

Strategies of South African banks expanding into Sub-Saharan Africa

A Dissertation
presented to

The **Development Finance Centre (DEFIC)**
Graduate School of Business
University of Cape Town

In partial fulfilment
of the requirements for the Degree of
Master of Commerce in Development Finance

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MDBMAT008

December 2018

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ACKNOWLEDGEMENTS

Firstly, I would like to praise and thank God. Without his blessing, assistance and guidance, I would not be in the position to complete this dissertation.

I would like to acknowledge my amazing wife, Nwabisa. All those sleepless nights were only possible because of your support, love and understanding.

I would like to acknowledge my mother. If it wasn't for your belief in me I wouldn't have had the courage to take on this task. You are a guiding light that has helped make me the man I am today.

I would like to thank Mundia, you helped me through the forest.

Most importantly, my daughter, Sizakele Mmankoana Flora Modiba. Everything I do is for you.

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ABSTRACT

The Sub-Saharan African economic environment has experienced growth in the last two decades. This has led to capital inflows into the continent, which has meant that multinational companies have entered the market in search of growth and capital. Due to this, multiple banks have expanded their operations throughout Sub-Saharan Africa. The role that banks play on the African continent is vital as they provide a reliable conduit for capital to enter the market while also promoting economic growth in the countries in which they operate. As one of the largest economies on the continent, South Africa is home to the largest banks in Africa, many which have expanded their operations into the continent. This dissertation is a qualitative case study focusing on the expansion strategies used by some of the South African banks that expanded into SSA. The dissertation aimed to understand which entry strategies led to successful expansions, how the banks defined the success of the expansion as well as what challenges the banks experienced. The dissertation found that successful expansions are driven by the appetite, persistence and level of conviction within the organisation about their expansion strategy. The more consistent and ardent the financial intuition is regarding their strategy, the higher the possibility of achieving a successful expansion. The level of management and organisational support for the strategy, as well as the number of operations the institution established played a role. The financial investment that the organisation undertook for the expansion was also an important factor for success.

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LIST OF ACRONYMS

BRICS	Brazil Russia India China South Africa
CIB	Corporate and Investment Bank
CWA	Central and West Africa
EY	Ernest Young
FDI	Foreign Direct Investment
GCI	Global Competitive Index
JSE	Johannesburg Stock Exchange
LFSO1	Large Financial Services Organisation1
LFSO2	Large Financial Services Organisation2
MB	Mozambican Bank
MNB	Multinational Bank
MNC	Multinational Company
OLI	Ownership, Location Internationalisation
PAB	Pan African Bank
PBB	Personal and Business Banking
ROA	Rest of Africa
SAAM	South African Asset Manager
SAB	South African Bank
SAC	South African Company
SADC	Southern African Development Community
SAIC	South African Insurance Company
SSA	Sub-Saharan Africa
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States
WAPAB	West African Pan African Bank

1. INTRODUCTION

1.1 Research Area

Pre-1994, South Africa was closed off from the rest of the world owing to the apartheid government's rule. The country was isolated from the global economy which also imposed various trade sanctions upon them. These sanctions meant that South African companies (SAC) had no option but to focus on their own economy and become self-sufficient (Klein & Wöcke, 2007). Joosub and Coldwell (2016) describe this scenario as a form of economic quarantine. A situation which led to these companies amassing excess capital as they were not able to invest outside of South Africa (Daniel, Naidoo, & Naidu, 2003). Once apartheid ended, many of the largest companies found themselves in a position to expand their activities outside of the country's borders. "When borders were opened with the rest of Africa and trade barriers removed, it was a perfect opportunity for a country like South Africa with a developed infrastructure to invest in Africa" (Joosub & Coldwell, 2016: 493).

Daniel, Lutchman, & Naidu (2004) highlighted that the country's political transformation into a truly democratic state would make any expansion of SAC into SSA easier. The timing of South Africa's new found political freedom was ideal as the Sub-Saharan African (SSA) economic environment has experienced growth in the last two decades. This growth was driven by the global commodity super cycle, which led to capital inflows into the continent (European Investment Bank, 2016). The strong economic growth could also be attributed to the financial sector reforms that many African countries instituted during this period. These reforms attracted various foreign banks to invest in SSA (Nyantakyi & Sy, 2015). South African Banks (SAB) were among some of the foreign banks that invested in SSA.

The presence of foreign banks in SSA's underdeveloped banking sector has led to multiple advantages for host nations. Most importantly, many of the host nations received foreign direct investment (FDI), the level of competition in their market increased, technological development enhanced, and local companies and government's ability to source capital improved (European Investment Bank, 2016; The World Bank, 2018). Bloom and Van Reenen (2010) report that the parent banks also transfer their management capabilities into the host market.

This dissertation investigated the entry strategies implemented by SABs expanding into new SSA countries with an aim to discover strategies applied by more successful entities. The focus was on banks as their expansion is believed to play a vital role in promoting economic growth (The World Bank, 2018). Daniel et al (2004) expand on this by explaining how the financial sector's expansion in the African continent has been in conjunction with other sectors. The use of SABs is driven by the unique circumstances that exist in the country owing to its past. Apartheid made South Africa unique because the country now has the characteristics of both a developing and a developed country. This has led to the country being the home of some world class banks, which has subsequently meant that the country is a financial powerhouse on the continent and a regional financial hub (Organisation for Economic Co-operation and Development, 2017). Lastly, the dissertation built on the existing literature covering models of internationalisation for businesses as well as literature on the mode of entry used by banks expanding into new markets.

1.2 Problem Statement

As capital flows into the SSA region, foreign banks are tempted to follow the funds into the region. Either by following their clients that have invested in the African continent or to chase the potential growth opportunities in these markets for themselves. As more companies successfully expand into SSA, this can create a mutually beneficial impact on their local economy and the economies of various SSA host countries they enter. This is because countries in SSA will receive FDI while the economy of the expanding company will benefit from having more multinational companies (MNC) that continue to grow in size. On a broader level, successful expansions are also important as they can inspire more companies (financial or non-financial) to consider their own expansion strategies into SSA.

