, developing and implementing processes to maximise synergies between the two organisations involved in terms of economic activities, cultures and networks.
- Prior strategic and cultural fit between the two organisations will reduce restructuring costs. International acquisitions also need to take into account differences in national cultures.
- An acquisition strategy may be prohibitive for firms that regard a specific culture as their competitive advantage.

Brownfield entry strategies are able to reduce some of the transaction costs, as they have a wider target area for obtaining resources. They do, however, incur significant integration costs, due to the extensive restructuring that is required and the need to transfer resources from the investing firm (Meyer & Estrin, 2001).

Meyer and Estrin (2001) proposed a bimodal diversification mode choice, whereby firms can follow a Brownfield strategy regardless of their preference for Greenfield or acquisition entry strategies. Often, decisions to divert to a Brownfield strategy may be taken after the initial Greenfield or acquisition decision has been made, as new information becomes available, such as during a due diligence. Doing so is in line with strategy formulation guidelines documented earlier in the chapter, requiring strategies adopted in emerging markets to be flexible. In cases where an acquisition strategy is hampered by weak local assets or high transaction costs, a Brownfield strategy may be more appropriate. The adoption of a Greenfield entry strategy may result in lack of access to resources owned by local firms, as such resources may be inseparable from the local firm and thus present a barrier to entry into such markets. Should such resources be "critical assets", a Brownfield entry strategy may be followed. Meyer and Estrin (2001) argue that increasing use of Brownfield entry strategies is due to the importance of both international and local resources, which requires a significant integration effort, resulting in only the "critical assets" of the local firm remaining. The two-stage decision tree for Brownfield entry is illustrated in Figure 2.

<u>Figure 2. Brownfield entry strategies resulting from initial Greenfield or acquisition preferences</u>



Source: Meyer & Estrin (2001:581).

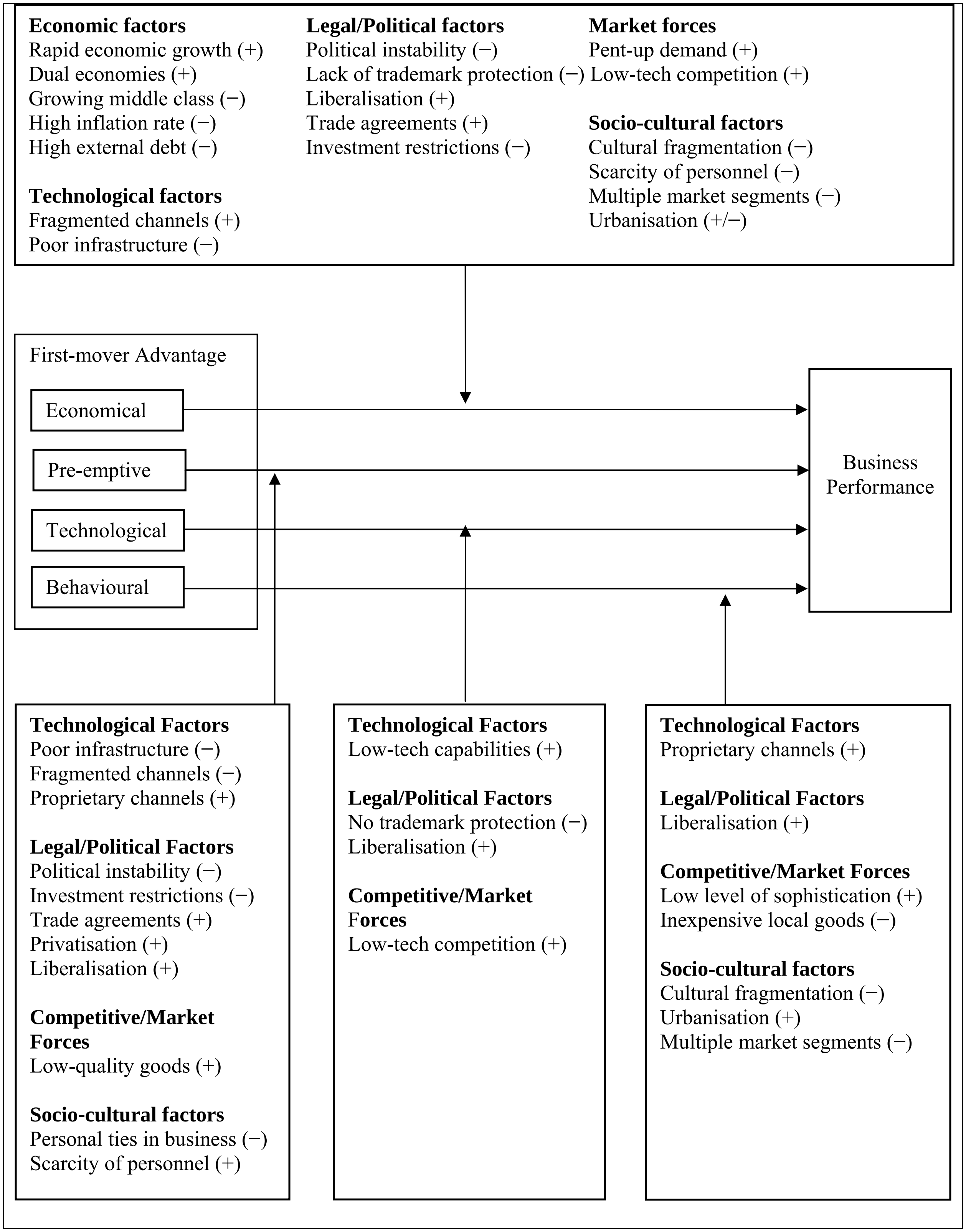
3.6 The impact of emerging market conditions on pioneering strategies

Not only is the type of entry strategy important, but also the timing of the entry into a new market, which can have severe market penetration and cost implications. When firms enter a market first, or are the first to sell a new product or to introduce a new process to a new market, they are known as first movers. Due to the saturation of existing products and services in developed markets, first movers are more applicable in emerging markets. Firms are often able to realise an advantage from being first movers in such markets, as the order of entry into a new market has a direct impact on a firm's ability to capture value in such a market (Rahman & Bhattacharyya, 2003).

Nakata and Sivakumar (1997) studied the impact of emerging market conditions on first-mover advantage (FMA), focusing on the emerging markets in China, Asia and South America. While the current literature review does not attempt to delve into the intricate workings of marketing strategies, marketing will certainly be included in any corporate strategy. Findings regarding the impact of emerging market conditions on FMA are therefore relevant to any corporate strategy in emerging markets. As many firms also aim to be the first mover in emerging markets in an attempt to maximise the opportunities offered by the market, the relevance of the current study is thus increased. A number of studies have already suggested that, while first movers may not benefit excessively from functioning in this way, they do, indeed, enjoy a number of advantages from moving so early into the market (Robinson, 1998; Robinson & Fornell, 1985; Rogers, 1983; Tellis & Golder, 1996).

According to Nakata and Sivakumar (1997), while no definitive conclusions could yet be drawn without undertaking further research, their study so far already has a number of clear implications. The market's economic, technological, socio-cultural legal/political and competitive/marketing conditions should be well understood before considering making use of a pioneering strategy. Each of the aforementioned factors is able to influence business performance in a way distinctive from the influence that it would be able to exert in a more developed market. The model portraying the impact exerted by emerging market conditions on FMA is shown in Figure 3.

Figure 3. The impact of emerging market conditions on FMA



Source: Adapted from Nakata & Sivakumar (1997:479).

3.6.1 Economic conditions

Increasingly, developing countries are experiencing rapid growth in their capital markets (Hale, 1994; Penhirin, 2004), which implies an increase in sales for those who are first in the market, even if their market share does remain relatively constant (Nakata & Sivakumar, 1997). The large disparity in income found in emerging markets, creates wealthy urban areas alongside relatively poor rural settlements (Kaynak, 1982). Such a "dual economy" provides a market receptive to pioneering companies, as the wealthier segment of the population concerned has the financial means to purchase the goods and services on offer, enabling companies to derive benefit from economies of scale (Hill & Still, 1984). According to Hill (1984), such segments of the population may have similar expectations and consumption experiences to those of consumers in developed countries, so that little adaptation of culturally insensitive products, such as durables, is initially required. While the wealthier market segments thus provide access to such markets, related business opportunities can only truly be maximised when products are adapted and sold to market segments below those present in the upper echelon (Nakata & Sivakumar, 1997).

Emerging markets are often subjected to high inflation which not only serves to decrease real disposable income, but also increases corporate labour, production and marketing costs. Government price controls, often prevalent in inflationary environments, suppress dramatic price increases, thus preventing companies from recovering such costs in the short term (Nakata & Sivakumar, 1997).

Developing countries often suffer from high levels of debt (Ajayi & Choi, 1993; Leung, 2003; Richards, Nwanna & Nwankwo, 2003), making them more susceptible to interest rate increases that can, in turn, trigger high inflation and currency devaluation. In this way, the economic advantages available to pioneering companies are reduced (Nakata & Sivakumar, 1997).

3.6.2 Technological conditions

Infrastructure in developing countries is often inadequate and in the process of rapid deterioration (Frazier, Gill & Kale, 1989; Kaynak, 1982). Basic services, such as electricity, water, transportation and banking, are inadequate to maintain thriving commercial business (Nakata & Sivakumar, 1997), resulting in loss of production and distribution bottlenecks (Kotler, 1984). Nakata and Sivakumar (1997) claim that poor infrastructure decreases economic advantage by increasing costs and serves to lower pre-emptive advantage by minimising opportunities for companies to enter the market.

Pioneering companies, however, that are able to establish distribution channels create significant barriers to entry for their competitors.

3.6.3 Legal and political conditions

Political instability is more prevalent in developing countries than in developed ones. Legal and political instability impacts on pioneering companies in emerging markets by way of limited patent and trademark protection; inadequate judicial systems; price controls; foreign investment restrictions; tariff and non-tariff barriers; quotas; exchange controls; trade agreements; privatisation; and market reform (Mohr & Fourie, 2004; Nakata & Sivakumar, 1997). According to Nakata and Sivakumar (1997), governments are reluctant to protect intellectual property, as such protection favours large corporations at the expense of their impoverished population. Pioneering companies sacrifice some of the rewards of proprietary innovation by way of loss of sales and market share due to piracy, resulting in increased sales on the black market. Governments may also restrict the amount of foreign investment in order to protect some of their domestic companies from foreign competition (Mohr & Fourie, 2004). Such restriction may take the form of financial investment, ownership percentage, use of technology, and choice of partners, all of which may serve to erode the competitive advantage (Nakata & Sivakumar, 1997).

Trade agreements, privatisation and market reform all have positive effects. Trade agreements and privatisation expand markets and lower import costs, thus increasing the economic advantage to pioneering companies (Nakata & Sivakumar, 1997). Privatisation is the process of transferring assets from the State to the private sector in a way that generates money for the government. Privately run organisations are often so efficient that they can provide business opportunities for other companies in the market (Mohr & Fourie, 2004). Market reform, otherwise known as liberalisation, aims to improve economic efficiency by eliminating market distortions caused by restrictive or discriminatory government procedures (United Nations, 1995, cited in Nakata & Sivakumar, 1997). The elimination of such distortions enables pioneering companies to operate more economically, to penetrate more lucrative markets, to develop and make use of innovative products and to develop positive market effects and asymmetries (Nakata & Sivakumar, 1997). Asymmetric information may cause market failure when people lack, or are not in a position to access, sufficient information to make informed decisions. As a result, buyers may be unaware of the quality of goods that they are buying and therefore only be prepared to pay a relatively low price for them. As the seller lacks the financial incentive to produce a high-standard product, the quality of manufacturing accordingly declines. The buyer then pays less, ultimately causing the market to collapse (Khanna & Palepu, 1999). Governments may choose to remedy the situation by disclosing sufficient information timeously, by establishing codes of professional ethics and by enforcing licensing or certification requirements (Mohr & Fourie, 2004).

3.6.4 Competitive and marketing conditions

In developing countries, demand is often greater than supply (Kale, 1986; Malhotra, 1986). These sellers' markets come about as a result of government regulations restricting the quantity of goods that are available for consumption (Nakata & Sivakumar, 1997). According to Gillespie and Alden (1989, cited in Nakata & Sivakumar, 1997), governments in developing countries often prioritise industrial goods over consumer goods, resulting in the demand for consumer goods far exceeding their supply. State monopolies or oligopolies have high-priced products which are often of low quality due to there being little competition in the marketplace (Nakata & Sivakumar, 1997).

All of the above factors may result in a high demand for affordable, quality products. Nakata and Sivakumar (1997) stress the foolishness of assuming that the high level of demand stretches across all products and services. The actual demand depends on income and lifestyle, and entry firms need to ensure that they offer goods and services which consumers perceive as having a value-to-cost ratio that exceeds that which is currently available in the domestic market (Rahman & Bhattacharyya, 2003).

Due to the high level of demand for goods and services in developing countries, marketing efforts are superfluous, leading to a low level of marketing sophistication. Such lack of sophistication provides an advantage to pioneering companies that can use advanced marketing techniques to increase their sales further. This situation is in sharp contrast to that in developed countries, where companies tend to need to spend exorbitant sums of money on marketing in order to generate sufficient demand (Nakata & Sivakumar, 1997). First movers are able to voice their messages in an uncluttered environment, untrammelled by a multiplicity of competing messages, in this way improving their penetration and reducing the amount of money required to be spent on marketing activities. In such circumstances, first movers' products can become the industry standard to which new products are compared (Rahman & Bhattacharyya, 2003).

3.6.5 Socio-cultural conditions

Cultural fragmentation leads to considerable market heterogeneity. First movers need to cater for individual market segments by significantly increasing their advertising and promotional spending (Nakata & Sivakumar, 1997). Cultural fragmentation may also dampen economic advantage, as a variety of markets may require that adaptations be made to certain products. According to Hill and Still (1984), multinational companies make, on average, four product adaptations to products made and sold in developed countries before introducing them into developing countries. The adaptations may either be driven by cultural preferences or required by the prevailing legislation.

An additional socio-cultural characteristic of emerging markets is the personal relationships formed between consumers and retailers due to the social nature of the buying experience (Kaynak, 1982). Such relationships, formed by regular visits to the trade markets, may explain why supermarkets tend to be less popular in emerging markets (Manrai & Manrai, 1995). First movers may find it costly to buy into commercial contracts based on personal friendships in order to secure preferred suppliers, distribution channels and locations (Nakata & Sivakumar, 1997).

As previously mentioned, a shortage of skills prevails in developing countries. Companies entering emerging markets with technological and innovative products need skilled employees. Local skills are the most desirable, as they are less costly and better able to read market conditions. If local skills are not available, expatriates may be used, which inevitably increases the related costs. First movers have the advantage of securing what few local skills are available, thus creating a barrier to entry for upcoming competitors (Nakata & Sivakumar, 1997).

Rapid urbanisation in developing countries offers both advantages and disadvantages for first movers. On the positive side, urbanisation results in an increasing market, as the expanding market allows companies to benefit from economies of scale. First movers can also benefit from economies of scale by achieving critical mass of sales and accumulating marketing, research and development experience faster than do any of their competitors (Rao & Rutenburg, 1979; Simley & Ravid, 1983). Such advantages can be used either to increase margins or to reduce prices, thus creating barriers to entry for competitors (Rahman & Bhattacharyya, 2003). The more densely populated areas also have a slightly better infrastructure, which facilitates manufacturing, distribution and promotional activities. A disadvantage of urbanisation is the strain that it places on the infrastructure, albeit it temporary. Production facilities may be interrupted due to an inadequate power supply. Migrants are often less educated and not as affluent, as well as being culturally distinct from the urban population, so that additional expensive adaptations to products and market offerings may be required. Despite the high degree of urbanisation in developing countries, a large number of rural communities still exist. Companies wishing to achieve national coverage usually have to tailor their marketing mix to include the less affluent rural areas (Nakata & Sivakumar, 1997).

Although firms that have decided to act as pioneers in emerging markets should expect difficulties, a certain amount of upside potential does exist in such markets. Global trends currently encourage trade in such markets, increasing possibilities for foreign direct investment and opening up both import and export activities. Emerging market conditions can work both for and against first movers. While some market conditions may serve to enhance FMA, others may detract from their competitive advantage.

3.7 Business acumen for emerging markets

Strategies often fail, because the market conditions for which they were intended change before they can be implemented (Sterling, 2003). Sterling (2003) provides guidelines as to how CEOs can prepare their companies to operate in unstable environments, as well as to how they can effectively deal with unanticipated market changes. Sterling's first injunction is for CEOs to have sufficient humility to admit to what they do not know, to monitor related factors and to prepare contingencies that will enable them to cope with the likely scenarios. His second requires identifying the market conditions that are capable of having the greatest impact on their intended strategy and hence on their business performance. So doing enables corporate decision makers to respond in the shortest possible time, should the prevailing conditions change. Most importantly, CEOs should be flexible and courageous enough to be able to change their strategies, should market conditions so require. "While an unanticipated market change can upset a strategy, the failure to recognise and react is what significantly erodes business performance and not the change itself" (Sterling, 2003:29).