Over the years there have been attempts from different SABs to expand their operations into SSA in order to chase the above-mentioned benefits. Daniel et al. (2004) indicate that in most cases SACs are performing well, with some of the SAB expansions being hailed as successes. There is however other bank expansions that have not received as much recognition, with some people even seeing them as

failures. Without a clear idea of what makes certain SAB expansions successes and others failures, this poses a challenge to banks that are still considering what strategies they can use in order to succeed with their future expansions. In addition to this, there is hardly any research available that examines the strategies used by SABs expanding their operations into SSA.

This dissertation aims to bolster the limited research in this topic by investigating and analysing the expansion strategies used by two SABs that have already expanded their operations into SSA. In doing this, the dissertation will also develop a research based blueprint that future SABs can use when expanding their operations into the SSA region.

1.3 Research Objectives and Questions

When SABs enter new markets, there are certain factors that need consideration, especially owing to the perception that the SSA region has a riskier investment profile. Not all of these factors receive the appropriate attention from the bank's board and management, which could explain why certain banks succeed in their planned expansion, while others fail.

Therefore, the main objective of this dissertation was to establish the strategies that led to the successful expansion in an effort to create a research-based blueprint for future bank expansions into SSA. In doing so, the dissertation explores and describes the entry strategies that have led to successful expansions for SABs expanding into SSA. To assess the success of a bank expanding into SSA, the dissertation focuses on two case studies of SABs that expanded their operations into SSA. The banks researched are large South African financial services institutions. The dissertation further discusses the strategies, financial performance and challenges experienced by the banks.

Therefore, the main research question for this dissertation is as follows:

- Which entry strategies have led to successful expansions for SABs expanding into SSA?

This research question leads to the following sub-questions, which will also be covered in the dissertation:

- How will the success of a bank expanding into SSA be defined?
- What were the key challenges facing South African banks that expanded their operations into SSA?

1.4 Justification of Research

The financial sector of any country is a vital component of the economy. The institutions that operate in this sector play an important role by facilitating the activities of companies as well as increasing the level of competition in the local market (Cull & Beck, 2013). The World Bank (2018) adds to this assertion by indicating that when new banks enter a financial market, this can improve the level of competition in the market. This improved competition, driven by the new bank's technology and management, ultimately leads to the greater financial stability in the market (Claessens & Van Horen, 2014). Enoch, Mathieu, & Mecagi, (2015) further support this by highlighting that the entry of more competitive banks in less developed African financial markets can have a constructive impact on the economy. Due to the potential of achieving a more competitive economy because of the entry of new banks, research establishing which strategies were utilised by successful expanding banks will play an important role in developing the African economy.

Apart from the increased level of competition which benefits the host country's economy. There are multiple positive impacts that can be achieved by having more foreign banks successfully expand into SSA. One of the potential positive impacts is that the expanding bank would increase their profits as well as achieving additional operational advantages (Berger, 2007). The International Monetary Fund (2015) highlights that another positive impact from the expansion of banks, especially pan-African banks (PAB), into the region is the increased connectivity experienced between countries on the continent. In the same vein, de Haas & van Lelyveld (2010) further established that the host countries that received investments from multinational banks benefited from the credit stability brought by the foreign banks. Considering the need for development in SSA, these positive impacts and additional FDI benefits can lead to much needed socio-economic developments on the

continent. Therefore, justifying the need for research and establishing a research-based formula for the successful expansion of banks into SSA.

1.5 Research Assumptions

One of the important assumptions made for this study is that the banks that are discussed operate as normal companies. This means their operations aims include making a long-term profit and realising financial value for their shareholders. This indicates that the bank's decisions to expand are made with these objectives in mind. Another assumption that was made by this research paper is that while companies expand for their own profit and shareholder gain, this exercise is not mutually exclusive from the socio-economic benefits that these expansions can create for receiving countries.

2. LITERATURE REVIEW

The topic of companies expanding their operations and moving into different markets has been well researched over the years, leading to different theories being established. There is a strong focus on the internationalisation of companies because it is considered as one of the methods that they use to seek additional efficiency for their operations (Ramasamy, Yeung, & Laforet, 2012). This dissertation will touch on some of these theories but will have a comprehensive focus on the eclectic paradigm, as well as the internationalisation of banks into emerging markets.

2.1 Eclectic Paradigm (OLI Approach)

One of the most well-known theories in the internationalisation of companies is the eclectic paradigm. The paradigm is a key theory in explaining the steps and considerations of an MNC when deciding whether and how to expand their operations into a foreign market. John Dunning initially proposed the theory in 1977 but has modified it over the last four decades.

The paradigm is also known as the OLI approach, an abbreviation for Ownership-specific advantage, Location-specific advantage and International-specific advantage

(J. H. Dunning, 2000). By considering and exploiting these three factors, Tai and Chuang (2014) argue that MNCs can gain advantages when expanding their operations. Ownership-specific advantages refer to competitive advantages that an investing MNC already possesses. This can be in the form of assets or technology owned by the MNC, which will give it an edge when operating in the foreign market. An example of this would be the expansion of telecommunication companies such as MTN into emerging markets. The technology that MTN has through its already existing operations provides them with a competitive advantage when entering underdeveloped countries. Most importantly, advantages will be derived from a strong institution's corporate culture, systems and operating model, as well as the ability of the institution to operate with lower transactional costs owing to the advantage of being a large entity that operates in multiple markets (J. Dunning, 1987; J. H. Dunning & Lundan, 2008).

Location-specific advantages are the factors that attract the MNC to invest in the host market. These factors usually reflect the economic environment of the host market and present the MNCs with an opportunity to earn additional revenue. On the African continent the country which usually exemplifies the location specific advantage is Nigeria. This is because the country is the most populous nation on the continent. The large population, which can be viewed as a potential customer base attracts MNCs to invest.