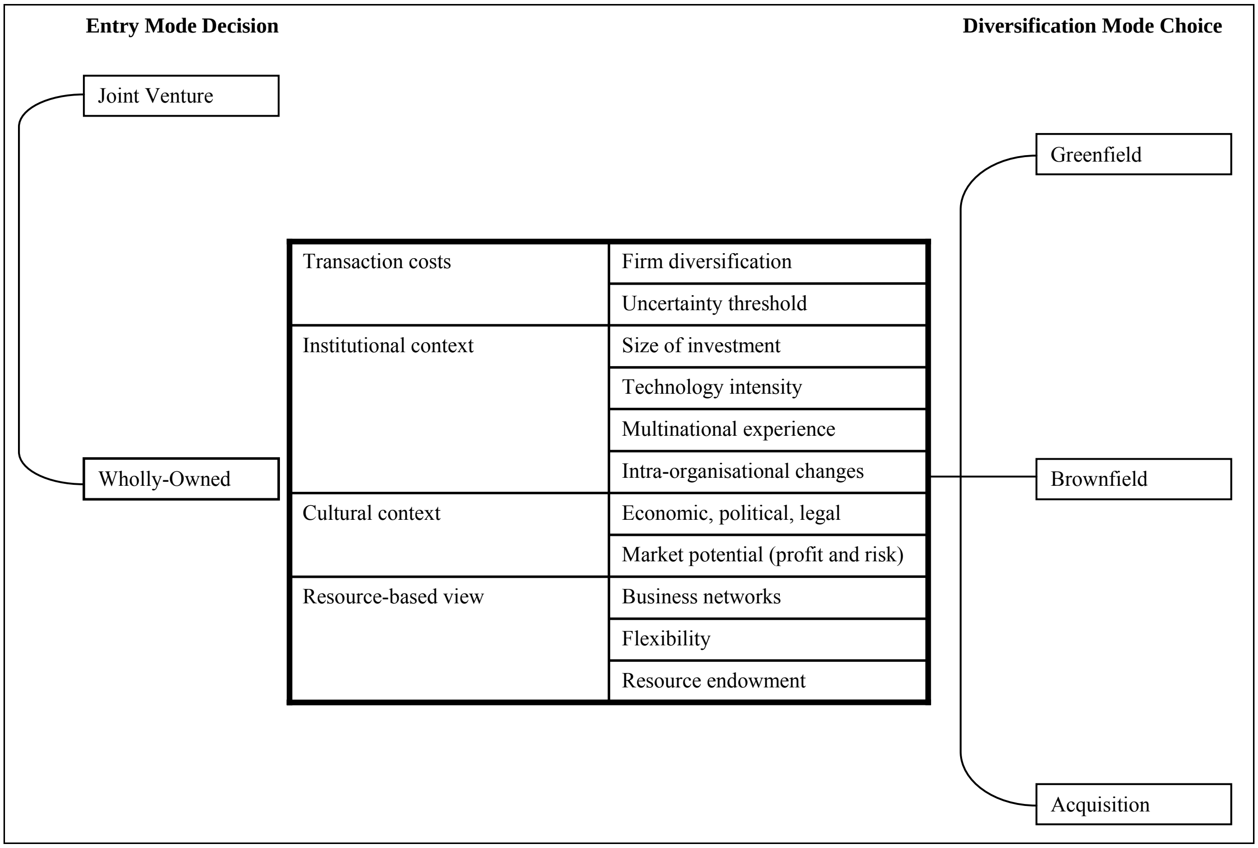
3.8 Summary

Prior to formulating a business strategy, a company should clearly understand the nature of its business and have articulated a clear purpose and set of objectives for itself. Once such a foundation is in place, a strategy can be formulated. Strategy formulation needs to take into account the context in which the organisation operates, including an extensive evaluation of the risks involved, ensuring that they do not exceed the organisation's appetite for risk. While emerging markets can provide tremendous growth opportunities for both local and multinational organisations, they remain inherently risky. Business strategies need to be sufficiently flexible to allow for success under such conditions. A substantial amount of research has identified the emerging market conditions that affect business operations in developing countries, which contribute to the challenges that organisations face when attempting to conduct business in emerging markets. The diversification mode choice as to whether companies should follow a Greenfield or acquisition entry strategy is influenced by the prevailing market conditions. Though initial research suggested that such decisions tend to be based on the transaction cost model, subsequently it has been shown that both the cultural and institutional context also contribute to the entry strategy decision. A resource-based view has been proposed to explain the diversification mode choice involved. The resource endowment theory has come to be regarded as the most significant factor involved when formulating an entry strategy. In addition to the Greenfield and acquisition strategies, a Brownfield entry strategy has been formulated, which, in combining the elements of both the previous models, appears to be extremely useful for dealing with emerging market conditions.

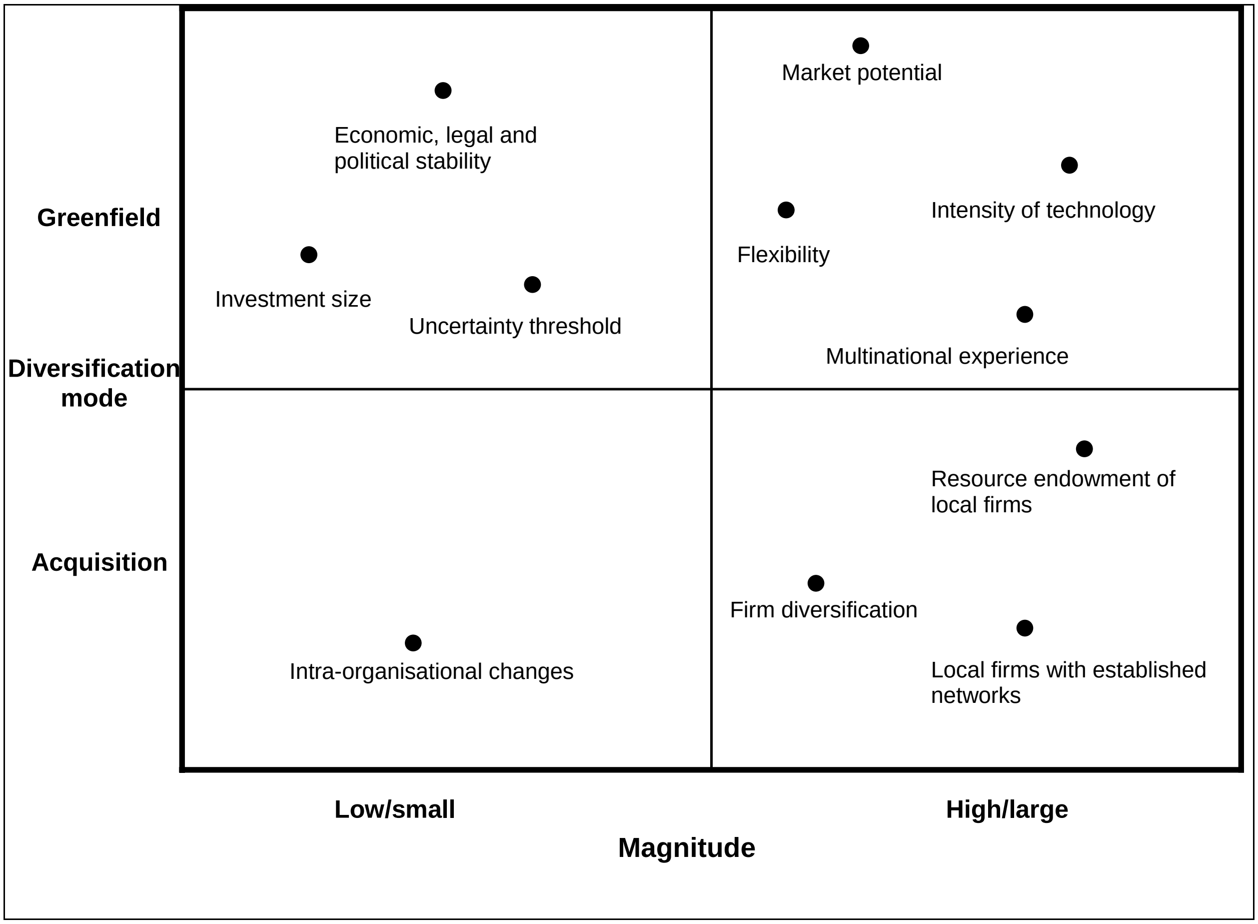
3.9 The entry strategy framework

In summarising the available literature, the author has proposed a framework for companies wishing to develop entry strategies into emerging markets. The two basic decisions that need to be made with respect to ownership and entry strategy are illustrated in Figure 4. The conditions that impact on the diversification mode choice and the specific influence that each condition has on the choice are illustrated in Figure 5. Rather than ranking the factors in terms of magnitude of influence, Figure 5 merely depicts which conditions favour the use of each entry mode.

Figure 4. Strategic ownership decisions when entering a new market



<u>Figure 5. Factors influencing diversification mode choice</u>



3.10 Research propositions

3.10.1 <u>Proposition 1</u>

Emerging market conditions are a source of both business risk and opportunity for Standard Bank's African operations

- Foreign exchange risk may negatively impact profitability (Herring, 1983).
- Government interference by way of underlying political goals may reduce economic efficiency (Friedman & Kim, 1988; Khanna & Palepu, 1997).
- The breakdown of rules and regulations reduces the ability to enforce contracts (Herring, 1983; Khanna & Palepu, 1997; Meyer *et al*., 2004; Mohr & Fourie, 2004).
- Limited channels for information dissemination restrict marketing efforts, resulting in established brands being extremely powerful (Nakata & Sivakumar, 1997).

- Limited information restricts capital investments to companies with proven track records (Khanna & Palepu, 1997; Nakata & Sivakumar, 1997).
- The lack of tertiary education results in a shortage of skills (Khanna & Palepu, 1997).

3.10.2 Proposition 2

Resource endowment is the most significant factor in determining Standard Bank's entry strategy into Africa

- Resources brought from abroad in terms of the application of Greenfield entry strategies delay the establishment of important business networks (Meyer & Estrin, 2001).
- While providing instant access to local resources, acquisitions often require extensive post-integration management (Koghut & Singh, 1988; Meyer & Estrin, 2001).
- Reshaping organisational structure incurs significant transaction costs, especially when the resources sought are held by other firms (Madhok, 1997; Meyer & Estrin, 2001).
- External and local resources possess different skills, suggesting that a co-operative entry strategy using an optimal resource mix should be formulated (Kock & Guillen, 2000; Peng, 2003).
- The need for both local and international skills tends towards a Brownfield entry strategy (Meyer & Estrin, 2001).
- Organisational capabilities exceed transaction costs in weight, when considering an entry strategy choice (Madhok, 1997).

3.10.3 Proposition 3

Standard Bank derives a first mover advantage when entering African markets

- Developing countries are experiencing rapid growth in their capital markets, which allows for increased sales for first movers, even when their market share remains the same (Hale, 1994; Penhirin, 2004).
- Pioneering companies with established distribution channels create barriers to entry for slower competitors, who then have to deal with an infrastructure that inadequately supports commercial business (Kotler, 1984; Nakata & Sivakumar, 1997).
- Due to low levels of marketing sophistication, pioneering companies are able to promote themselves in a largely uncluttered environment, thereby reducing their marketing spend (Rahman & Bhattacharyyo, 2003).

- First movers are able to benefit from economies of scale, due to faster accumulation of marketing, research and development experience (Rao & Rutenburg, 1979; Simley & Ravid, 1983).

4 RESEARCH METHODOLOGY

4.1 Research strategy

Various studies have attempted to formulate frameworks in terms of which research into strategy formulation and implementation in dynamic environments should be undertaken. According to Feurer and Chaharbaghi (1995), previous research often focused on strategy within an individual functional area in an organisation, thereby avoiding having to address the interdisciplinary nature of strategising. The authors further add that strategy-oriented research carried out in isolation has often led to generalised findings in the past, especially in the fields of generic strategies (Mathur, 1988; Zajak & Shortell, 1989), relationships between organisational characteristics and performance (Hart & Banbury, 1994), and the application of strategic tools in set environments (Johnson & Scholes, 1993). The major shortcomings of this approach have been that the studies concerned have tended to be largely influenced by the same basic research assumptions, whereas, in reality, different business units are often subjected to different operating conditions. The former problem can be overcome by adopting a holistic approach and designing research that incorporates appropriate interdisciplinary aspects of economics, technology, systems, learning theory, human behaviour and creativity. The latter problem can be overcome by way of the simultaneous consideration of the context and assumptions concerned (Feurer & Chaharbaghi, 1995).

Feurer and Chaharbaghi (1995:18) further stress the need to take the dynamics of change into account in strategy formulation, stating that "in highly dynamic environments there is no single generic method with which to conduct research". Thomas (1984) shows what while there are both advantages and disadvantages to the various types of research conducted, they can, in fact, be mutually supportive. While quantitative methods test the validity of research findings, their value diminishes in uncertain environments (Feurer & Chaharbaghi, 1995). Marshall (1985) suggests the following instances where qualitative research is most advantageous:

- in research that cannot take place under experimental conditions for either practical or ethical reasons;
- in complex research into processes;
- in research that has yet to identify relevant variables;
- in research into unknown societies or innovative systems;
- in research into informal and unstructured linkages and processes present in organisations; and
- in research into real, as opposed to stated, organisational goals.

Feurer and Chaharbaghi (1995) propose a balance of the two research methodologies, depending on the dynamics and degree of uncertainty present in the environment. While qualitative research may be more appropriate for dynamic environments subject to the development of new, conceptual knowledge, quantitative research is more relevant in static environments, in which existing conceptual knowledge is tested.

In order to overcome the shortfalls experienced in researching dynamic environments, Feurer and Chaharbaghi (1995) proposed a methodology for constructing an appropriate research framework that also addresses the shortcomings previously mentioned that may otherwise lead to inaccuracies in the findings. The following requirements should be taken into account:

- The research should focus on the elements of strategy formulation and implementation that are capable of yielding high performance.
- The research should be holistic, including the consideration of both strategic and operational issues.
- The framework should be sufficiently flexible to incorporate current knowledge.
- The research results should be relevant to organisations operating in dynamic environments.
- The research must adopt a continuous learning process in order to allow for the consideration of emerging issues.

4.2 Qualitative research

Due to the dynamic state of the environment under review and the real-life nature of the current research problem stated, a qualitative approach was used. Both strategic and operational issues were considered in the research. The selection of a qualitative research approach was further supported by the process orientation of the conceptual framework developed in terms of the available theory and the fact that additional variables were identified during the course of the study.

Miles and Huberman (1994:1) describe qualitative data as “a source of well-grounded, rich descriptions and explanations of processes in identifiable local contexts”. The authors cite the following features of qualitative data:

- the ability to focus on naturally occurring events in their real-life environment;
- a focus on a defined phenomenon in a specific context, of which the underlying issues influencing the context include the following:
  - a sense of richness and of being holistic, containing vivid descriptions;

- flexible collectability over a sustained period;
- being the most appropriate way for exploring new fields or developing hypotheses; and
- the ability to test the existing hypothesis.

While Miles and Huberman (1994) clearly advocate the use of qualitative research, they cite its shortfalls as consisting of the following:

- the labour-intensive collection of data;
- frequent data overload;
- the time-consuming nature of processing and coding of data;
- the inadequacy of data when only a few cases can be processed;
- the frequent lack of clarity regarding the ability to generalise findings;
- the unclear and poorly formulated methods of analysis; and
- the questionable credibility and quality of conclusions.