The last variable is the Internationalisation-specific advantages, which focuses on the different methods a MNC can choose to operate in a host market. This includes decisions such as whether to employ a capital light or capital intensive approach (J. H. Dunning, 2000). The financial sector is a good case study for this specific advantage. This is because banks can chose to expand in a country utilising a capital light approach, which would require limited infrastructure in the new market. Alternatively, a bank could choose a more capital intensive approach in which they aim to have a presence in every region of the country.

As well-known as the OLI approach is, there have been some criticisms that arose since its creation. One of the criticisms that the approach has received over the years is that because it was created a few decades ago; it was not able to accurately

explain the actions of modern MNCs. In his attempt to review how the paradigm has evolved in the last two decades, Dunning (2000) examined what changes have occurred and proceeds to reconfigure the OLI paradigm so that it covers asset-seeking FDI and MNE activity.

Another problem with the eclectic paradigm is that it is broad and assumes that the company being discussed is an average multinational company. Therefore, the paradigm does not delve into the detail required for companies operating in specialised sectors. A good example of this is the banking sector. Even though a multinational bank (MNB) can be viewed as a financial MNC, the sector is a unique and will have different characteristics to consider. Even though Cerutti, Dell’Ariccia, and Peria (2007) discuss the eclectic paradigm in relation to international banks, there is limited literature that covers this relationship sufficiently. This dissertation will attempt to resolve this by discussing the OLI approach in relation to the expansion efforts of MNBs.

Another criticism is that the eclectic paradigm focuses on a MNC’s expansion into an average market. Implying that the paradigm does not have a focus on MNCs expanding into an emerging market. By focusing on the expansion of SABs into SSA, this dissertation will add to the literature of South African MNCs expanding into emerging markets while factoring in the OLI approach. Klein & Wöcke (2007), who researched the expansion of various SACs expanding into SSA via the OLI approach, discussed the unique circumstances facing South African businesses. They highlighted that the unique environment experienced by SACs during Apartheid, led to the companies developing equally unique competitive advantages.

As companies in South Africa were isolated from global markets, this forced them to develop their own skills, which led to them becoming fairly large and self-sufficient in a fairly stable economic environment. SACs used these skills as ownership-specific advantages when expanding their operations. “ Some firms took advantage of this potential and expanded on the back of these skills when the environment changed” (Klein & Wöcke, 2007: 332).

Lastly, even though the paradigm focuses on aspects that attract the MNC to specific markets and discussing the advantages that the companies can achieve. The paradigm does not discuss the effects, positive or negative, that are felt by the MNCs home country or the new country that will host the MNC. The dissertation will provide some insight into the effects felt by the host country owing to a MNBs expansion.

2.2 International Banking

The eclectic paradigm focuses on the strategies used by MNCs that expand their operations. The paradigm discusses companies broadly and does not explore the strategies that MNCs that operate in different sectors undertake. This dissertation concentrates on the strategies taken by SABs when expanding their operations, with a specific focus on the mode of entry chosen by the expanding banks.

There are numerous reasons why banks may choose to expand their operations. One reason that has been proposed for bank expansion is for banks to diversify their risks across various markets (Detragiache, Tressel, & Gupta, 2008; International Monetary Fund, 2015). Berger, Deyoung, Genay, & Udell, (2000) add that another reason for bank expansion is owing to the increased economic activity that takes place regionally across country borders. Banks are attracted by the increased economic activity, which could assist the them in increasing their revenue (European Investment Bank, 2015).

When a bank enters a new market, this will also have an effect on the host country's banking sector as well (Cerutti et al., 2007), especially if the expanding bank's entry leads to local banks losing clients and reducing revenue. To address this, local banks are forced to improve their product offering in order to compete, which leads to their costs increasing (Claessens, Demirguc-kunt, & Huizinga, 2001).

The presence of new foreign banks therefore improves the competitive landscape of the market, which leads to new products, services in the market, which ultimately adds to the country's financial stability (Claessens et al., 2001; Claessens & Van Horen, 2014; Detragiache et al., 2008). Cetorelli and Goldberg (2011) further highlight that the expansion of banks leads to the improvement of the regulatory

institutions in the host countries, which leads to the development of financial systems and strengthening of property rights in the host country.

2.3. Defining Bank Success

One of the aims of this dissertation will be to determine which strategies used by expanding SABs were successful. In order to establish this, the concept of success will need to be defined. In various literature, authors suggest that the bank's financial ratios as well as the company's profitability can be used to assess a bank's performance (Berger & Bouwman, 2013; Kumbirai & Webb, 2010; Lin & Zhang, 2009; O'Donnell & van der Westhuizen, 2002). Therefore, if a bank's ratios improve and its profitability increases, these point to the success of the bank. Additionally, it should be noted that financial ratios are not the only method used to gauge a bank's performance. Berger & Bouwman (2013) also considered aspects such as the bank's survival and the amount of market share the bank commanded as a method to judge a bank's performances.

With regards to financial ratios, ratios such as the return on assets and return on equity are often used as they are viewed as key measures of a bank's profitability (Aebi, Sabato, & Schmid, 2012). Both ratios consider the returns made by the entire bank in a certain period. Return on equity is the net income earned by a bank in a certain period divided by the equity the bank used in the same period. While the return on assets ratio is fairly similar, it differs with the fact that the net income is divided by the assets used by the bank in the same period. As much as these ratios are a popular methods of measuring a bank's performance, O'Donnell & van der Westhuizen (2002) highlight that they have their own flaws. Arguing that financial ratios might not be an ideal form of measurement as they don't consider in all factors of a banks' operations.

The difficulty with utilising these ratios for this dissertation is that even as these ratios improve, there is no definitive proof that the improvement is due to a bank's SSA operation. Especially considering that most SAB's SSA operations contribute a minor amount to the bank's total return. In order to address this, the dissertation has utilised the contributions that the SAB's SSA operations contributed into the total bank's

headline earnings to measure the progress of the bank's SSA operations. The case studies used for this dissertation also used the same measure in their financial statements to discuss the contribution of their SSA operations.

2.4 Mode of Entry

The initial decision that a bank has to make for any proposed expansion is their mode of entry into the new markets. Before making this decision, a bank's management carefully consider the various positive and negative factors associated with expansion and utilise this analysis to choose their best mode of entry (Lensink, Meesters, & Naaborg, 2008). Furthermore, Agarwal & Ramaswami (1991) explains that the entry mode is chosen once the risks and returns associated with each mode of entry are considered.

There are multiple methods of entry available to banks and each method influences the organisational structure a bank will utilise in the host country. This, in turn, affects the bank's level of penetration into the host country, influences the costs associated with their expansion as well as dictating the future choices that the bank will have to make in order to continue operating in the host country (Cerutti et al., 2007). The World Bank (2018) posits that the bank's mode of entry will also influence which institutions supervise the bank and how they will be regulated.

There are two main tactics open to banks when they expand their operations into new markets. The first tactic is when a bank provides their services into the new market from their home country. This approach is often referred to as cross border banking. The second tactic for expansion is when a bank has a physical presence in the foreign country (Berger et al., 2000; The World Bank, 2018). The physical expansion of a bank can further be broken down into two operational structures, where the bank either operates a branch or a subsidiary in the foreign country (Claessens et al., 2001).

Fiechter et al. (2011) explain that the choice on whether to enter a market utilising a branch or subsidiary is influenced by various factors. Some of these factors are the expanding bank's objectives, the host country's tax regime as well as the host

country's regulatory systems. More often than not, the mode of entry is not always the same for all new markets into which a bank expands. This can lead to a situation where the bank has branches or subsidiaries in the different host countries they have entered.

2.5 Cross Border Banking

There are a few reasons that could lead to a multinational bank opting out of utilising physical operations in new countries. One of these reasons is the cost associated with physical expansion. As the parent bank will not have to manage any additional assets or personnel with cross border banking, it is viewed as a conservative, cheaper and more efficient option (Fiechter et al., 2011). The host country also plays a role in influencing whether a bank will service a market through cross border banking. Cerutti et al. (2007) highlight this point by discussing how the political environment and the economic factors of the host country influence the organisational choice made by MNBs.

Cross border banking also has its setbacks. Without a presence in the host country, a bank could be at a disadvantage by not being able to keep abreast of local developments. This could lead to the bank being one step behind banks that have a physical presence. The International Monetary Fund (2015) supports this by accentuating that having a physical presence in the host country can be viewed as a more stable approach than cross-border banking.

2.6 Physical Expansion: Branches

If a bank chooses to expand by operating a branch in the host country, this entity will be legally integrated with the parent bank (Fiechter et al., 2011; The World Bank, 2018). Therefore, the parent bank is responsible for the branches actions and operations in the host country. The branch could even be regulated by authorities in the parent bank's home country (Cerutti et al., 2007). This explains why banks mainly choose to operate as branches in countries that do not have onerous restrictions on their activity, as well as countries with a higher tax rate. This allows the parent bank to move their revenue to their home country in order to benefit from a lower tax rate.

As the parent bank is ultimately responsible for a branch's activities and decisions, this results in it having more control over the branch. Agarwal and Ramaswami (1991) explain that this control is important as it plays a significant role in making the branch more competitive and profitable. Owing to this increased level of control, parent banks would typically utilise branches in their smaller operations that are not complex (Cerutti et al., 2007). Fiechter et al. (2011) add to this argument by suggesting that banks whose main aim in the new market is to have a simple strategy of targeting large corporate clients prefer to utilise branches.

Additional benefits that come from utilising branches are that the parent bank is able to manage the liquidity of all of their operations worldwide. This means that the parent bank is able to raise funding in markets where it is cheap to do so and then direct these funds to their most profitable operations. This efficient use of capital also allows the parent bank to easily move capital out of markets that are distressed and experiencing difficulty (Cetorelli & Goldberg, 2011; Fiechter et al., 2011).

Fiechter et al. (2011) highlight that another benefit with utilising branches is that because the parent bank is responsible for choices taken by all its branches, the banking group can be integrated with all decisions being made centrally. They further assert that if the bank's capital raising, capital allocation and risk management are managed effectively, this can lead to an efficient banking group with well-managed costs. They also contend that operating a branch structure may cost less than operating subsidiaries.

2.7 Physical Expansion: Subsidiary

The main difference between a subsidiary and a branch is in their legal make up. A subsidiary is set up as a legally separate entity from the parent bank, which means that the bank in the host country operates independently from the parent bank (Cerutti et al., 2007). Fiechter et al. (2011) explain that owing to this, subsidiaries fund themselves separately from the parent company and are bound to the host country's rules and regulations. This also means that subsidiaries are supervised by the regulatory authority in the host country, which is one of the reasons that the

governments of host countries prefer that banks enter their markets via the subsidiary structure (The World Bank, 2018).

As subsidiaries are independent entities, they can fail with no consequence to the parent bank. Despite this, interventions from the parent bank are still possible, even though this is usually done in exceptional circumstances (The World Bank, 2018). Another consequence of subsidiaries being independent is that the subsidiary is not able to move capital freely to the parent bank or any other subsidiaries in the banking group, thereby limiting the parent bank's ability to manage the banking group's liquidity (Fiechter et al., 2011). Owing to this, subsidiaries tend to hold larger amounts of equity capital as a safeguard in order to protect the subsidiaries operations in times of distress.

Despite these disadvantages, there are still benefits to the subsidiary structure. One of these is that the parent banks use the subsidiaries independence to their advantage by utilising the subsidiary structure when expanding into riskier host countries. This is because there will be limited exposure to the parent bank if anything goes wrong (Cerutti et al., 2007). Other advantages come from the investments that the parent bank has to make in the subsidiary when initially establishing their operations. As the bank will not be able to interfere in the daily operations of the subsidiary, all their contributions into the bank can be seen as an investment into the local banks operations. Fiechter et al. (2011) highlight how the transfer of new technology, knowledgeable personnel, enhanced products, and quality banking systems can benefit the subsidiary.