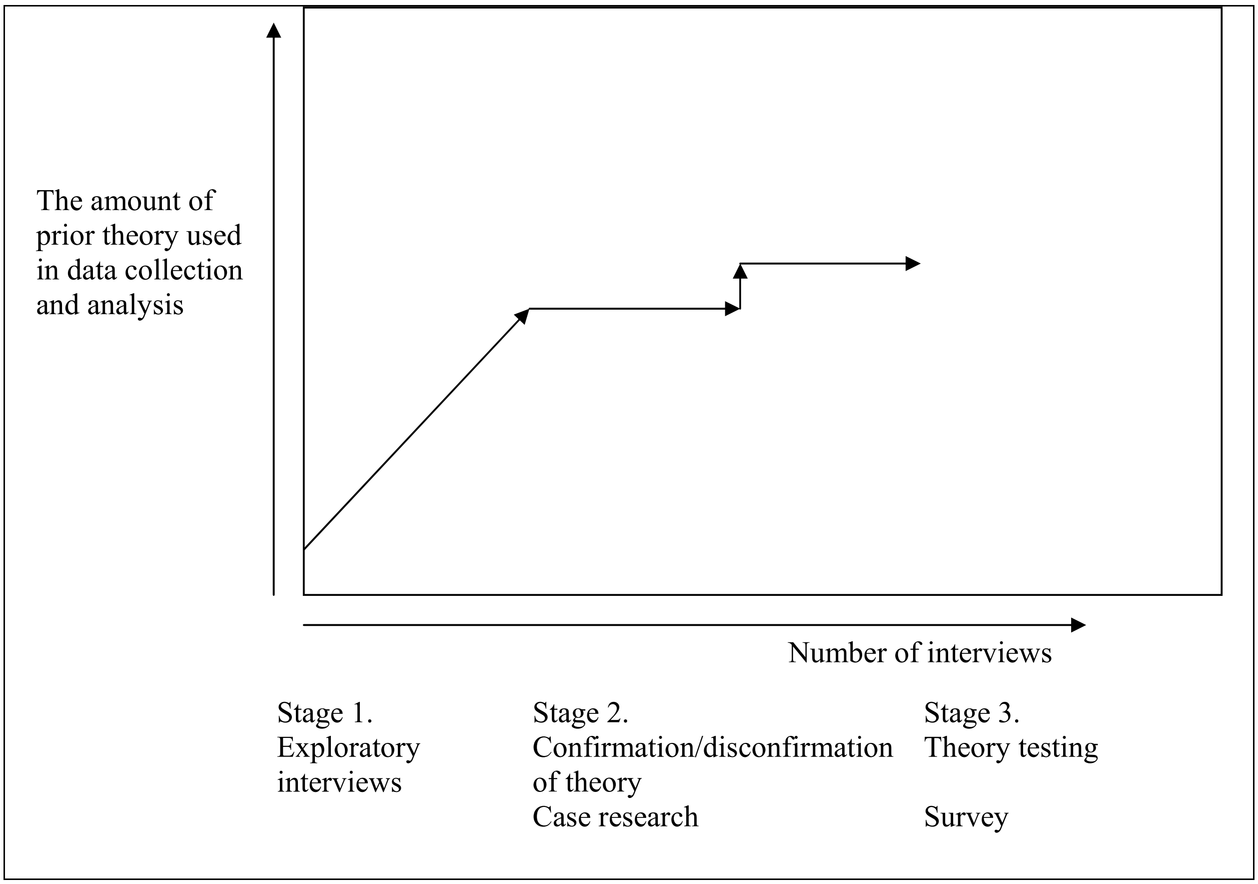
4.3 Overview of the case study technique

Yin (1981:59) describes the case study approach as "an empirical enquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident". Yin (1994:3) summarises the case study approach as consisting of "an investigation to retain the holistic and meaningful characteristics of real life events". As context is part of the study, case studies do pose a problem in that the number of variables involved will always exceed the number of observations anticipated.

Yin (1981) states that the type of evidence, the data collection method and the research strategy are all vital considerations in defining a case study. Additionally, the type of case study has to be decided on. Case studies tend to involve exploratory, descriptive or explanatory research. The research strategy used depends on the type of research question that is being asked, the amount of control that the researcher has over the behavioural events involved and the level of focus directed at contemporary versus historical events. Case studies are most suitable for obtaining the answers to "how" and "why" questions (Yin, 1994).

Case research enables both the building and testing of theory, although the balance between the two tends to be cause for debate (Perry, 2001). Induction is used when theory is not used to construct the exploratory research, on which the theory is based. Deduction is used when existing theory is applied to structuring the testing of theories (Teale, 1999). Perry (2001) argues that a middle road, using induction as well as limited deduction, is a useful way in which to conduct case research. The impact of theory on research is shown in Figure 6.

Figure 6. The impact of the amount of theory applied to the type of research conducted



Source: Perry (2001:308).

Exploratory interviews, as indicated to the left of Figure 6, should consist of a flexible process that allows the researcher concerned to adapt questions accordingly as more data is gathered. A minimal amount of existing theory should be used for data collection. As a result, the focus of the research problem may shift as more information is gleaned (Eisenhardt, 1989).

As the role of deduction assumes greater prominence in the research process, more structure is required. Interview questions should be consistent, while the research problem should remain relatively unchanged. Existing theory should form part of the research process (Yin, 1994). Where some theory relating to, and understanding of, the research problem already exists, a structured approach should be followed (Miles & Huberman, 1994). Structured interviews allow cases to be compared with one another, thus facilitating effective data analysis (Perry, 2001).

4.4 Research design

A research design directs a study from an initial set of questions to its conclusion(s) (Yin, 1994). Yin (1994) suggests that a research design should include the following five components:

- the study questions;
- the propositions;
- the unit(s) of analysis;
- the logical linking of the data to the propositions; and
- the criteria for interpreting the findings.

The study question – The main research problem in the current study relates to how Standard Bank enters emerging markets. As the "how" question is exploratory in nature, it naturally lent itself to the use of a case study (Yin, 1994). Due to the topicality of the research question, which allowed the researcher no control over the events under investigation, the decision to use a case study was vindicated. The use of semi-structured interviews ensured the findings related to both current and emerging issues, as well as providing the researcher with an opportunity to test the framework developed from the literature study.

The propositions, and sub-problems, tend to focus the direction of a study towards the detail requiring examination. Exploratory studies often do not include propositions. In this case, sub-problems and propositions were used to guide and delineate the study. A substantial amount of literature was found to be available on emerging market characteristics. What was unclear was whether the literature consulted was, indeed, exhaustive and which of the available literature was relevant to banks operating in Africa. A number of factors that impact the entry strategy decision have been documented, but none of them appear to take into account African emerging market conditions. As a result of the limited theory available, both an inductive and deductive approach were used. According to Yin (1994), theory development is a crucial aspect of the case study research design, applying to both cases of testing and developing new theories. Accordingly, the framework developed from the literature was tested in the current context and new theories were developed, where applicable.

Units of analysis require careful consideration as far as they define a case (Perry, 2001). The definition of a case determines the type of data that will be required to be collected. For the purposes of this research, a single case study was used. The units of analysis used related to Standard Bank and its alignment or deviation from the proposed framework. Information was gathered as to each aspect of the proposed framework, aligned to the initial research questions and the related sub-problems and propositions.

Logically linking data to the propositions involved – According to Yin (1994), such logical linkages and the criteria for interpreting the findings has been less well developed. As previously discussed, the sub-problems and propositions developed were used to guide the direction of the research.

Criteria for interpreting the findings – Probe questions were used to guide the interviews in terms of the relevant sub-problems and propositions. The interviewees expressed themselves on the proposed framework, as it had been derived from the literature, and highlighted new thoughts applicable to banking in the emerging markets in Africa.

4.5 Research quality

According to Yin (1994), the quality of the research design depends on the construct validity, the internal validity, the external validity and the reliability of the study.

4.5.1 Construct validity

Construct validity ensures that the different areas covered in a study consistently relate back to the original objectives. The parameters being investigated must be relevant to the research problem itself. Yin (1994) suggests three ways in which to improve construct validity:

- using multiple sources of evidence during data collection;
- establishing a chain of evidence; and
- reviewing of an initial draft of the findings by the key informants involved in the study.

Data was collected from published documentation, including annual reports and the documented procedures used by Standard Bank as part of its entry strategy. In addition, a number of semi-structured interviews were conducted, using probing questions where necessary in order to steer the interview towards addressing the relevant sub-problems and propositions.

4.5.2 Internal validity

The internal validity test is only applicable to causal case studies. The test attempts to ensure that a causal relationship between two factors is not influenced by a third factor that has been excluded from the study. Internal validity also extends to making inferences. Ensuring that all possibilities have been considered and that the evidence is convergent is important.

4.5.3 External validity

The external validity test is important for determining whether the findings can be generalised beyond the immediate case study. Single case studies are often not open to generalisation. Theories should be tested in multiple case studies, so that similar results are achieved before broad generalisations are made.

Due to Standard Bank's substantial market share in Africa, as well as the experience they have in operating in Africa, the current research consists of a single case study. The emerging market conditions in Africa that impact banking should also apply to other banks. The presence of other South African banks operating in the rest of Africa on the same scale as does Standard Bank is limited at this stage.

4.5.4 Reliability

Reliability tests can be applied to assess whether the research is replicable. Should other researchers attempt to conduct the same research, using the same case and following the same procedures, if the original study is reliable, they should be able to arrive at the same conclusions. In this way, biases and errors can be eliminated from a study. Yin (1994) suggests thorough documentation and the use of a case study database as ways of improving reliability.

4.6 Data collection

A number of research tools are available by means of which to conduct case study research. According to Yin (1981:58), evidence for case studies can come from "fieldwork, archival records, verbal reports, observations or any combination of these". Yin (1994) cites the following data collection and analysis characteristics that should be present in a case study:

- the ability to handle more variables of interest than data points;
- replying by way of multiple sources of evidence, in which the data needs to converge in a triangulating way; and
- the appropriate guiding of data collection and analysis due to the prior development of the theory.

According to Yin (1994), the most common form of case study interview is an open-ended interview that allows respondents to offer their opinions and personal insights into various events and occurrences. Ensuring that sufficient evidence is available to corroborate information obtained from the interviews is important. This enables the pitfalls resulting from the interpersonal influence typical of single interviews that tends to lead to bias and overdependence on single sets of information to be overcome.

A focused interview, while retaining the use of open-ended questions, tends to follow a more structured approach. In the current case, the interview protocol follows a defined set of questions, which should enable the respondent to expand the current thinking on each topic. While interviews are an important source of case study evidence, they are subject to a number of pitfalls, including "bias, poor recall and poor or inaccurate articulation" (Yin, 1994:85). As mentioned previously, such risks can be reduced by obtaining corroborating evidence from alternative sources. Yin (1994) proposes that, no matter which method is used to gather evidence, three basic principles should be followed:

1. Evidence from multiple sources should be used. One of the strengths of the case study method is its ability to use multiple sources of evidence, leading to "converging lines of inquiry". The process is that of data triangulation, which provides more convincing and accurate conclusions (Yin, 1994). Triangulation uses independent measures to show that different findings agree with one another, or at least do not contradict one another (Miles & Huberman, 1994).

Paton (1997) as cited in Yin, (1994), refers to triangulation by means of:

- data sources (data triangulation);
- different evaluators (investigator triangulation);
- different perspectives on the same set of data (theory triangulation); and
- different methods (methodological triangulation).

Miles and Huberman (1994) cite similar methods of triangulation, to which they add qualitative or quantitative data types. The authors consider triangulation as using multiple sources and modes of evidence to assist with the verification process. Data triangulation is also able to improve construct validity, as the same research problem is addressed by way of multiple sources of evidence (Yin, 1994). As previously mentioned, data was gathered from multiple interviews, as well as from Standard Bank's documented practices and procedures.

2. A case study database should be created. Data, once collected, should be correctly documented and filed. Whether the evidence is handwritten or on audio tapes, it should be electronically captured and saved. Not all information gathered will be used, and the process should therefore supplement the inclusion of data in the research report.

3. A chain of evidence should be maintained. The reliability of the information can be improved by means of maintaining a chain of evidence stretching from the initial research question to the final conclusion, allowing the reader to progress logically in either direction. While the report itself should make the relevant references to the case study database, closer inspection of the case study database should reveal that the correct protocol was followed in line with the procedures required to be followed in terms of the research question.

Miles and Huberman (1994) argue that data should be presented for analysis as a focussed data set in the same systematically ordered location aimed at answering the relevant research questions. Most appropriate for this study is a conceptually ordered display, which allows a number of dependent concepts or variable to be displayed simultaneously. Perry (2001) suggests the use of probe questions to ensure that the interviewee responds to all aspects relating to the research issues, even if they have not previously emerged in open discussion. The probe questions should form an important part of the interviewer's guide that can be used in the subsequent data analysis (Yin, 1994). A list of the probe questions used in the interviews is given in Appendix 2.

Data was collected by means of the semi-structured interview technique. The objective of each interview was:

- to test the framework developed from the literature; and
- to develop any new theories applicable to the context of the study.

Senior executives involved in strategic decision making regarding Standard Bank entering African emerging markets were interviewed in a total of eight interviews. The list of interviewees is given in Table 3.

Table 3. The names of interviewees involved in the Standard Bank case study

Name	**Position**
Mr R. Norval	Director: Risk, Stanbic Africa, The Standard Bank Group of South Africa Ltd, Johannesburg, South Africa
Mr K. Wingfield	Director: Acquisitions, Stanbic Africa, The Standard Bank Group of South Africa Ltd, Johannesburg, South Africa
Mr G. Brackenridge	Director: African Operations, Stanbic Africa, The Standard Bank Group of South Africa Ltd, Johannesburg, South Africa
Mr P. Clayton	Risk Economist, Stanbic Africa, The Standard Bank Group of South Africa Ltd, Johannesburg, South Africa
Mr M. Baumgartner	Head of Corporate Banking, Uganda, The Standard Bank Group of South Africa Ltd, Johannesburg, South Africa
Mr M. Mwangi	Director: Investment Banking, Corporate and Investment Banking, The Standard Bank Group of South Africa Ltd, Johannesburg, South Africa
Mr M. Wiessing	Director: Wholesale Banking, Stanbic Africa, The Standard Bank Group of South Africa Ltd, Johannesburg, South Africa
Mr G. Garrett	Director: Credit and Country Risk, Corporate and Investment Banking, The Standard Bank Group of South Africa Ltd, Johannesburg, South Africa

4.7 Data analysis

Two general strategies exist for analysing case study data. One, which relies on theoretical propositions drawn from the literature review and reflected in the research questions, assists in focusing the research on specific sets of data. The other, which involves developing a case description, is less common and used only as an alternative in the absence of research propositions. All case studies, whether single or multiple, should consider four dominant analytical techniques: explanation-building; time-series analysis; pattern-matching, and program logic models (Yin, 1994).

The study will adopt the explanation-building technique, adding an element of pattern-matching wherever appropriate.

The data analysis in the current study confirmed the theory drawn from the literature consulted, in line with the recommendation made by Yin (1994) that the analysis of strategy should focus on research questions derived from the literature. The analysis of data includes both within-case and cross-case analysis (Yin, 1981; Perry, 2001). According to Miles and Huberman (1994), within-case analysis always occurs first, as it provides data on which to base the cross-case analysis. Within-case analysis should be preceded by a short description of the case involved. Cross-case analysis should identify and provide explanations of differences between cases (Perry, 2001). Cross-case analysis increases the possibility of generalising the findings and of further enhancing an understanding and explanation of the findings (Miles & Huberman, 1994). Due to the market penetration that Standard Bank has achieved so far in the rest of Africa, a single case study based on the Standard Bank experience will be sufficient. The limitation of the study to such parameters is further necessitated by the minimal penetration of the other South African banks into the rest of Africa at this stage. Standard Bank has used both Greenfield and acquisition strategies, enabling them to provide sufficient data for the analysis of both scenarios (R.N. Norval, personal communication, 31 July 2005).

4.8 Summary

A qualitative, single case study approach was used for this research. A combination of both inductive and deductive research involved the testing of the existing theory derived from the literature review and the development of new theory, where applicable. Semi-structured interviews were used to collect the data, using probing questions whenever appropriate. The open-ended questions were so designed as to ensure that the collected data related back to the sub-problems, propositions and research question under review. Data was also obtained from the documented procedures available, as well as from published reports and press releases.

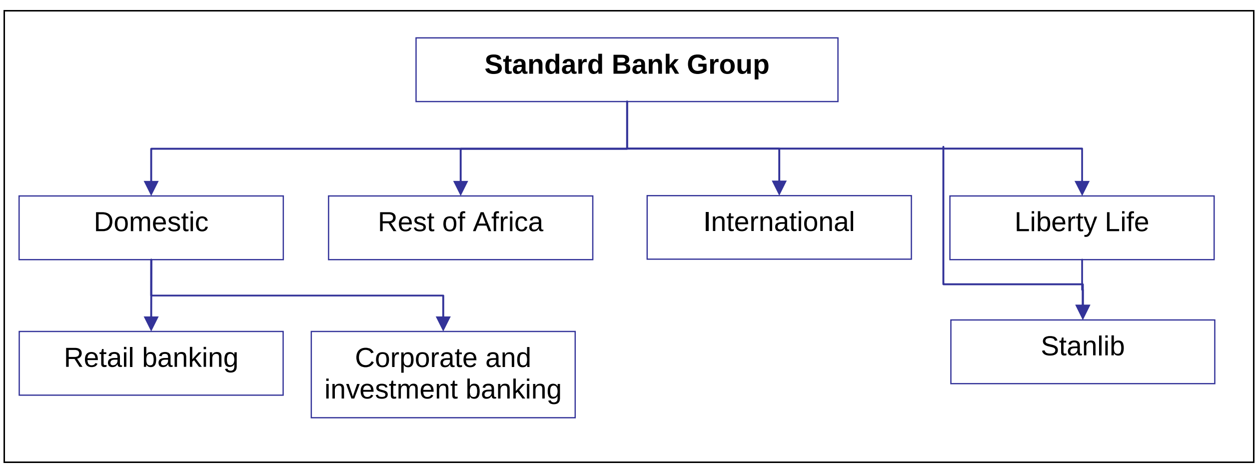
Standard Bank was used as the pivotal case study, as its presence and success in Africa provided a reliable and credible source of experience on which to base the research. Initial discussions determined that Standard Bank was in a position to provide evidence on each of the sub-problems and propositions involved, due to its use of both types of entry strategies.