2.8 Subsidiary Entry Approaches

As the branch is legally connected to the parent company that means that, every new branch in a new market is created by the parent bank. With subsidiaries, matters are not as simple as there are two approaches that the parent bank can take to launch a subsidiary in a new market. The parent bank can either create a new bank, also known as a Greenfield investment, or acquire an existing bank in the host market (The World Bank, 2018). Claeys and Hainz (2014) explain that this choice will dictate

the number of existing customers and experience that the subsidiary will have when the foreign bank enters the host country.

When a parent bank acquires existing operations in the host market, the acquisition will come with established operations that have existing customers and personnel with expertise (Claeys & Hainz, 2006; Gupta & Govindarajan, 2000). This means that from the first day of operating the parent bank will already have operational offices that service clients and generate revenue. As much as this can initially be seen as a positive, the bank will have to accept the strategies employed by the existing operations they have acquired. However, if the existing strategies are not aligned to the parent bank's modus operandi, the parent bank will have to spend additional time and money to mould the operations (Meyer, Estrin, Bhaumik, & Peng, 2009).

With regards to the Greenfield investment approach, the parent bank will have to start from scratch with no offices, employees or clients. The World Bank (2018) explains that this can be viewed as a positive as the parent bank will be in the position to build their new operations on their own terms. The Greenfield bank can therefore be selective about the staff they employ, the systems it uses as well as the clients it wants to service (Claeys & Hainz, 2006). The World Bank (2018) explains that this initial closeness to the parent bank will lead to the new subsidiary being better aligned with the parent, therefore putting them in a good position to survive any potential economic shocks in the host country. Lastly, Claeys and Hainz (2006) point out that Greenfield investments benefit the host country as they add to the number of banks that are operational in the country, which should lead to an increased level of competition amongst the banks in the market.

2.9 SSA Economic Environment

The SSA market has experienced periods of growth in the last decade, driven mostly by the global commodity super cycle. More recently, weak commodity prices have affected the SSA region and weighed on FDI to the region. FDI flows to Africa fell to \$54 billion in 2015, a decrease of seven per cent from the previous year (UNCTAD, 2016). This decline was driven by a decrease in FDI flows into West, East and Central Africa owing to lower commodity prices. UNCTAD (2016) further highlights

that in 2015, FDI inflows to West Africa declined by eighteen per cent to \$9.9 billion, FDI to Central Africa fell by thirty-six per cent to \$5.8 billion, East Africa fell by two per cent to \$7.8 billion and the Southern African region experienced a two per cent increase to \$17.9 billion.

Owing to the above-mentioned declines, foreign investors have focused their activity on the larger countries in SSA such as South Africa, Nigeria and Kenya. This shift in investment focus is also owing to their belief that these countries have economies that are more diverse than other SSA countries. Together with North African countries, namely, Morocco and Egypt, these countries have attracted fifty eight per cent of the FDI into the African continent (EY, 2017).

The largest FDI contributors in SSA are usually developed countries such as the UK, the US and France. However, there has been a recent increase in FDI from developing markets as well. Half of the top ten investors in Africa are developing countries, including three BRICS countries: China, South Africa and India. China's FDI increased more than threefold from 2009 to 2014, as China overtook South Africa as the largest developing country investor into the region (UNCTAD, 2016).

FDI flows into South Africa in 2015 decreased substantially, by sixty-nine per cent to \$1.8 billion. This was the lowest level in ten years and was owing to the country's lethargic economic performance, lower commodity prices and higher electricity costs (UNCTAD, 2016). Despite the difficult period experienced by the country, South African MNCs were still able to invest \$1.6 billion of FDI into the African continent in 2016, making South Africa the largest intra-regional investors on the African continent (EY, 2017).

2.10 African Banking Sector

The African banking sector has transformed significantly in the last 20 years (Mecagni, Marchettini, & Maino, 2015). This transformation was driven by the continued liberalisation of the financial sector in various countries (Cerutti et al., 2007; Cull & Beck, 2013; European Investment Bank, 2015; Mecagni et al., 2015). The sector has changed from a market dominated by state-owned banks in many of

the countries to more open markets with a more privately owned financial institutions participating in the banking sector (Mecagni et al., 2015). These changes have been positive for the market considering that privately owned banks are believed to perform better than state-owned banks in emerging markets (Micco, Panizza, & Yanez, 2007).

Despite the positive changes experienced in Africa's banking sector, many countries still have unsophisticated financial markets (European Investment Bank, 2015). This has resulted in the level of financial penetration being relatively low, with under a quarter of the continents population having access to a bank account (Nyantakyi & Sy, 2015). In addition, the public infrastructure is inefficient, the legal and business environments are weak and the electricity supply in most African markets is unreliable.

Cull and Beck (2013) further explain that there are four key issues that make operating a bank in SSA more difficult than other developing markets globally. Firstly, some economies in SSA are rather small, which makes it difficult to find enough business to make local banking operations sustainable. A second reason is that significant amounts of economic activity occur in the informal sector; therefore, business does not flow into the formal banking sector. Thirdly, as African economies are inherently seen as risky environments, operating there can be costly and slow, as many decisions need to factor in the perceived risk. Lastly, the corporate governance standards in multiple organisations are not seen as strong, which results in a difficult operating environment.

Even though it is done often, it should be noted that the African banking sector cannot be viewed as one single market. The African banking sector is made up of fifty four different markets that each have their own specific characteristics. Cull and Beck (2013) expand on this by explaining that banking systems in countries such as South Africa and Mauritius's are fairly developed while systems in smaller African countries such as South Sudan are limited in the services that they offer. Owing to this broad spectrum, the larger banking markets in the continent tend to dominant the revenue generated. Cunha, Chironga, De Grandis, and Kuyoro (2018) explain that

South Africa, Egypt, Morocco, Nigeria, and Angola make up close to 86% of the banking revenue on the African continent.

Even though there is a significant amount of economic activity that occurs in resource rich countries, there is also meaningful activity that occurs in countries that are not resource rich. Mecagni et al. (2015) underscore that countries that are viewed as being politically stable and having diversified economies such as Kenya and Mauritius have been able to attract investment, leading to more banks entering their country. The World Bank (2018) highlights this by stating that international banking cannot be viewed as the only reason for financials development in a country; countries also need to play their part by having the correct policies in place.

There has been an increase in the number of banks on the African continent that have expanded into other African countries, leading to the improvement of the continents banking systems (Mecagni et al., 2015). Nyantakyi, Sy, & Kayizzi-mugerwa (2015) explain that expanding banks such as Ecobank and Bank of Africa have aided the African banking sector. European Investment Bank (2016) points out that the banks that expanded their operations into the region also brought their enhanced technology and banking systems with them. Even though these banks used different strategies to expand into new markets, the majority of banks expanded their operations through establishing subsidiaries (Mecagni et al., 2015). The dissertation will further discuss the challenges of operating in the African banking sector by discussing the challenges that SAB's faces in their SSA expansion will be detailed and discussed.

2.11 South African Banking Sector

As one of the more advanced banking systems on the African continent, South Africa plays a key role in the increased economic development on the continent. European Investment Bank (2015) further explains that the SABs dominate the Southern African region of the continent, accounting for 78% of the banking assets in the region. In addition, PricewaterhouseCooper (2016) posits that owing to SA's banking sector, bond market and sophisticated insurance market, the country is one of the emerging markets with the largest financial sector.

South African banks are also dominant in the rest of the African continent as the country is home to the largest banks in the region (King, 2017). PricewaterhouseCooper (2016) supports this by underlining that the Global Competitive Index (GCI) has ranked the South African banking sector as the sixth most competitive globally. Using a bank's Tier 1 capital as a measurement of its size, the GCI illustrates that South Africa's four largest banks are the largest banks on the African continent. Tier 1 Capital is the equity available to the bank and made up of elements such as the bank's retained earnings and disclosed reserves. The largest bank is Standard Bank, with Tier 1 equity of USD7.5 billion, followed by FirstRand (USD7.2 billion), Barclays Africa (USD5.3 billion) and Nedbank (USD3.9 billion). The next largest African bank is the Togo based PAB Ecobank with Tier 1 equity of USD3.1 billion. There are two other SABs that make up the top 20 banks, with Investec in 7th place and Capitec in 15th place.

The influence of SABs is not purely down to their size. These banks have affected the region by expanding through subsidiaries in many African countries, and are expected to continue growing into profitable African markets in the future (European Investment Bank, 2015). PricewaterhouseCooper (2016) notes that even though SABs have strong domestic operations, some of these banks receive consistent revenue stream from their African operations.

2.12 Uppsala Model (Internationalisation Process)

Another well renowned internationalisation theory considered in this dissertation is the Uppsala model by Johanson and Vahlne (1977). They developed this theory by observing Swedish MNCs and their expansion strategies into foreign markets. They found that the MNCs developed their international operations in small steps rather than large investments. The MNCs increase their operations through gradual acquisition, integration and use of market knowledge. This model will not be a core theory in the dissertation but will be used to build an understanding for the choices made by banks to grow in the host country. As the model focuses on the local knowledge that the MNC obtains through operating in the foreign market, this will assist in reviewing the behaviour of banks with a presence in the host country.

In their attempt to understand the relationship between a company's marketing strategy and its success in the international market, Arthur Solberg and Durrieu (2008) question the Uppsala model's assertion that gradual internationalisation led to a learning process for MNCs that pushed the MNC to the next stage of their development with a new advantage formed. They highlighted research that indicated that gradual internationalisation might have negative effects owing to the level of globalisation that has taken place since the Uppsala model first came about. The original creators of the Uppsala theory also believed that in the modern globalised economy, their theory might no longer hold water. They acknowledged that when they initially crafted their theory, they did not factor in the complex nature of the international markets (Jan Johanson & Vahlne, 2009). With this in mind, they progressed their theory by suggesting that in order for an MNC to expand successfully, they are multiple methods of gathering information that will assist them in their planned expansion.

Forsgren (2002) notes that research over the last two decades has questioned the level of detail covered by the Uppsala model. The model relies on the concept of learning through local experiences but there have been questions raised about companies that are able to obtain knowledge without having to invest in the foreign country. These companies obtain their knowledge from observing other MNCs in the market or approach firms that specialise in providing market intelligence. He further points out that the Uppsala model is too conservative as MNCs can only learn after experiencing a market event. Lastly, the model is criticized for its over-reliance on the MNCs local management in influencing the company strategy. This dissertation will add to the research surrounding the Uppsala model by investigating how SABs obtained the necessary knowledge required to continue the expansion of their operations in the host country. The role of the SAB's local management in the host countries will also be considered in order to assess the importance in the company's continued expansion.

2.13 Strategy and Business models

Literature on strategies and business models is helpful in assessing the expansion of MNCs into new markets. As this is a broad topic, various academics have focused on different aspects of the topic. Casadesus-Masanell and Ricart (2010) focus on the differences between tactics, strategies and business models and how these guide a company's actions. Their article was written with the constantly changing international business environment in mind and therefore included MNCs that were cognisant of their environment. The final outcome of their research was that the business model of a company explains how that firm operates in a market in order to create value for their stakeholders. On the contrary, "strategy refers to a firm's contingent plan as to which business model it will use" (Casadesus-Masanell & Ricart, 2010:204).

In an attempt to understand the importance of the business model, Teece (2010) further discussed how corporates would establish a business model to guide it in its operations in order to deliver to their clients. A good business model is considered important as it "will provide considerable value to the customer and collect a viable portion of this in revenues" (Teece, 2010:179). He further highlights that the concept of business models is not given sufficient attention in most economic theories as the models are driven by rigid assumptions that assume a well-developed market and hardly consider the customer satisfaction in their assumptions.