5 STANDARD BANK CASE STUDY

5.1 Overview

The Standard Bank of South Africa (SBSA) was formed in 1962, operating as a subsidiary of the Standard Bank in London. In 1969 the Standard Bank Group was formed as the holding company for SBSA. Standard Bank in London became Standard Charter plc and in 1987 sold its 39% share in the Standard Bank Group, thereby transferring 100% ownership to the Group in South Africa. Standard Bank currently has over $81 billion in assets and employs approximately 35 000 people worldwide. The group also offers insurance services through its control of the Liberty Group. The Standard Bank Group is based in South Africa and is listed on the Johannesburg Securities Exchange (JSE). The Group has a broad spectrum of shareholders, the largest being Old Mutual with 14%. The public investment commissioner holds 13%, the Liberty Group 5% and Santam 4%. Standard Bank has more than 25 000 shareholders. In addition to its extensive presence in Africa, the Group also operates in 21 other countries in the USA, Europe and Asia (Stanbic History, 2005). An overview of the Group structure is given in Figure 7.

Figure 7. The Standard Bank Group structure

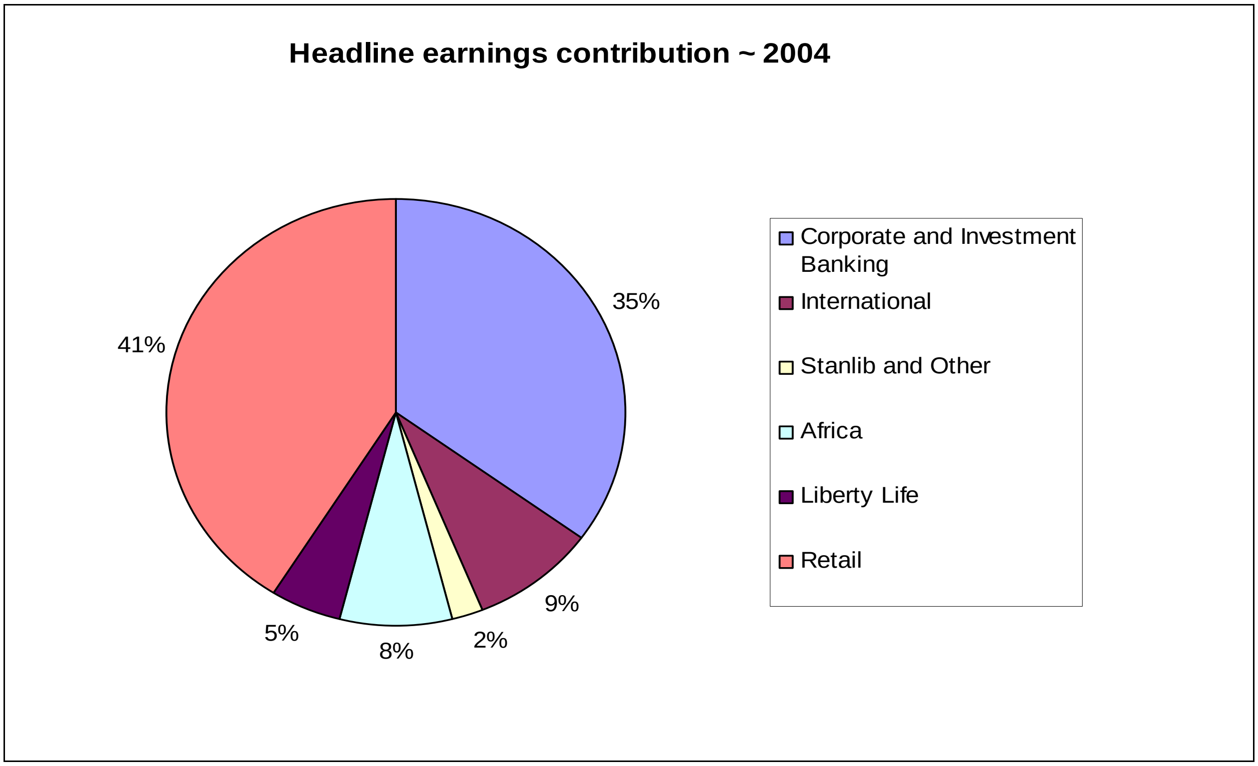


Source: Standard Bank Annual Report (2004).

5.2 Bank performance

Figure 8 depicts the contribution made by each business unit in terms of headline earnings for 2004. The 8%, or R634 million, for Africa refers to the retail, commercial and investment banking services in 16 African countries outside South Africa.

<u>Figure 8. Headline earnings contributions for each business unit at Standard Bank</u>



Source: Standard Bank Annual Report (2004).

5.3 Standard Bank in Africa

Standard Bank re-established its African operations in 1988, opening up a branch in Swaziland. In 1992 the Group opened a bank in Botswana and acquired the ANZ Grindlays network in Botswana, Kenya, Uganda, Zaire, Zambia and Zimbabwe, including minority holdings in Ghana and Nigeria. Standard Bank offers the largest single network of banking services in Africa, with over 1 000 points of representation in 17 countries. Standard Bank trades under the name Stanbic Bank in Botswana, DRC, Ghana, Kenya, Malawi, Nigeria, Tanzania, Uganda, Zambia and Zimbabwe. The Group trades under the name Standard Bank in Namibia, Swaziland, South Africa, Lesotho, Mauritius and Mozambique. The Group is also represented by the Union Commercial Bank in Madagascar (Stanbic

History, 2005). The first of three vision statements for the Standard Bank Group involves being "committed to making real difference to financial services in South Africa and other emerging markets" (Standard Bank Annual Report, 2004:3). The Group further states that its broad strategy is to "continue to grow a portfolio of growth options in financial services in developing economies" (Standard Bank Annual Report, 2004:5). One of the priorities for 2005 is listed as growing the African operations of the bank organically, as well as by means of strategic acquisitions in selected markets (Standard Bank Annual Report, 2004).

6 PRESENTATION OF RESULTS

6.1 Introduction

Chapter 6 outlines the key responses obtained during interviews. A total of eight in-depth interviews were conducted with senior Standard Bank employees who are responsible for strategy and operations in Africa. A detailed discussion of the results, answering the sub-problems and testing the propositions is presented in Chapter 7.

6.2 Responses to interview questions

Responses to each of the questions have been set out in tabular format, highlighting the major themes relating to the set questions. Wholesale banking refers to Standard Bank's Corporate and Investment Banking division, which comprises corporate banking, treasury and transactional services. Retail banking comprises the branches and the individual banking products, such as home loans and credit cards.

<u>Question 1: What is the overall business strategy and objectives for Standard Bank's African operations?</u>

Question 1 was designed to set the context of the interview and to provide a starting-point for the discussion of banking in Africa. A large majority of the respondents started out by explaining why Standard Bank operates in Africa. The responses appear in a separate table below. They confirm previous research as to South African Bank's intentions and objectives for expanding into Africa (Briggs, 2005). The question elicited responses relating to a number of main themes concerning Standard Bank's strategic interest in Africa, including:

Question 1. What are is overall business strategy and objectives for Standard Bank's African operations?

Expanding into Africa is part of Standard Bank's official vision and mission statement. The objective is to achieve a presence in key markets on the African continent in the form of a universal banking model, containing both wholesale and retail banking operations. These operations must have a market leadership position, but do not necessarily have to be number one. The banking operations must make a positive difference to the shareholders.
Grow operations and widen the scope of the business organically or through acquisitions. Examples of acquisitions include the Uganda Commercial Bank and Commercial Bank of Malawi, which was in the top two retail banks in the country at the time.
As a South African Anglophone Bank, Standard Bank has this far focussed on the East African markets, with a presence in key West African markets such as Nigeria and Ghana. Standard Bank will look to grow its presence in West Africa.

Standard Bank follows a thorough due diligence process when investigating new African markets in Africa. Two of the most crucial factors that determine possible entry into the market are: • political and economic stability in the target country; and • size of market. An example of this is Nigeria, with a population of approximately 130 million people and about the fourth largest GDP in Africa. Nigeria also has significant oil revenues. Once a suitable market has been found, Standard Bank starts looking at potential banks to acquire. This then becomes opportunistic. A critical success factor is to find a bank that is for sale at the right price.
Investigate options for wholesale and retail bank offerings. Standard Bank may have wholesale banking in a particular country without retail banking. Wholesale banking always precedes a retail bank offering. Although it is currently not the case, retail banking in Africa in the future may have only certain niche offerings. An example of this may be credit cards or mortgage bonds.
Once the target market has been selected, Standard Bank attempts to build scale in the relevant market. One of the business requirements is to build strength in Africa around a strong South African base. Regional strength is required to follow the trade flows between South Africa and other African countries. Due to the requirements of building critical mass, Standard Bank has been looking at acquisitions in order to build this scale as quickly as possible.
Standard Bank's operations in Africa have to align with internal benchmarks. These benchmarks require a R60 to R70 million profit after tax for a particular market.
The high margins from the wholesale banking operation may be used to increase infrastructural development. This could include aspects of a retail offering, should there be place in the market for it.
Once a retail banking offering has been established, the primary strategy is to follow a universal banking model. This comprises a full banking service, offering a wide range of products to several customers, from poor individuals to wealthy corporates. While initial wholesale banking offers some profits early on, the real money is in retail banking.
When Standard Charter sold its share in the Standard Bank Group, it left Standard Bank with little representation in Africa. When they bought ANZ Grindlays in 1992, it was more of a continuance of the operations in Africa. It was not anything new, as the Bank had been operating in Africa previously. The decision to move into Africa is therefore not a new venture.
A five-year vision for Standard Bank was developed in 2000. One of the targets was to achieve 15–20% of Standard Bank's balance sheet in Africa, outside of South Africa. To date, Standard Bank has not yet reached this target.
Standard Bank looks to play in markets where it has specific expertise and key competencies, whether it be areas of retail, or wholesale banking, or in mining and natural resources, or trade finance, etc.
Standard Bank intends to become one of the top three banks in each African market in which they operate.

Additional responses: Why Standard Bank has expanded into Africa

Standard Bank made a decision in the late 1990s to enhance the quality and growth of their earnings through geographic, and not only business unit, diversity. They see Africa as their backyard, and as a geographic area with which they have some familiarity. It was therefore a logical step for them to expand into Africa. The expansion into Africa is part of the regional component of the overall group strategy.
South Africa is a mature emerging market. The rate of economic growth in many other African emerging markets is greater than in the local South African market. As such, the returns in these emerging markets are sufficiently greater than the local market.

The African economy is driven largely by commodities, initially agriculture, and then gold and other mining resources. Standard Bank was built around commodities and has expertise in these areas.
Standard Bank has spent a significant amount of time developing capital and debt markets in emerging markets in Africa.
Historically, banks have followed their customers into new markets. Standard Bank has followed their corporate customers into Africa, in order to provide them with financial services. The natural progression is then to offer banking services to the employees of the companies operating in these markets.

Question 2: What emerging market conditions have a significant impact on banking in Africa?

Question 2 was designed to identify the most significant emerging market conditions that impact Standard Bank in Africa. The question addresses Proposition 1 by means of identifying sources of business risk when operating in Africa. The question also addresses Proposition 2, as the factors involved may influence entry strategy, providing input into the framework for diversification mode choice, as illustrated in Figure 4. The most significant emerging market conditions identified include the following:

Question 2. What emerging market conditions have a significant impact on banking in Africa?

Africa is perceived as the “dark continent”. The level of infrastructure may not be the same as in South Africa, but there is massive opportunity. While it is very similar to South Africa, in many ways there are large hurdles that need to be overcome. East Africa was British colonialised. West Africa was primarily run by the French. Africa was developed by the colonising powers, who built roads, communication networks and infrastructure. These colonising powers took the commodities from these countries and benefited from them off shore. Once they pulled out of Africa, fewer funds flowed back into Africa. The high costs of infrastructure remained. As a result of less income, the infrastructure started to crumble. The risks of dealing in Africa are a legacy of the neglect of the past. As the countries become more economically efficient, they generate capacity to take on additional business.
Economic instability. This goes hand in hand with political instability. The success of a bank is highly dependent on external factors, most importantly the macroeconomic conditions. At the top of the list is the size and growth of the economy (GDP). This determines the market potential and whether it is a viable option for Standard Bank to operate in this market.
The exchange and inflation rates, which link to the interest rate, are the most important macroeconomic factors. Any sudden change in the interest rate has a material impact on the Bank’s earnings. The exchange rate is crucial to foreign companies. As a foreign investor, Standard Bank is interested in translated earnings, as performance will be measured in South African rand. The countries in which Standard Bank operates have currencies that are prone to volatility and depreciation over time. While interest rates are decreasing, they are still higher than developed markets. This forces the bank to demand a higher hurdle rate than for investments in South Africa.
Currency volatility provides challenges and opportunities in the daily operations of the Bank. When significant funds are required, for a client or for the bank, it can take a long time to collect the foreign exchange. On the positive side, thin markets can lead to juicy foreign exchange margins. Many countries have dollarisation of their economies. This can lead to the cheap collection of deposits and high interest rates on dollar loans.
Interest and inflation rates have tended to decrease over the last few years. Decreasing interest rates

have a negative endowment effect on interest income. In order to counter this, Standard Bank has tried to lock in interest rates and look for other avenues to generate income, such as fees.
The level of banking penetration in a particular market is an important measure. How successful have banks been in intermediating? The measure is the ratio of deposits to GDP. How much of the money in circulation is flowing through the banks? Low level of banking penetration provides greater opportunity for a bank to enter the market and enjoy a rapid accumulation of critical mass.
Heavy reliance on commodities and agriculture. Very few, and sometimes a single form of agriculture or commodity form the drivers of the economy in emerging markets. It is important to investigate these drivers, as fluctuations in the commodity price will have a significant impact on the state of the local economy. The fluctuations and cycles in economic activity in these countries that are dominated by agriculture and commodities are not always the same as in developed countries. This negatively impacts the quality of earnings for the bank. The price and availability of raw materials can have an impact on the quality of loans. An example is Namibia's fishing industry. High oil prices, a strong rand, low international prices and adverse fishing conditions have led to significant problems in the fishing industry in Namibia. The bank has responded to this by carefully assessing its portfolio, by exiting certain positions and taking greater security.
The regulatory requirements of the local government play an important role in determining the Bank's ability to follow its business model for conducting its operations. An example of this is the cash reserves that are required. In Zimbabwe, 60% of funds raised from the public have to be deposited with the Central Bank at 0% interest. In Malawi, the Central Bank signalled a change in the reserve requirements, only to change their mind at the last minute. The bank, having positioned itself correctly for the change, had to pay fines for breach of minimum requirements. These challenges require that the bank operates conservatively and closely with the local regulator.
While product markets and infrastructural developments are a big issue, they play a secondary role to local economic factors. If Standard Bank were to wait for infrastructure development and sophisticated product markets with communication channels and distribution networks, they would miss the opportunity. If economic conditions are favourable, this infrastructure will follow. The important principle is not to apply first-world banking procedures to these emerging markets.
In many countries, legal frameworks for certain structures are weak or nonexistent. The quality of the legal system, as well as the bodies tasked to carry out the legal judgements, are weak. As a result, the Bank is forced to focus on the quality of its counterparts. This can raise costs and lower the levels of business. Lack of contract enforcement impacts the wider economy. The wider economy suffers, as certain segments that you would want to lend into under normal conditions will not receive the financing. This includes personal lending and vehicle and asset finance. This is to the detriment of the wider economy. This judicial regulation (contract enforcement) will also follow favourable economic and political conditions.
If there is economic and political stability, domestic investors gain confidence and hold local assets. This leads to foreign direct investment (FDI), and ultimately the economy grows. This has a trickle-down effect. The first winners are the businesses, with the consequent establishment of a middle class (second winners). With the creation of a middle class, retail opportunities emerge. Standard Bank needs to get the wholesale component of their banking model correct. Intermediate without domestic capital. This allows the Bank to gain some experience in the market and to learn about the economy and the major competitors. The Bank can then look for domestic banking opportunities, in the form of retail offerings.
Remoteness of locations is a problem. Uganda, for example, has 65 branches spread throughout the entire country. These remote locations are difficult to manage. The problem is compounded by poor road infrastructure.
People who have done well in Africa are entrepreneurial and pioneering – need to be independent and resourceful.
Banks benefit from the undesirable market conditions, which keep pricing and lending rates at a

higher level. It is a double-edged sword.
What works in South Africa does not necessarily work in the rest of Africa. Standard Bank has been very effective in making money in a stable economic environment.
Infrastructure to support banking does not always exist. This includes a lack of credit-rating agencies and availability of ITC checks.