2.14 Conceptual Framework

The dissertation assumes that MNBs consider many different factors when expanding their operations. However, the dissertation will specifically focus on the eclectic paradigm as well as the mode of entry chosen by banks. The eclectic paradigm was used because it is one of the few internationalisation models that considers all the relevant available factors to the MNCs, including the mode of entry, to provide a multifaceted view on how MNCs choose to expand their operations (Klein & Wöcke, 2007; Rugman, 2010). As much as the paradigm provides a guideline of elements to consider, it does not specifically cover the factors for a MNB.

Therefore, the paradigm in this dissertation was supplemented with bank specific characteristics which will explain the mode of entry chosen for banking institutions.

Interviews with senior managers at SABs that have expanded their operations into SSA were used to establish whether the bank’s mode of entry into new markets was conservative or aggressive. Using the existing literature on international bank expansion, Figure 2 1 illustrates how each of the choices taken by the expanding banks can be described as either conservative or aggressive. The bank’s financial performance was also analysed to gauge whether their SSA expansion was a success. The metric used to gauge the success of the bank’s SSA expansion was the percentage of their headline earnings that the banks earned in SSA (excluding South Africa) in the last ten years (2008 - 2017). This information was retrieved from the bank’s annual audited financial statements.

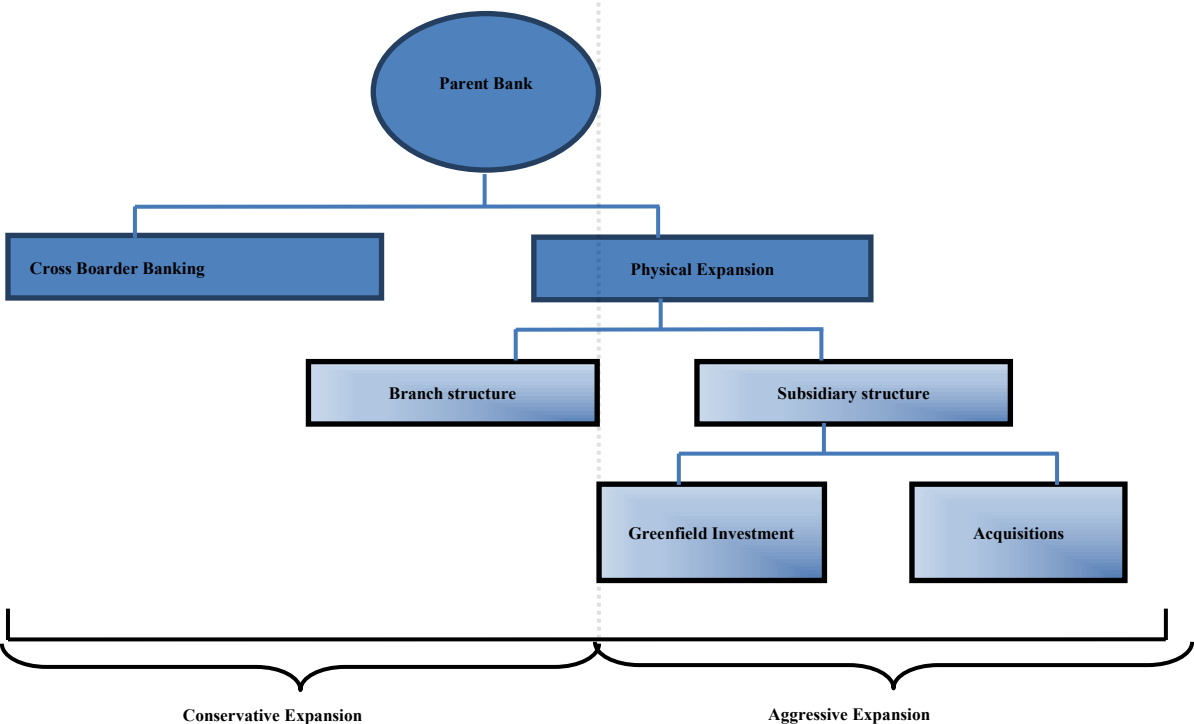


Figure 2 1: Expansion intensity of various modes of entry

The relationship between the mode of entry chosen by a bank’s management and the level of success this expansion achieved was plotted in Figure 2 2 below. The independent variable, which is the bank’s chosen entry strategy, is on the x-axis of the figure. The level of success achieved owing to the entry strategy will be the

dependent variable on the y –axis. With this information plotted in the figure, this will allow us to establish if there is any relationship with the mode of entry chosen by a particular bank and the level of success achieved.

The case studies selected for this dissertation have been plotted into Figure 2 2. Large Financial Services Organisation 1’s (LFSO1) expansion intensity, which has been described as aggressive led to the organisation’s average headline earnings from its SSA operations being fifteen per cent of LFSO1’s headline earnings over the last ten years. Large Financial Services Organisation 2’s (LFSO2) expansion intensity, which has been described as conservative, led to the organisation’s average headline earnings from its SSA operations being two per cent of LFSO2’s headline earnings over the last ten years.

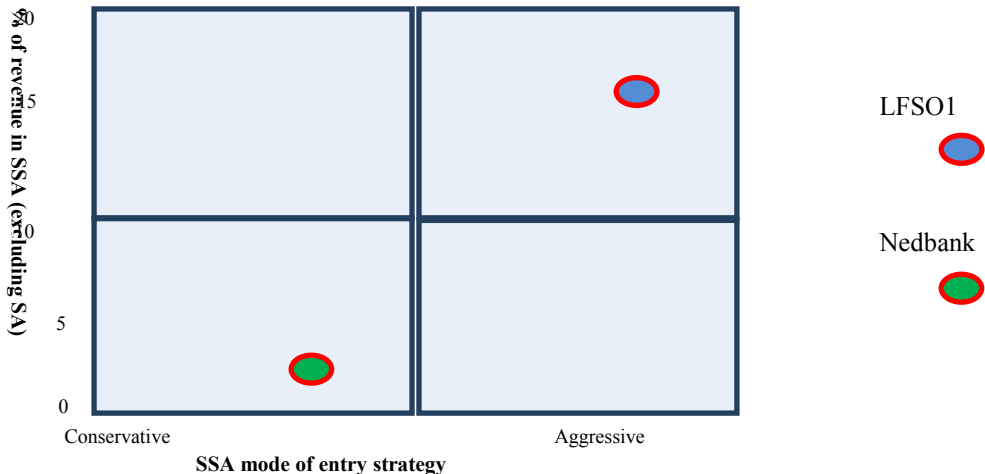


Figure 2 2: Conceptual Framework: Outcome of bank’s entry strategy

3. CASE STUDY PROFILES

This chapter contains a description of the SABs that were chosen as case studies for the dissertation. The data utilised for this analysis were sourced from financial statements, presentations and reports for each organisation. This information is publically available on the websites of both organisations.