Question 3: What do you perceive to be the greatest risk to conducting business in emerging markets?

Question 3 was designed to identify the most significant business risks for Standard Bank's operating in Africa. The question addresses Proposition 1, contributing to the determination of the risks involved in operating in Africa. The major risks identified include the following:

Question 3. What do you perceive to be the greatest risks to conducting business in emerging markets?

The monetary environment is a huge risk. The collapse of interest rates puts the Bank at risk, as there is unbalanced revenue–to–expense ratio. This requires Standard Bank to drive revenues from new business opportunities or to cut expenses.
In an unstable environment, government regulation and the lack of contract enforcement become risks. Government intervention prevents the Bank from following its business model. Lack of contract enforcement reduces the number of viable customers. This increases the costs of doing business, as Standard Bank has to be more selective in taking on new business.
Political risk, which may be a consequence of economic risk. When policies fail to deliver, the potential for political risk escalates rapidly. It is important to determine to what extent economic conditions are acting as a possible forecast of political risk. Political risk carries with it the possibility of the reversal of policy. This includes monetary, fiscal and FDI policy. Governments have the ultimate weapon of nationalisation.
Ability to manage volatility. There is a large amount of volatility in emerging markets. Fragile economies are more susceptible to exogenous shocks. An example of this is Zambia. The economy is booming on the back of the copper price. As a foreign bank operating in a new economy, the fortunes of the Bank are directly related to the state of the local economy. This is particularly relevant for a full-service bank operating in a foreign economy.
The remoteness of locations is a risk. This includes transporting cash to and from the remote areas.
Cross-border transactions are a risk for foreign banks. This is often referred to as sovereign, country or transfer risk. Cross-border transactions are used to support business in a specific country. There is a history of defaults on foreign debt in African countries. When the environment is politically unstable, Standard Bank never knows whether they will get their money back. Fortunately, trends have been improving.
All of the conditions that are characteristic of emerging markets contribute to the overall risk of operating in these markets. A sound business model that is able to adapt to the local conditions is required.

Question 4: How has the risk/reward profile of operating in Africa changed over the last seven to ten years?

Question 4 was designed to assess the changing risk/reward profile for Standard Bank in Africa. The question addresses Proposition 1, providing further insight into determining whether the risks and rewards of operating in Africa are increasing or decreasing.

Question 4. How has the risk/reward profile of operating in Africa changed over the last seven to ten years?

Emerging economy margins are higher due to higher risk, while macroeconomic conditions are normalising. While yields may have decreased, they are still significantly higher than in South Africa. The higher margins obtained in Africa are used to fund Standard Bank's growth strategy.
Risks in African emerging markets have declined due to: • improved political stability; and • greater support from the rest of the world in attempting to uplift the African continent. As a result of the reduced risk, emerging market appetite has increased over the last 10 years.
The lower profit margins for companies operating in Africa are due to: • a decrease in risk, resulting in a risk/reward trade-off; and • more players in the market, making it more competitive.
The policy framework and prescriptions of the Washington consensus, the International Monetary Fund (IMF), and the World Bank: • better governance; • better fiscal management; • better monetary management; • a more welcome FDI environment; • the ease of doing business in emerging markets; and • less corruption. This has resulted in more competition from new entrants. The market price is risk. Reduced risk has reduced margins. The easy money has gone. Economies of scale and the fundamentals of managing a business are now more crucial.
Returns in Africa are greater than elsewhere. A higher perceived risk allows the bank to charge more. Risk is decreasing as communications improve. Increased communication within and from countries has allowed for quicker identification of risks and earlier intervention to minimise these risks. Customers also have increased access to external pricing. They now know what they should be paying. Competition is entering the market. While improved communication, along with government action, has cut into margins, they are generally still higher in Africa than elsewhere. This has been countered by improved efficiencies, focus on volumes and attempts to raise fee income.
The costs of operating in Africa are also higher. Generally, people costs are lower, but infrastructure costs are higher. In some instances, this can include the cost of supplying own power and sometimes communications.
Standard Bank takes on risk relative to its knowledge base, people and the market conditions. Once the pitfalls have been identified, the Bank is in a better position to select the markets. A number of factors need to be investigated: • economic and political circumstances; • the sectors of the market with the most potential; • the competition in the market sectors;

• the risk acceptance criteria; and • the balance-sheet quality of returns of the target bank. Standard Bank is then able to define its customers and to take on only the good customers. By bringing the right customers into the bank, it is able to reduce costs and increase margins.
About 10 years ago, a number of hugely unpopular policies were put in place in Africa. Interest rates were increased and people were desperately trying to get out of the economy. Since then, governments have been forced to be responsible with their economic management. Big chunks of the economy were taken out of state control. Resolving macroeconomic problems is easy compared to the microeconomic problems, such as the court system, deregulating labour markets, etc.
In the last five years, margins have reduced, but at the same time the knowledge base has improved. The quality of risk management has improved. While the available margin has been declining, Standard Bank's actual margins have been maintained. This will not hold in the long term, as the number of banks in the market increases and the quality of their business processes improves. As they become more effective in the market, the margins will come down. There is also a large amount of banking competition: Nigeria's 93 to 98 banks have been reduced to 25, due to the Regulator. Kenya has about 58 banks.
The risk/reward profile has improved, due to the quality of earnings. This is as a result of the improved risk processes that have been implemented by Standard Bank.
African counties are increasingly putting more economically logical policies in place. There is a growing recognition of the importance of consistency over time to encourage economic activity. For example, Angola has made its hydrocarbon policy more welcome to inward investment. It has also improved its technology. These two factors have led to a large increase in oil exploration and production in the country. This creates further opportunities for the Bank in Angola. Tanzania's gold and other mineral production has increased sharply following the implementation of a new mining code.
Favourable government policies have also allowed for an increase in cross-border exposures and, despite a slightly reduced margin, an increase in net profits out of the African operations.
Five years ago, there was less competition. This drove larger rewards. The real risks were smaller than the perceived risk. Standard Bank could get higher margins for a relatively low amount of risk. Today, there is greater competition. Margins have reduced, due to increased competition and banks realising that the risks are not as great as they thought. Real risks are also decreasing. While margins may be lower today, the cake is growing, due to reduced regulation and a larger potential customer base.

Question 5: Under what conditions does Standard Bank follow a Greenfield entry strategy?

Question 5 was put to the respondents in order to address Proposition 2. The question was designed to determine whether resource endowment was a significant factor in determining entry strategy. The responses added further considerations to the framework of diversification mode choice in Figure 4. The main conditions under which a Greenfield entry strategy is followed are the following:

Question 5. Under what conditions does Standard Bank follow a Greenfield entry strategy?

Markets with low levels of banking competitiveness. Standard Bank is then under less pressure to establish immediate critical mass.
The market doesn't offer retail banking opportunities, meaning no need for a huge distribution network.
The banking opportunity is largely wholesale; commodities, developing capital markets, etc that

requires specialist skills in a smaller team. An example of this is in Angola. Standard Bank is in the process of establishing a representative office in Angola. The intention is to support the oil and mining sectors. This requires specialist expertise. Standard Bank will then have the option to grow organically or acquire. There is currently limited retail banking in Angola. The retail banking opportunity is not there yet. Wealthy people bank off shore and poor people have no money anyway.
Most of the Greenfield operations are wholesale banking. With wholesale banking, low levels of technology are required.
Low levels of market growth in the retail banking sector reduce the requirement to follow an acquisition strategy. Under these conditions, a Greenfield entry strategy is preferred to set up a wholesale banking operation.
In new markets, where there is little knowledge and elements of uncertainty exist, a Greenfield entry strategy is followed. The risk-averse option is to follow a Greenfield entry strategy.
Greenfield operations can be used to test the water and to get to know the market. These operations are built around competencies in large-project finance, structured trade finance, correspondent banking to a series of banks. Greenfield operations are used to obtain information. How crowded is the market? Where is the market in the state of its development? How critical is having a distribution network to the business model? How do you handle the cash challenge and the payment system? Do you need to own the distribution channel? How critical is it to have a bricks-and-mortar infrastructure. What are the wholesale and retail banking opportunities?
Greenfield entries are used when Standard Bank has found an attractive market and is not able to find a suitable bank for acquisition. If the bank requires some representation in a short space of time, they establish a Greenfield operation. Standard Bank is getting more experience in Africa and is becoming more aggressive. They are more likely to move into a market in which they have not been operating for a long time.

Question 6: What are the advantages and disadvantages of following a Greenfield entry strategy?

Question 6 was asked in order to obtain additional insight into the implications of following a Greenfield entry strategy in Africa. The advantages and disadvantages of a Greenfield entry strategy for Standard Bank in Africa are as follows:

Question 6. What are the advantages and disadvantages of following a Greenfield entry strategy?

Advantages	**Disadvantages**
Lower cost of entry, and therefore lower risk, as it allows Standard Bank an opportunity to learn more about the market with low input.	There is a longer lead time to build critical mass. Standard Bank is looking to build critical mass, so it is not a good strategic option.
Due to the low entry costs and the lack of requirements for substantial infrastructure, the exit costs are low.	There is a longer lead time to get a return on investment. This increases the payback period. The Bank will experience negative cash flows and returns up front.
There is low legacy, as the operation is started from scratch. This allows Standard Bank to imprint their business operating model from the first day.	Standard Bank may have to find local expertise. The excessive use of expatriates increases cost, due to relocation and travel expenses.
Standard Bank are able to grow the operation at a predetermined pace. This allows them to deal	The J-curve for building a distribution network will be long and deep. This further delays the

with the risks as they encounter them.	revenue streams that may come from retail banking.
Even after entry into the market, limited fixed investments are required.	It takes time to build local knowledge. This includes cultural nuances and business networks. This can be expensive.
Standard Bank is able to form relationships with the top corporates in that market. This allows it to build solid annuity revenues for the future.	

Question 7: Under what conditions does Standard Bank follow an acquisition entry strategy?

Question 7 was put to the respondents in order to address Proposition 2. The question was designed to determine whether resource endowment was a significant factor in determining entry strategy. The responses added further considerations to the framework of diversification mode choice in Figure 4. The main conditions under which an acquisition entry strategy is followed are the following.

Question 7. Under what conditions does Standard Bank follow an acquisition entry strategy?

Standard Bank will follow an acquisition strategy when there is a high growth opportunity in a desirable market. The banking proposition in the market must be attractive.
An acquisition entry strategy may also be opportunistic. This may include banks that have been privatised. Acquiring organisations are able to pay a lower price for failed banks. It can then force a quick turnaround by applying a proven business model. There must be available assets to acquire at a reasonable price.
Standard Bank prefers to follow an acquisition strategy in an already existing competitive market. In their experience, it is difficult to grow organically in these markets.
Standard Bank is not satisfied with Niche wholesale banking options. The overall strategy is to follow the universal banking model. This is done more easily through acquisitions, where there is large retail opportunity. When acquiring a bank, the up-front risks have been taken by the initial investor.
Acquisitions provide Standard Bank with the opportunity to offer a diversified range of services, such as product, expertise, customer base and distribution network.
International experience varies between banks. An example is Standard Charter, which prefers to build its business organically. Standard Bank prefers to follow an acquisition strategy. Standard Bank does, however, usually only buy in markets where they have an existing operation.
When entering a new market for the first time, Standard Bank rarely starts with a large acquisition. It first sets up a small Greenfield operation to learn more about the market and gain experience on the ground. Standard Bank then builds the business around the small operation, and then acquires, if the opportunity presents itself. Standard Bank may start with a small acquisition.
For Standard Bank to undertake an acquisition, there needs to be large revenue potential in the market – the niche areas of the market to deliver the required return on investment.
ANZ Grindlays was a wholesale niche-focussed bank. When Standard Bank bought these banks, they got a wholesale banking operation. Retail operations then followed. The fact that the wholesale operations came first was more opportunistic.

Question 8: What are the advantages and disadvantages of following an acquisition entry strategy?

Question 8 was asked in order to obtain additional insight into the implications of following an acquisition entry strategy in Africa. The advantages and disadvantages of an acquisition entry strategy for Standard Bank in Africa are as follows:

Question 8. What are the advantages and disadvantages of following an acquisition entry strategy?

Advantages	**Disadvantages**
An acquisition is able to provide Standard Bank with critical mass.	Larger investment. Can also have a significant capital expenditure bill on top of the initial price.
The revenue streams are immediate. This decreases the payback period, providing that the correct price is paid.	Due to the large initial investment, it is difficult to exit.
Acquisitions add competencies in the form of local expertise.	Acquisitions have significant integration risks. This is one of the biggest reasons for failure. Standard Bank has to deal with the legacy of the local bank. Xenophobia and nationalism do exist.
By applying their proven business model to failed banks, Standard Bank is able to achieve a fast turnaround.	Acquisitions require a bigger team. This puts a strain on Standard Bank's resources.
Acquisitions provide an existing customer base that Standard Bank can cross sell into. It is able to offer customers a better value proposition. Customers are often under-serviced, and therefore Standard Bank is able to extract value extremely quickly.	There is significant risk in determining the quality of the bank that is to be acquired. Standard Bank needs to understand the quality and makeup of the bank, people, processes, etc.

Question 9: Which of the two strategies has Standard Bank tended to use most frequently in the past?

Question 9 was put to the respondents in order to determine which strategy Standard Bank has used to achieve their considerable market penetration into Africa thus far. The main themes to emerge from this question are the following:

Question 9. Which of the two strategies has Standard Bank tended to use most frequently in the past?

Standard Bank may follow a Greenfield approach and then an acquisition, if the market shows the correct potential.
Overall, in the history of Standard Bank, the trend is to pursue an acquisition strategy.
ANZ Grindlays was initially an acquisition. This was left alone for quite a while before Standard Bank did anything with it.
Standard Bank has taken a view on its operations in Africa. It chose to move from niche banking to a universal banking strategy. With the move to universal banking, it became necessary to follow an acquisition strategy.
Entry strategy is often opportunistic – an example: Ghana. The only option is Greenfield, as there is

no available bank to purchase.

Question 10: Based on its experience obtained thus far, which strategy do you think Standard Bank will use most frequently in the future?

Question 10 was designed to elicit whether the respondents thought the entry strategies used in the past had proved successful and how they thought further expansion into Africa would be approached. The main themes to emerge from this question are the following:

Question 10. Based on its experience obtained thus far, which strategy do you think Standard Bank will use most frequently in the future?

Standard Bank will continue to enter new markets with a small Greenfield operation, followed by an acquisition, if there is significant market potential and an appropriately priced asset available.
In order to follow its growth strategy, Standard Bank is most likely to follow an acquisition entry strategy.

Question 11: How does Standard Bank staff its banking operations in Africa? What is the optimal organisational design and management structure?

Question 11 was put to the respondents in order to gain an understanding of the staffing protocol followed by Standard Bank in its African operations. This question directly addresses Proposition 2, in accessing the importance of local resources and the resulting impact on the entry strategy to be followed. Standard Bank's resource strategy for African operations is as follows:

Question 11: How does Standard Bank staff its banking operations in Africa? What is the optimal organisational design and management structure?

Standard Bank's overall staffing philosophy is to use local resources. There are a number of highly qualified individuals in the African countries. Standard Bank staffs according to skills availability.
Standard Bank attempts to minimise the number of expatriates that are used to staff the banking operation. Expatriates are only used when the relevant skills are not available locally. The first choice is to send existing staff from South Africa. If these skills are not available, then international resources will be recruited. Expatriates can take from six months to a year to become fully productive.
The large contingent of expatriates that may initially be used is rapidly reduced as knowledge transfer to local resources takes place.
Expatriates are initially used in key positions, such as managing director, deputy managing director, financial or risk director, etc. These should be Standard Bank people who have worked at Standard Bank for a while and who understand the processes, culture, etc.
Local resources are good for business as they are: • culturally more acceptable; • part of the fabric of the local society; • well-trained and skilled;

• have good business contacts and networks; and • cheaper than expatriates.
Integration with the local bank remains a problem. Local resources must aspire to the values and culture of Standard Bank.
Other international banks, such as Barclays and Standard Charter, are predominantly expatriate bankers. This is very expensive and increases the costs dramatically.
Many banks won't have a local Managing Director (MD), as there is too much pressure on them from external factors. Some banks appoint a local MD, and then put an expatriate as the second in charge. Zimbabwe, Zambia, Mozambique and Namibia all have local MDs.
Product expertise often does not exist in the local market. This results in a large expatriate contingency, which allows Standard Bank to follow its strategy of a universal banking model.
Standard Bank is now using more local people. This does, however, cause a lot of problems. Staff may steal from the bank, and there are many cases of fraud. Systems and controls are required to remove this element from the Bank.
Standard Bank has followed a number of staffing strategies following an acquisition. Examples of some of these are: • In Lesotho a number of South Africans were seconded to fix things. This was largely on a contract basis. They looked at business processes, systems, operations, etc. • In Malawi Standard Bank bought a bank and left it in the hands of local management with little attention. This was a huge mistake and the bank regressed. • In Uganda Standard Bank sent in an integration team and ran the bank with expatriate managers, while the integration team members trained local staff. During this process they identified the exceptional employees and brought them up through the ranks. The expatriates were then removed from the environment.
In Standard Bank's experience, many of the local banks had incorrect structures. Responsibilities were not aligned – people doing HR jobs in the finance department, for example.
Standard Bank's preferred strategy is to build an integration team. This team typically comprises employees from the Standard Bank Group, with a number of local staff. The integration team needs to balance running the business with knowledge transfer. People that manage the day-to-day activities must not be completely pulled out of their responsibility – there must be a blend between running the business and changing the business. Integration teams are often in place for a year or so, and then the expatriates are pulled out.

Question 12: Does Standard Bank derive an advantage from being the first mover into a market?

Question 12 was designed to determine whether Standard Bank benefits from being a pioneering company into a new market. The respondents offered the following thoughts on Standard Bank in Africa and the potential for FMA.

Question 12: Does Standard Bank derive an advantage from being first mover into a market?

In all emerging markets, there is a banking system of sorts. First mover in this case would be in terms of an international bank entering the market. This is, however, very rare.
Standard Bank has learnt some hard lessons in Africa and pioneering strategies can be extremely costly. An example of this is branding. It is extremely important to treat local brands with caution.
In cases where the infrastructure is limited, it may be more difficult for followers and as such the establishment of infrastructure (such as a distribution network) by a pioneer can provide barriers to entry.

Product innovation, such as ATMs and lending products, provide an initial advantage. Local banks, however, are able to copy any product offered by Standard Bank. The exception is the ability to raise international capital. There is, therefore, little opportunity to create barriers to entry in terms of market offering.
Government is typically a big customer. An advantage here is ability to intermediate the country's foreign account. This is, however, not easily achievable for an international bank that is in competition with a local bank. It is difficult for Government to justify the use of an international bank instead of the local bank.
Small countries with limited banking have huge opportunities. The customer inflow is substantial, as customers are receiving banking services for the first time. This, however, does not last long, as others follow with their own structures and methodologies to make money.
Standard Bank has been a first mover in terms of their universal banking proposition. Acquisitions in Africa are either local or government-owned banks. If the original bank has liquidity and market share, the acquiring bank basically owns the market, as it is able to lend at a good rate. This enables it to outprice the other banks. There are still integration issues. Poor integration would obviously reduce any FMA.

7 INTERPRETATION OF RESULTS

7.1 Introduction

The interpretation of the results of this research is based on the findings in the interviews and on how they compare to the literature review. Each question will be discussed independently and in detail. The discussion will also serve to answer the sub-problems and to test the propositions.

7.2 An overview of Standard Bank's overall business strategy and objectives for operating in Africa

The responses to this question were resoundingly consistent in all of the interviews. Many of the interviewees started by explaining why Standard Bank had chosen to operate in Africa. As such explanations are relevant to the research topic, they have been included in the discussion. African markets are seen as major growth opportunities. It has also been Standard Bank's strategy to enhance the quality of their earnings by means of geographic expansion, over and above business unit diversification. Standard Bank has been forced to follow their customers into Africa in order to provide the corporates, and ultimately their employees, with banking services. Standard Bank views itself as an emerging market bank. Africa is seen as South Africa's backyard, providing the logical area for expansion for Standard Bank before it attempts to tackle other emerging markets around the globe, such as those in Latin America and Asia. Such findings are consistent with previous research into the expansion of South African banks into the rest of Africa (Briggs, 2005). Standard Bank has specific expertise in commodities. The fact that many of the African economies are driven by commodities and agriculture gives the Bank a competitive advantage regarding the quality of services that they are able to provide.

In terms of objectives, Standard Bank has specific targets for its operations in Africa, including 15 to 20% of its balance sheet in Africa by 2005, as well as R60 to R70 million after tax profit in each market in which it operates in Africa. Standard Bank would also like to be one of the top three banks in each market in which it conducts business. These objectives drive the Bank's strategy for Africa, and, in order to achieve them, Standard Bank has embarked on an aggressive drive to build scale in each of the markets in which it operates.

In addition, Standard Bank would like to offer both wholesale and retail banking services to a broad spectrum of the population, ranging from wealthy corporates to poor individuals. This "dual economy", as described by Hill and Still (1984), provides the Bank with additional opportunities. While the wealthy segments provide a foot in the door, true value is obtained when the services are sold to the poorer segments of the population and economies of scale are realised (Nakata & Sivakumar, 1997). In order to maximise such opportunities, Standard Bank has elected to follow a universal banking model, requiring the establishment of retail banking operations in each of the markets in which it operates. The Bank's doing so supports the view of Khanna and Palepu (1997) that diversified companies often perform better in emerging markets, in which they are able to support their own business functions. By offering end-to-end banking services, the individual business units are able to support one another.

So far, Standard Bank's general strategy has been to enter a new market with a small wholesale operation in order to learn more about the market before undertaking large investments aimed at creating a retail footprint. Some markets may at this stage only have wholesale operations, with opportunities for retail banking still being under investigation. Standard Bank does not operate in any market with only a retail bank. Due to the nature of wholesale banking and the small team that is required, the existing wholesale operations are usually Greenfield. Once a decision has been taken to grow a retail operation in a specific country, the preferred option is usually an acquisition aimed at obtaining the required scale and distribution networks.

The answers provided to this question inadvertently helped to explain Standard Bank's preference for entry strategy into Africa. The second sub-problem was answered by identifying under which conditions Standard Bank preferred to adopt a Greenfield or acquisition strategy. While the uncertainty of new markets often calls for an initial exploratory, small Greenfield operation, it is the overall business strategy and objectives that determine which entry strategy Standard Bank is likely to follow. For Standard Bank, the type of operation required in the market, whether wholesale or retail, contributes to the choice of entry strategy. To follow a universal banking model, retail operations are required, adding to the factors identified in the literature review as impacting on the choice of entry strategy. Proposition 2 is also addressed, in that Standard Bank's strategic intent plays a larger role than does resource endowment when selecting an entry strategy. This proposition will be addressed in greater detail in Section 7.8

7.3 The emerging market conditions that have a significant impact on banking in Africa

Political and economic stability are the most important emerging market conditions that Standard Bank considers when entering a new market. While there was general agreement that the two go hand in hand, the responses were varied as to what drives what.

When entering a new market, the most important economic factors that Standard Bank considers is the size and growth of the economy, as this determines the market potential and whether it is a viable option for Standard Bank to even consider entering the market in the first place. Standard Bank also conducts a thorough due diligence when selecting which markets to enter, including investigations into the political and economic stability of the market. Important macroeconomic factors include the exchange and interest rates. Changes in the prevailing interest rate tend to have a material impact on a bank's earnings. Decreasing interest rates reduce a bank's revenue stream, forcing it to consider other areas of income, thus distorting the revenue/expense balance and often rendering a specific business model redundant. The trend in Africa over the last 10 years has been a decrease in both interest and inflation rates. This is in contrast with Ajayi and Choi (1993), Leung (2003) and Richards *et a*l. (2003), who state that emerging countries often have high levels of debt, tending to suffer from interest and inflation rate increases. The exchange rate is critical for any foreign investor. As Standard Bank's performance is measured in South African rand, the translated earnings are important. This is in line with Herring (1983) identification of foreign exchange risk as one of the major risks affecting the profitability of a company. While currency volatility has its downside in terms of translated earnings, opportunities exist for making money on foreign exchange margins. An additional consideration when entering a new market is the level of banking penetration of that market, which measures how successful banks have been at intermediating by comparing the ratio of deposits to GDP. Low levels of banking penetration provide greater opportunities for banks to enter a market and to rapidly build scale.

Government intervention and regulatory requirements, including regulations relating to the amount of cash reserves required by the Central Bank, significantly impact on Standard Bank's ability to follow its business model. Such intervention agrees with the finding of Khanna and Palepu (1997) that governments are involved in business operations in emerging markets. Khanna and Palepu (1997) further suggest that relationships with the government are vital, with diversified companies being able to spread the costs of such relationships across their business units. Such findings support

Standard Bank's adoption of the universal banking strategy, which allows for a small team to first enter a market and establish key relationships through wholesale banking. The business operation can then diversify by means of a retail banking offering, thus benefiting from economies of scale.

Standard Bank has found that legal frameworks are often weak or non-existent. This agrees with Khanna and Palepu (1997), who found that while governments may see fit to interfere with business operations, they tend to be extremely ineffective when it comes to enforcing contracts. As a result, Standard Bank has to be extremely selective as to whom their customers are, as contract enforcement is often not possible. Such lack of enforcement increases the cost of doing business, as well as decreasing the amount of suitable available business. In addition to the bank suffering, the wider economy also experiences the negative effects of the unavailability of personal lending and vehicle and asset finance. Standard Bank has found that poor judicial regulation is a direct result of unfavourable political and economic conditions.

Commodity prices are also an important consideration. A large portion of the African economy is driven by commodities and agriculture. While commodity price fluctuations also impact developed markets, the reliance of African emerging markets on such revenue streams makes it an important factor to consider in many industries, including banking. Fluctuations in commodity prices and the availability of raw materials also impact on the quality of the Standard Bank's loans.

Standard Bank experiences varying degrees of poor infrastructure in each of the African markets in which it conducts business. Such experience is consistent with the observations of Kaynak (1982) and Frazier *et al*. (1989) that the infrastructure in developing countries is often inadequate and undergoing rapid deterioration. While lack of infrastructure does negatively affect Standard Bank's operations, it plays a secondary role to economic and political factors. If Standard Bank were to wait for this infrastructure to be set in place before entering African markets, it would stand the chance of missing countless business opportunities. In Standard Bank's experience, if the political and economic conditions are favourable enough for it to enter the market, then the required development of infrastructure is likely to follow in the near future. A major problem for Standard Bank, however, is the remoteness of locations. In certain instances, branches require wide dispersal throughout a country, tending to impede the effective management of the branches concerned. This problem is compounded by the poor road infrastructure. First-world banking principles may not be applied in such markets. Standard Bank has overcome challenges such as this by employing independent and resourceful people.

This question answers the first sub-problem by identifying the emerging market conditions that impact on Standard Bank's operations in Africa. The first section of Proposition 1 has been addressed by means of identifying the emerging market conditions that provide business risks for Standard Bank in Africa, of which the most important are political and economic instability. Government interference, the breakdown of regulations, and inadequate legal systems are also consistent with the theory propounded in the literature review (Friedman & Kim, 1988; Herring, 1983; Khanna & Palepu, 1997; Meyer *et al.*, 2004; Mohr & Fourie, 2004). While the lack of infrastructure is a risk and does impact on Standard Bank's operations, it is a relative minor. Contrary to the theory evident in the literature review (Khanna & Palepu, 1997; Meyer & Estrin, 2001) that emerging markets often lack skilled resources, no shortage of suitably skilled labour has been detected in emerging markets in Africa. In addition, fluctuations in commodity prices, which is not unique to emerging markets, has been identified as posing a risk to the African operations of Standard Bank.

7.4 The greatest risk to conducting business in African emerging markets

The volatility of emerging markets has been identified as posing the leading risk to Standard Bank, encompassing, many of the aspects discussed in regard to the responses received to the previous question. In this respect, political and economic volatility are seen as the most significant factors requiring consideration.

In Standard Bank's experience, when policies fail to deliver and the economic situation deteriorates, the risk of political instability increases accordingly. Foreign investors are able to determine to what extent economic conditions offer potential forecasts of political risk. Political risk also carries with it the possibility of monetary, fiscal and FDI policy reversal. Standard Bank has been negatively impacted by unfavourable policies, as well as by the lack of policies aimed at ensuring sound business relations. Such findings serve to confirm research conducted by Khanna and Palepu (1997) that has led to their deducing that political regulation over economic efficiency is one of the leading causes of market failure. The breakdown of rules and regulations that govern international trade and investment (Herring, 1983), as well as the institution of mercurial government policies (Friedman & Kim, 1988), provide significant risks to doing business in emerging markets. As previously discussed, interest and exchange rates have a material impact on bank operations. With political and economic instability comes a history of defaulting on foreign debt. Standard Bank makes use of cross-border transactions to support operations in some of its African markets. While the trend has seen some improvement, Standard Bank is often unsure as to whether it will be able to retrieve its investment. Such risk is often referred to as sovereign, country or transfer risk. Herring (1983) identifies country risk as one of the three leading risks likely to be encountered when conducting business in emerging markets.

The responses to this question once again reveal political and economic conditions as being the emerging market factors that provide the greatest business risk for Standard Bank's operations in Africa. The volatility of such conditions often renders Standard Bank's business operating model useless, as they have a negative impact on the Bank's profitability. This confirms the initial part of Proposition 1 that emerging market conditions are a source of business risk for Standard Bank's operations in the rest of Africa.

7.5 The changing risk/reward profile in the rest of Africa over the last seven to ten years

The possibility of returns in African emerging markets is undoubtedly greater than in South Africa. Greater perceived risk is rewarded with higher returns. Real risks, while always smaller than perceived risks, however, have changed significantly over the last ten years. About ten years ago, a number of unpopular policies were put in place in various countries in the rest of Africa, resulting in unfavourable economic conditions that forced a withdrawal of money from various African economies. Reduced competition drove higher returns for those who were prepared to persevere. Since then, governments have been forced to be more responsible with their economic management, and conditions have subsequently improved. The risk of operating in these economies has declined, due to improved political stability and increased support for the countries in Africa provided by the rest of the world. A number of interventions have also contributed to an improved business environment, including policy frameworks and prescriptions of the Washington Consensus, the IMF and the World Bank. This has resulted in improved governance and better fiscal and monetary management, creating a more welcoming FDI environment. Governments are putting more economically sound policies in place that support consistency over time in order to encourage economic activity. Such findings confirm previous research detailing the positive impact that external institutions have had on Africa in providing greater stability for foreign investment (Briggs, 2005).

During the last five years, returns in Africa have declined. A decrease in risk has resulted in a risk/reward trade-off. More favourable economic conditions have also increased competition in such markets. Poor communication channels are characteristic of emerging markets (Dholakia, 1984; Nakata & Sivakumar, 1997). Standard Bank has noticed an increase in communication in, and between, countries over recent years, which has helped to improve information dissemination. Customers with access to external pricing demand more favourable arrangements. With decreased returns on offer, economies of scale and the fundamentals of managing a business are now more important than ever. Due to its extensive knowledge base and experience, Standard Bank has been able to maintain its actual margins. Improved risk acceptance criteria have enabled Standard Bank to better select the markets in which it wishes to operate, as well as the customers that it wishes to serve. The improved selection has resulted in a decrease in costs. Maintaining these margins will not, however, be sustainable in the long term, as further competition enters the market with improved business processes.

The results of this question confirm the latter half of Proposition 1 which states that emerging market conditions are a source of business opportunity for Standard Bank. Such positive conditions are achieved through favourable pricing, lower competition and a receptive customer market, which has been underserved in the past. While returns in Africa may be decreasing, due to lower risk and increased competition, Standard Bank has been able to maintain its margins by means of adopting economies of scale and improved risk assessments. Emerging market conditions are a source of both business risk and opportunity for Standard Bank, thereby confirming the central tenet of Proposition 1.

7.6 Conditions suitable for Standard Bank to follow a Greenfield entry strategy

Most of the respondents agreed that Greenfield operations were strategic in nature and used to test the waters in new markets. Included in the initial analysis is the requirement of a distribution model, a bricks-and-mortar infrastructure and whether wholesale and retail banking opportunities exist. Such factors largely drive the entry decision on whether to follow a Greenfield or acquisition strategy. Retail banking requires significant banking infrastructure, including distribution networks. Greenfield entry strategies were most suited to wholesale banking, whereas the establishment of a retail banking operation was made easier by means of acquisition.

Standard Bank generally follows Greenfield entry strategies when market opportunity allows for wholesale banking. Such strategies may be built up around competencies including large project finance, structured trade finance, commodities or developing capital markets, which require smaller teams possessing specialist skills. In this case only low levels of technology are required. Such a finding disagrees with previous findings that the increased use of technology requires a firm to adopt a Greenfield entry strategy (Cho & Padmanabhan, 1995; Hennart & Park, 1993). The surprisingly low level of technology required is due to Standard Bank's adoption of a Greenfield approach to wholesale banking, which does not require the same intensity of technology and systems as does retail banking. The Greenfield entry strategy is also suitable for markets with low levels of banking competitiveness, as well as where there are low levels of growth in the retail banking sector. Low levels of growth negate the requirement for an immediate footprint in the market, supporting the theory by Hennart and Park (1993) and Andersson and Svensson (1994) that Greenfield entry is sufficient for low-growth markets, whereas acquisitions are often required in high-growth markets in order to obtain instant benefits from a fast-growing market. Standard Bank also believes that Greenfield entry is the more risk-averse option to follow, which agrees with Koghut and Singh (1988) that the more uncertainty averse a firm is, the more likely it is to follow a Greenfield entry strategy. The establishment of a Greenfield operation may also be due to circumstance. The lack of suitable acquisition targets leaves organic growth as the only option.

The responses to this question confirm the findings relating to the first question regarding Standard Bank's strategy in Africa. While emerging market conditions often dictate that small Greenfield operations are required in order to investigate new markets, it is the business strategy and available opportunities that determine the entry strategy. The emerging market conditions listed, under which Standard Bank follows a Greenfield entry strategy, answer the second sub-problem. Details regarding the impact of emerging markets conditions on entry choice are summarised in Figure 9. Figure 9 illustrates Standard Bank's experience of the impact of emerging market conditions in relation to the theory cited in the literature review. Greenfield entry strategies are most suited to wholesale banking operations, only being used for retail operations when there is no suitable bank to acquire.

7.7 The advantages and disadvantages of following a Greenfield entry strategy

While acquisitions appear to be the entry strategy of choice for Standard Bank in most circumstances, the respondents concerned identified a number of advantages and disadvantages of Greenfield entry. Initiating a wholesale operation almost always requires a Greenfield entry. The availability of distribution networks and building critical mass are both more relevant to retail banking.

The low cost of entry in terms of limited investments reduces risk and allows Standard Bank to learn more about a market. Exiting with low exit costs is also easier, further reducing the risk. A Greenfield entry allows Standard Bank to grow at a predetermined pace, enabling the Bank to deal with risks as they arise. The low legacy allows Standard Bank to imprint its business operating model from the very start, which reduces integration risk. This finding agrees with the finding of Meyer and Estrin (2001) that use of the Greenfield entry allowed firms to meet with little resistance when importing their culture, processes and technology into the market. One of the key objectives of the Greenfield entry strategy is to develop relationships with a number of leading corporates. Adoption of this strategy therefore puts Standard Bank in a position to build solid annuity revenues for the future.

The disadvantages of using a Greenfield entry strategy also, however, have a direct impact on Standard Bank's strategy for its entry into the rest of Africa. A Greenfield entry is marked by a longer lead time required to establish critical mass, thus increasing the payback period. The J-curve for building a distribution network is long and deep, requiring a significant amount of time in which to build up local knowledge and business networks, as previously documented by Meyer and Estrin (2001). Due to the demands of the work involved, Standard Bank relies strongly on expatriate workers to staff its Greenfield operations. Doing so carries with it extensive travel and relocation expenses which increase operational costs, tying in with the findings of Meyer and Estrin (2001).

The responses to this question provided insight into the advantages that Greenfield entry strategy holds for establishing wholesale banking operations in new markets. The disadvantages cited explain why Greenfield entry is unsuitable for establishing retail operations, required by Standard Bank to pursue its universal banking strategy.

7.8 Conditions suitable for Standard Bank to follow an acquisition entry strategy

Following an acquisition entry strategy aligns with Standard Bank's strategic objectives for Africa, including building critical mass and following a universal banking model. Large retail opportunities are best captured by way of acquisitions. Many acquisitions are opportunistic, meaning that suitable targets need to be found, including banks that have been privatised. Failed banks offer good value for money, as they come with a reduced price tag. Standard Bank has been able to achieve a quick turnaround by applying a proven business model. Acquisitions are the preferred entry strategy in an already competitive market that is showing sound growth, with large revenue potential. Such a finding agrees with the theory that the opportunity costs for non-participating firms in high-growth markets are high and that acquisitions are required in order to be able to benefit from such favourable conditions (Andersson & Svensson, 1994; Hennart & Park, 1993). Standard Bank has found that it is difficult to grow organically in these markets, so establishing an immediate footprint is preferable. When Standard Bank wishes to offer a more diversified product range, it also prefers to follow an acquisition strategy. Such a finding agrees with the research of Yip (1982) and Caves and Mehra (1986) that more diversified firms tend to have greater experience in acquisitions. Yip (1982) and Caves and Mehra (1986) also found that diversified firms often require greater levels of control, meaning that acquisitions are required for them to put their own systems in place in order for them to be able to enjoy operational efficiency. Such a finding holds true for Standard Bank, as high levels of control are required in order to prevent bank theft.

The responses to this question support the sentiment expressed in response to the first question that Standard Bank's business strategy determines its entry strategy to new markets. In order to follow the universal banking model, Standard Bank has to build critical mass in its retail operations, which is best done by way of making acquisitions. Part of the process involved is opportunistic, as the lack of availability of a suitable bank to purchase is a limiting factor. The emerging market conditions listed, under which Standard Bank follows an acquisition strategy, answers the second sub-problem. The impact of emerging market conditions on the entry strategy of Standard Bank is summarised in Figure 9, which illustrates where Standard Bank's experience as to the impact of emerging market conditions supports or fails to support the theory cited in the literature review. The combination of these results with the findings in Section 7.6 provides sufficient evidence to disprove Proposition 2, which states that resource endowment is the most significant factor in determining which entry strategy is adopted. Standard Bank's entry strategy is determined by the type of business operation that it intends to explore, which is largely dictated by how suitable the prevailing market conditions are for the adoption of a universal banking approach. The market conditions are largely impacted by elements in the political and economic climate, which are the determining factors for entry choice as far as Standard Bank is concerned, rather than the availability of resources. This finding has been added to the framework developed from the theory in the literature review and is illustrated in Figure 10.

7.9 The advantages and disadvantages of adopting an acquisition entry strategy

An advantage of adopting an acquisition strategy is that it provides critical mass, which generates immediate revenue streams and greatly reduces the payback period, providing that the correct price is paid for the bank. Failed banks are able to undergo a fast turnaround by applying proven business models. The acquired bank has an existing customer base into which Standard Bank can cross-sell. Many customers who have, in the past, been under-serviced can then be offered a better value proposition by Standard Bank, which enables the Bank to extract value more quickly under the prevailing conditions.

While acquisitions provide the preferred entry choice for Standard Bank, such a strategy comes with some significant disadvantages. The leading disadvantage for acquisitions is the associated integration risk, as Standard Bank has to deal with the legacy of the acquired bank. In the past, Standard Bank has experienced xenophobia and nationalism with regards to a number of their acquisitions. The Bank's experience ties in with the finding of Kogut and Singh (1988) that acquisitions require significant post-integration management in order to achieve a blend of cultures. A much larger investment is required, which contributes to the high exit costs involved. A thorough due diligence is also required. Standard Bank needs to understand the current standards of the bank into which it is buying, including the quality of its human resources, processes and customer base.

Acquisitions also tend to be more resource intensive, requiring a large team to undertake the due diligence and acquisition process. The results obtained confirm that acquisitions require extensive post-integration management and, as such, tend to increase the related transaction costs. Resources, mostly from South Africa, are then required to form an integration team to get the new bank up and running. Such commitment is discussed in greater detail in section 7.12.

The responses to this question help explain why acquisitions most clearly suit Standard Bank's universal banking strategy in Africa. The results also go to prove the importance of resources and the significant integration problems that tend to follow an acquisition, which are explored in greater detail in Section 7.12.

7.10 The entry strategy used most frequently in the past by Standard Bank

The respondents unanimously agreed that, overall, Standard Bank has traditionally followed an acquisition strategy. Generally, Standard Bank follows a Greenfield approach to investigating the market and then an acquisition approach if the market shows sufficient potential. Greenfield entries are usually limited to those markets with few resources and specialist skills. Standard Bank consciously decided to move from niche banking to follow a universal banking model, which necessitated that it follows an acquisition strategy. Standard Bank has on very few occasions, when there was no available bank to purchase, followed a Greenfield strategy when setting up a retail operation.

7.11 The entry strategy that Standard Bank was found to be most likely to use in the future

At the time of this study, Standard Bank expressed an intention to continue to enter new markets by means of adopting a small Greenfield operation to enable it to assess market potential. Should the assessment be favourable, it would look for appropriately priced acquisition targets. In order to follow its growth strategy, Standard Bank would increasingly look towards acquisitions in the future.

7.12 The staffing of Standard Bank's operations in Africa

For Greenfield operations that require only a few specialist skills, Standard Bank was found to use predominantly expatriates, or "suitcase bankers". Occasionally, knowledge transfer might take place to a limited number of local resources. The most challenging aspect of Standard Bank's acquisition strategy in Africa has been integration with the legacy bank. Over the years, it has tried out the following options:

- In the beginning, Standard Bank bought a bank, which it then left in the hands of local management, leading to its ultimate regression.
- Following that, the Bank tended to buy another bank, sending a team of expatriates on a contract basis to improve the business processes, systems and operations concerned, which met with mixed success.
- Lastly, the Bank opted for sending in an integration team. While expatriate managers ran the bank, the integration team trained local staff, who would eventually take over most, if not all, of

the running of the Bank. At the time of the study, this had proved to be the most successful option.

An integration team typically consisted of Standard Bank employees and employees of the recently acquired bank. Most often, the Standard Bank employees were expatriates from South Africa, although they might have been brought in from other African countries. The integration team needed to balance running the business with knowledge transfer. A large contingent of expatriates that might initially have been used was rapidly reduced as knowledge transfer to local resources took place. Integration teams were usually dismantled after approximately a year, at which time the expatriates involved were transferred elsewhere.

Based on its experience, Standard Bank's overall staffing policy was, at the time of the study, to use local resources. Local resources were preferred due to their sound business contacts and networks, as well as their being culturally more acceptable to the local population, as they tended to form an integral part of the fabric of their society. Such a finding agrees with the finding of Meyer *et al*. (2004) that firms entering emerging markets tend to make use of local resources, which they then supplement with resources obtained from elsewhere. Kock and Guillen (2000) and Peng (2003) have also noted that resources from more developed markets tend to have industry-specific capabilities, while resources in emerging markets tend to possess locally contextualised knowledge. In Standard Bank's experience, a number of skilled and well-trained resources exist in Africa. Such a finding contrasts with that of Meyer and Estrin (2001), who suggest that suitably trained resources are scarce in emerging markets. Cost implications also apply when staffing a bank, as local resources tend to cost less than does the use of expatriates. Standard Bank only uses expatriates when the relevant skills are not locally available. Such a finding agrees with the conclusion drawn by Meyer and Estrin (2001) that transferring resources from the investing firm, together with the subsequent restructuring required, significantly increases integration costs. Although expatriates may take from six months to a year to become fully productive, they are, nevertheless, often initially used in key positions, such as those of managing, financial or risk director. Such positions are usually filled by Standard Bank employees who have worked at the Bank for a protracted period of time, so that they have come to understand the Bank's processes, systems and operations. Especially when product expertise does not exist in the local market, Standard Bank finds it vital to follow its universal banking model.

The Brownfield entry strategy, according to which the majority of the acquired firm's resources are replaced by the investing firm's resources, was not, at the time of the research, used by Standard

Bank. Brownfield entry strategies were, however, often used when there was a need for local resources which were unavailable at the time (Meyer & Estrin, 2001). Standard Bank preferred to use local resources, of which there have tended to be sufficient in the past.

While local resources tended to be preferred at the time of this research, some disadvantages were involved. Many banks found that a local managing director experienced undue pressure from external forces. The problem has been overcome by using a local managing director, with an expatriate as the second in charge. Local resources have also been known to steal from the Bank and many cases of fraud have occurred, possibly resulting from opportunities granted by poor processes and controls, or from resentment towards the new culture and way of doing business. Systems and controls need to be put in place in order to weed out the negative element from the Bank.

The responses to this question confirm the importance of resource endowment in entry strategy. The findings confirm the theory that, while local resources provide access to business networks and opportunities, significant post-acquisition integration is required in order to avoid incurring additional risks and costs (Koghut & Singh, 1988; Meyer & Estrin, 2001). While Section 7.8 has shown that resource endowment is not the most important factor in determining entry strategy, such findings indicate that it is the leading cause of failure when entering new markets by means of an acquisition strategy.

7.13 FMA for banking in Africa

Almost all of the markets that Standard Bank had entered at the time of the current research contained banks of some description. Countries with limited banking did, however, still present significant opportunities for Standard Bank. Customer inflow tended to be rapid, due to only limited services having been provided up until then. With the entry of Standard Bank into their markets, customers found themselves able to obtain many services for the first time. Product innovations, such as automatic teller machines (ATMs) and lending products were able to provide Standard Bank with an initial advantage. Unfortunately, local banks were able to copy the products offered by Standard Bank, which limited the possibilities of creating barriers to entry for new competitors, the exception being when the required infrastructure was limited. Standard Bank could, nevertheless, create barriers to entry by acquiring a distribution network. The possibility of doing so agreed with the theory that pioneering companies with distribution networks are able to create barriers to entry (Kotler, 1984; Nakata & Sivakumar, 1997).

Government is typically a major customer, with the ability to intermediate in the country's foreign account providing an advantage for a foreign bank. Becoming an intermediary in this way is, however, difficult to achieve as it is difficult for a government to justify the use of a foreign bank over a local bank. However, the ability to raise foreign capital may advantage foreign banks. Having liquidity in the market allows banks to lend at a better rate, which enables the banks concerned to outprice other banks. First-mover advantage may also be obtained by means of acquiring the existing local bank with the greatest liquidity and market share.

The responses to this question indicated that, at the time of the study, both advantages and disadvantages existed for Standard Bank to be a first mover into Africa. Large customer markets that had previously been underserved, as well as the possibility of creating barriers to entry by monopolising distribution channels, were seen as comprising distinct advantages. Foreign banks also tend to have increased liquidity which allows them to lend at a better rate. Unfortunately, new companies at the time were quickly able to copy Standard Bank's banking products. First movers often carry most of the risk. Being second in the market allows someone else to take the upfront risk. This answers the third sub-problem by clearly showing distinct advantages and disadvantages in being a first mover. Proposition 3, that Standard Bank derives an FMA when entering the rest of Africa, is also confirmed.

Figure 9. The factors influencing Standard Bank's diversification mode choice

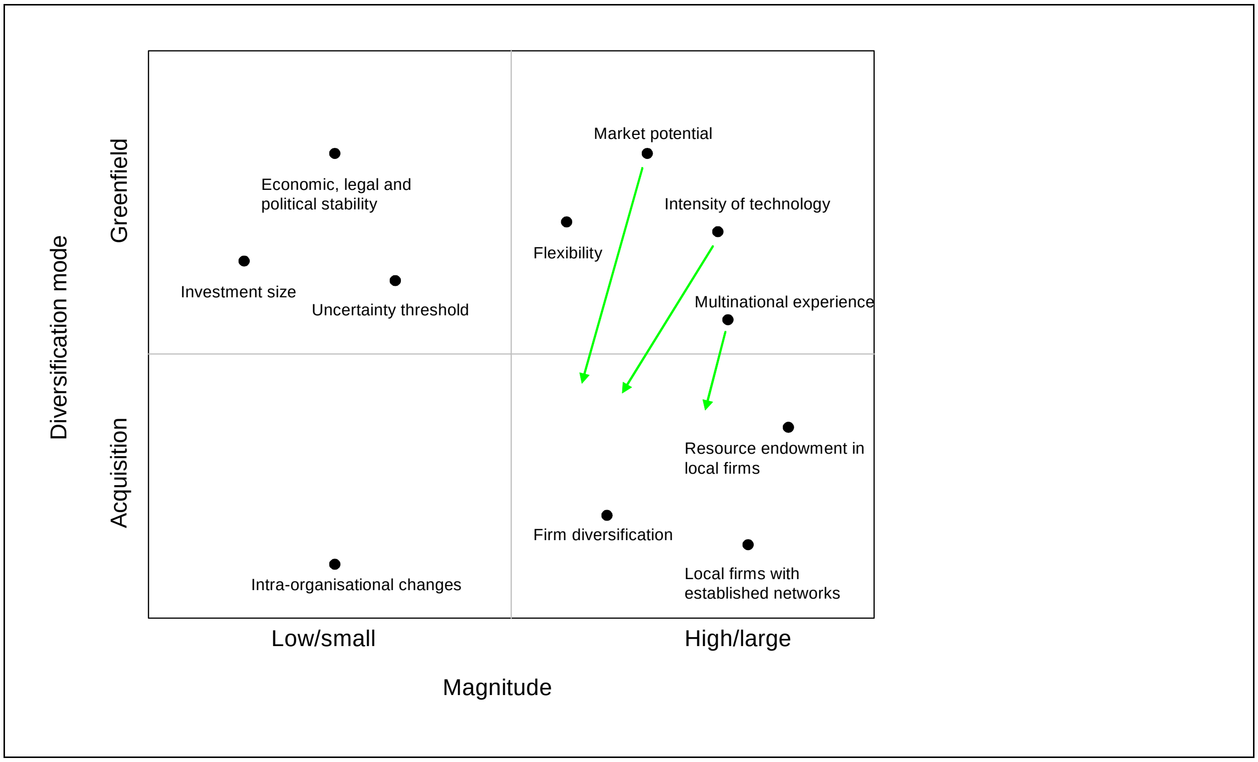
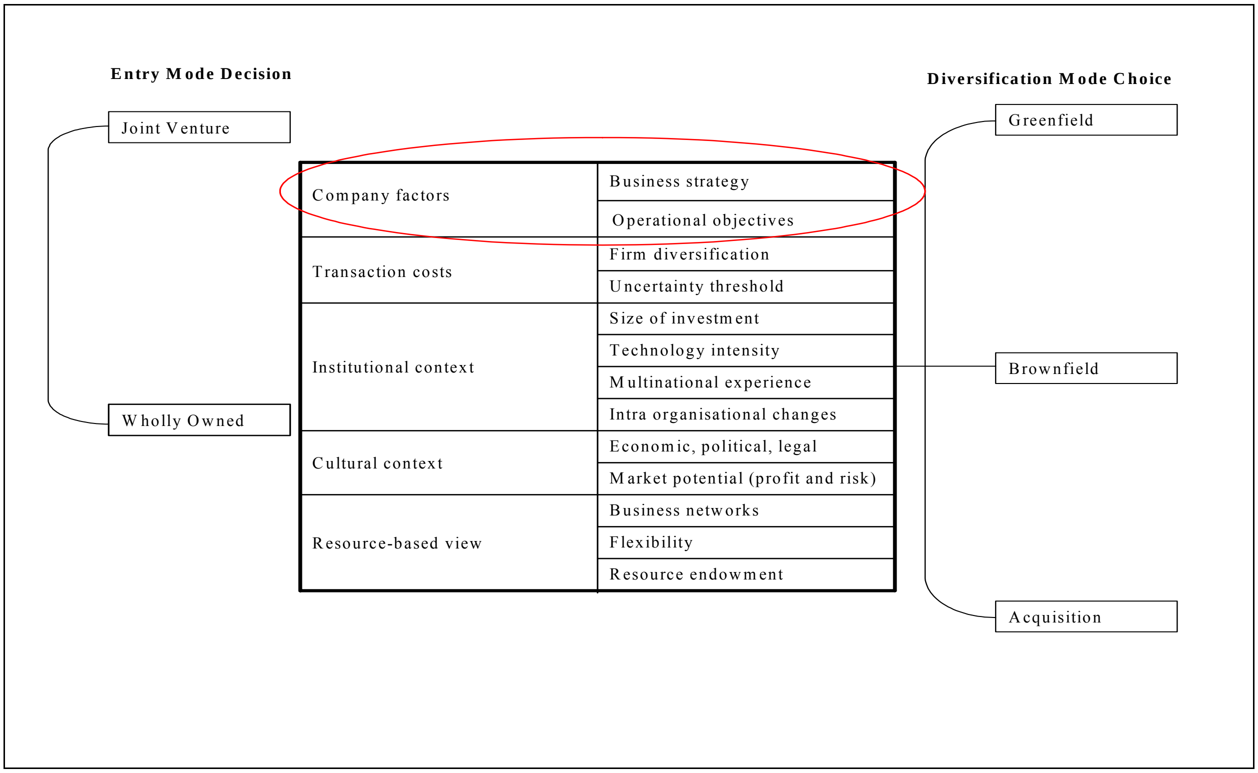


Figure 10. Standard Bank's strategic ownership decisions when entering a new market



8 DISCUSSION AND CONCLUSION

8.1 Summary

The key results of the research will be presented by way of a discussion of the findings relevant to the three sub-problems and propositions that were developed from the literature review. The limitations of the research will be identified, along with suggestions for further research on this topic.

8.2 Relevant findings

Sub-problem 1: Identify the emerging market conditions that are likely to have a significant impact on Standard Bank's operations in Africa.

The most important emerging market conditions for Standard Bank operating in Africa are the economic and political stability of the country. The size and growth of the market are important determinants when Standard Bank considers entering a new market. Economic conditions provide a good indication of the overall market potential. Such factors are taken into account, along with the banking potential of the market.

Macroeconomic factors, such as the interest and exchange rate, tend to have a material impact on Standard Bank's bottom line. Sharp decreases in the interest rate decrease revenue streams and distort the bank's operating model, forcing Standard Bank to look for alternative sources of revenue. As Standard Bank's performance is measured in South African rand, the exchange rate has a direct impact on translated earnings. A rapidly deteriorating local currency can render Standard Bank's operations in a country unprofitable.

Political instability often results in government intervention and a lack in consistency in the application of rules and regulations. Such inconsistency impacts Standard Bank's ability to follow its operating model and changes in requirements of cash reserves can also reduce revenue streams. Default on debts on cross-border transactions result in substantial write-offs. A poor economic and political climate compounds the effect of a weak or non-existent judiciary. The inability to enforce contracts compels Standard Bank to be more selective when choosing customers. This increases the cost of operations, as well as reducing the amount of business available.

While poor infrastructure makes operating in such markets difficult, Standard Bank finds it to be less restricting than the factors already mentioned. In its experience, if the political and economic climate is correcting itself, the infrastructure will follow. Waiting for a perfect infrastructure will result in lost opportunities. The problem of servicing remote locations is, however, compounded by the poor transport infrastructure.

Fluctuating commodity prices have also proved to have a significant impact on Standard Bank's operations in Africa. While this phenomenon is not restricted to emerging markets, the reliance of African countries on agriculture and commodities means that it has a significant impact on the economy. As the profitability of many of Standard Bank's customers is impacted by fluctuating commodity prices, the Bank has been forced to review loan contracts and to increase the security on its debt.

Sub-problem 2: Identify under what conditions a Greenfield or acquisition strategy is likely to be most suitable for the maximum performance of Standard Bank in Africa

Standard Bank's business strategy and objectives have a greater input regarding the selection of the appropriate entry strategy than do the actual emerging market conditions. Standard Bank considers itself an emerging market bank and has, as one of its objectives, to improve the quality and growth of its earnings by means of geographic, as well as business unit, diversity. This implies a move into new emerging markets, as well as a wide range of product offerings. Standard Bank attempts to follow a universal banking model in the markets in which it operates in an effort to achieve its objective of providing banking services to both wealthy corporates and poor individuals alike, by means of both wholesale and retail banking.

Wholesale banking traditionally requires a small team of specialist people. Standard Bank has adopted the strategy that wholesale banking should be the usual starting-point in a new market in order for it to be able to create an annuity revenue stream that is capable of funding possible expansion, and in order to enable it to start learning about the market and potential opportunities. Greenfield operations are ideal for risk-averse situations in new markets where limited information is available. Greenfield entry also has low entry and exit costs. Bricks-and-mortar banking infrastructure and distribution networks are not required in such a setting.

Should retail opportunities be present in the new market, Standard Bank's preferred entry strategy would be by way of acquisition – a point that is particularly relevant in high-growth markets, where an immediate presence in the market is required. While the cost is greater than that associated with a Greenfield entry, it nevertheless provides Standard Bank with an available infrastructure and initial customer base, delivering immediate revenue streams.

While Standard Bank's strategy drives the decision to take advantage of both wholesale and retail banking opportunities, it is the market conditions that determine which strategy it will be able to pursue. The research findings, therefore, suggest that the economic and political conditions that drive market potential are the most important emerging market conditions that determine which entry strategy Standard Bank will use.

Sub-problem 3: Identify both the advantages and disadvantages for Standard Bank of being a first mover into African markets

All the markets that Standard Bank enters contain at least one local bank. Despite, in some instances, Standard Bank being the first foreign bank to gain entry into the market, although such situations are rare, it is still able to derive FMA, due to its product offering. In many such markets, the customers are under-serviced. By introducing new products and technology, such as lending products and ATMs, people are able to receive banking products for the first time, resulting in a huge inflow of customers to Standard Bank that serves to create an annuity revenue stream. Lending products are able to lock in customers for a minimum period of time. Good rates on lending products can only be offered if a bank has sufficient liquidity. Foreign banks are able to obtain liquidity by way of their ability to raise international capital, thus providing an additional advantage to foreign banks who are first entrants to a market. The first foreign bank to enter a market has first option on acquiring a local bank, which allows it to acquire a bank with an established retail footprint and distribution network. By acquiring a retail banking operation, Standard Bank gains an immediate distribution network, which can provide barriers to entry to future entrants into the retail market.

Significant disadvantages also exist for first movers in a market. In Standard Bank's experience, such disadvantages are a result of increased risk due to limited knowledge. First movers also experience high costs due to having to establish the required infrastructure. Unfortunately, lending products can easily be copied by competitors, which reduces the competitive advantage for such banks and the price premium that serves as a trade-off to the additional risk of being first mover into the market.

Proposition 1: Emerging market conditions are a source of both business risk and opportunity for Standard Bank's African operations.

Volatile economic and political factors are the most significant emerging market conditions that impact Standard Bank's operations in Africa. Decreasing interest rates reduce revenue streams, forcing a change in the business model. A deteriorating local currency reduces translated earnings, directly impacting on Standard Bank's performance. Government intervention, which may take the form of changing cash reserve requirements capable of reducing revenue, also reduces Standard Bank's ability to follow its business model. A poor economic and political climate tends to lead to an inadequate judiciary system. As a result, Standard Bank has to be more selective in taking on customers, which, in turn, increases the cost of doing business, as well as reducing the available pool of business opportunities. Poor infrastructure and the remoteness of locations play a secondary role in such markets.

While the risks of doing business in Africa are apparent, there are also substantial rewards involved in so doing. The lack of competitors allows the incumbent banks to charge a price premium. In Standard Bank's experience, the real risk is less than the perceived risk, which has allowed the Bank to generate substantial returns in Africa. The interventions of the global economic community have served to decrease the risk involved, thereby increasing the attractiveness of the African markets. Although available returns have decreased over the last few years, they are still higher than those available in South Africa. Standard Bank has maintained their actual margins by means of improved risk assessment and the development of a sound knowledge base regarding African markets, allowing it to take advantage of the opportunities that the African emerging markets have to offer.

Proposition 2: Resource endowment is the most significant factor in determining Standard Bank's entry strategy into the rest of Africa.

Standard Bank's choice of entry strategy into the rest of Africa is based on alignment with its African strategy and objectives, as well as existing market opportunities. Market potential is based on a number of economic and political factors, which have been discussed in detail in Section 8.2.1. Such conditions largely determine the opportunities available for wholesale and retail banking. The decision as to whether to follow the route of wholesale or retail banking dictates the entry strategy to be used. As discussed earlier in this paper, wholesale banking is a small operation that requires little infrastructure. The Greenfield entry strategy is most suitable in this case, as it is low-cost and low-risk. Standard Bank prefers to follow an acquisition strategy when pursuing retail banking opportunities, as doing so provides it with the necessary infrastructure and distribution networks required to build critical mass.

While the resource endowment of the local market does not directly impact entry strategy, it nevertheless plays an important role in Standard Bank's entry into a new market. Most of the acquisition failures are as a result of poor integration. Standard Bank's overall staffing philosophy is to use local staff wherever possible, which precludes Standard Bank from using a Brownfield entry strategy which would otherwise replace all the local staff with staff from the investing company. Standard Bank has found that the use of expatriates and local resources as part of an integration team best addresses post-acquisition challenges. The integration team involved has then to balance running the Bank with conducting a comprehensive knowledge transfer and identifying local resources for key positions. A soon as the correct people and structures are in place, the majority of the expatriates are, in any case, withdrawn.

Proposition 3: Standard Bank derives a first-mover advantage when entering African markets.

Standard Bank undoubtedly benefits from FMA in Africa. While all of the new markets which it enters already have some form of local banking system in place, many of the existing customers are under-serviced. By introducing new products and technology, such as loans and ATMs, the Bank is able to capture a large customer base almost immediately. Although lending products can easily be copied by competitors, loan customers are often locked into a contract for a period of time that can create barriers to entry for new competitors. Foreign banks have access to international capital which provides them with some liquidity, thus allowing them to offer loan products at a better rate. Owning infrastructure and distribution networks also creates barriers to entry for new entrants into the market. The wholesale banking operation, by way of its specialised services, is capable of forming strong relationships with large corporates and the government, enabling it to provide an advantage to the subsequent retail operation.

8.3 Limitations of the research

As Standard Bank was used as a single case study, the results have been strongly influenced by the Bank's corporate strategy. Other banks with different objectives in emerging markets may be affected differently by various emerging market conditions.

8.4 Suggestions for further research

This research study is one of the first investigations into the impact of emerging market conditions on banking in Africa. The study was specific to Standard Bank and its strategy for entering new markets in Africa. Suggestions for future research include:

- exploring the entry strategy into Africa of banks that have a different overall corporate strategy to that of Standard Bank;
- conducting a quantitative study into the risk acceptance criteria and due diligence process used by banks in Africa, compared with those used in other developing/developed markets; and
- accessing the impact of emerging market conditions in Africa on other industries.

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APPENDIX 1: THE CONSISTENCY MATRIX

Problem: Identify entry strategies for Standard Bank into the rest of Africa				
No.	**Sub-Problem**	**Literature**	**Data Source**	**Data Analysis**
1	Identify the emerging markets conditions that are likely to have a significant impact on Standard Bank operations in Africa	Ineffective communication channels: Dholakia (1984); Khanna and Palepu (1997); Nakata and Sivakumar (1997). Capital markets: Khanna and Palepu (1997). Labour markets: Khanna and Palepu (1997). Government regulation: Khanna and Palepu (1997); Mohr and Fourie (2004). Economic conditions: Ajayi and Choi (1993); Hill (1984); Hill and Still (1984); Kaynak (1982); Nakata and Sivakumar (1997). Technical conditions and infrastructure: Frazier, Gill and Kale (1989); Kotler (1984); Nakata and Sivakumar (1997). Political and judicial systems: Khanna and Palepu (1997); Nakata and Sivakumar (1997). Marketing conditions and level of competition: Bhattacharrya and Rahman (2003); Gillespie and Alden (1989); Kale (1986); Malhotra (1986); Nakata and Sivakumar (1997). Socio-cultural conditions: Kaynak (1982); Manrai and Manrai (1995); Nakata and Sivakumar (1997).	Semi-structured interviews	Within case analysis Explanation building Pattern-matching

Problem: Identify entry strategies for Standard Bank into the rest of Africa				
No.	**Sub-Problem**	**Literature**	**Data Source**	**Data Analysis**
2	Identify under what conditions a Greenfield or acquisition strategy is likely to be most suitable for the maximum performance of Standard Bank in Africa	Brouthers and Brouthers (2000); Estrin, Hughes and Todd (1997); Henisz (2003); Hennart and Park (1993); Hofstede (1989); Kogut and Singh (1988); Madhok (1997); Meyer and Estrin (2001); Meyer, Estrin and Bhaumik (2004); Yip (1982).	Semi-structured interviews	Within case analysis Explanation-building Pattern-matching
3	Identify both the advantages and disadvantages for Standard Bank of being a first mover into African markets	Nakata and Sivakumar (1997); Rahman and Bhattacharyya (2003); Robinson (1998); Robinson and Fornell (1985); Rogers (1983); Tellis and Golder (1996).	Semi-structured interviews	Within case analysis Explanation-building Pattern-matching

APPENDIX 2: PROBE QUESTIONS USED DURING THE INTERVIEWS

1. What is the overall business strategy and objectives for Standard Bank's African operations?

2. What emerging market conditions have a significant impact on banking in Africa?

3. What do you perceive to be the greatest risk to conducting business in emerging markets?

4. How has the risk/reward profile of operating in Africa changed over the last seven to ten years?

5. Under what conditions does Standard Bank follow a Greenfield entry strategy?

6. What are the advantages and disadvantages of following a Greenfield entry strategy?

7. Under what conditions does Standard Bank follow an acquisition entry strategy?

8. What are the advantages and disadvantages of following an acquisition entry strategy?

9. Which of the two strategies has Standard Bank tended to use most frequently in the past?

10. Based on its experience obtained thus far, which entry strategy do you think Standard Bank will use most frequently in the future?

11. How does Standard Bank staff its banking operations in Africa? What is the optimal organisational design and management structure?

12. Does Standard Bank derive an advantage from being the first mover into a market?