3.1 Case Study 1: LFSO1

The first case study for the dissertation is LFSO1, which is based in South Africa. LFSO1 was incorporated and registered on the 15th of October in 1862 with its first operations in Port Elizabeth (“Our History,” n.d.). From these humble beginnings, LFSO1 grew its operations in South Africa and the rest of SSA. So much so, PricewaterhouseCooper (2016) rated it as the largest bank in SSA using the its Tier 1 equity as a measurement. Table 1 illustrates the various countries LFSO1 expanded into over the years.

LFSO1 Expansion timetable			
Year	Country	Number of SSA countries present	Method of entry
1892	Rhodesia (now Zimbabwe)	1	Greenfield (Subsidiary)
1894	Portuguese East Africa (Mozambique)	2	Greenfield (Subsidiary)
1901	Nyasaland (now Malawi)	3	Greenfield (Subsidiary)
1911	Kenya	4	Greenfield (Subsidiary)
1911	Tanzania	5	Greenfield (Subsidiary)
1912	Uganda	6	Greenfield (Subsidiary)
1915	South West Africa (now Namibia)	7	Greenfield (Subsidiary)
1928	Northern Rhodesia (now Zambia)	8	Greenfield (Subsidiary)

1966	Mozambique	9	Joint venture with Portuguese Bank (Subsidiary)
1966	Angola	9	Joint venture with Portuguese Bank (Subsidiary)
1988	Swaziland	10	Greenfield (Subsidiary)
1991	Botswana	11	Greenfield (Subsidiary)
1992 Acquisition of large international bank's SSA operations			
1992	Zimbabwe	14	Acquisition (Subsidiary)
1992	Zambia	14	Acquisition (Subsidiary)
1992	Kenya	14	Acquisition (Subsidiary)
1992	Botswana	14	Acquisition (Subsidiary)
1992	Uganda	14	Acquisition (Subsidiary)
1992	Zaire (now DRC)	14	Acquisition (Subsidiary)
1992	Nigeria	14	Acquisition (Subsidiary)
1992	Ghana	14	Acquisition (Subsidiary)
1995	Lesotho	15	Acquisition (Subsidiary)
2001	Mauritius	16	Representative Office (Branch)
2002	Uganda	16	Acquisition (Subsidiary)
2007	Nigeria	16	Acquisition (Subsidiary)
2008	Kenya	16	Acquisition/ Merger (Subsidiary)
2012	South Sudan	17	Branch of Kenyan operations (Subsidiary)
2013	Ivory Coast	18	Representative Office (Branch)
2014	Ethiopia	19	Representative Office (Branch)

Table 3 1: LFSO1 expansion into SSA

From early in its operations, LFSO1 has been an organisation not afraid of expanding its operations outside of South Africa. The Organisation expanded outside of South Africa for the first time thirty years after it was established by opening a subsidiary in Rhodesia (now Zimbabwe) (“Our History,” n.d.). The Organisation continued expanding into ten SSA countries, mostly by opening new subsidiaries, until 1991. In 1992, LFSO1 hastened their expansion by acquiring the SSA operations of an ANZ

Grindlays Bank. ANZ Grindlays Bank had operations in eight SSA countries, six of the operations were fully owned with ANZ Grindlays Bank owning minority stakes in the Nigerian (forty per cent) and Ghanaian (thirty per cent) operations. More recently, LFSO1 has expanded into countries using different approaches. In 2012, LFSO1 expanded into South Sudan by utilising their Kenyan subsidiary to open a subsidiary in the capital of the Republic of South Sudan (LFSO1 Group, 2012). This was followed up by the opening of branches in the Ivory Coast and Ethiopia (LFSO1 Group, 2013).

LFSO1 has been split into three business lines, namely, Personal Business Banking (PBB), to cater to the banking needs of individuals as well as small to medium businesses, Corporate and Investment Banking (CIB), which caters for the needs of larger more complex organisations and the Wealth Division, which offers wealth solutions to both individuals and business. As LFSO1 has operations in multiple countries, they also arrange their structure to address their varied operations. LFSO1 has split their operations into a unit that focuses on the bank's South African operations, their SSA operations (excluding South Africa) as well as the bank's international operations, operations that are not based on the African continent.

As LFSO1 is a large and complex organisation, senior management that played a role in the bank's African operations were interviewed. The first is a Senior Executive that sits in the office of the Chief Executive Officer of LFSO1's African operations. The second is the executive responsible for Group Strategy, Human Capital and Communications. The third interviewee is the head of syndicate for LFSO1's operations in the central and Southern region of SSA, which is made up of 12 of LFSO1's 20 operations on the continent. The fourth interviewee is the Head of Investment Banking for LFSO1's Botswana subsidiary. The last individual interviewed is the Credit Unit Head for LFSO1's real estate business.

3.2 Case Study 2: LFSO2

The second case study for the dissertation is LFSO2. Founded in 1888, the bank is one of the largest SABs and views itself as a “distinctly African Bank” (LFSO2 Group Limited, 2017: 6). PricewaterhouseCooper (2016) further adds that LFSO2 is the fourth largest bank in SSA, using Tier 1 equity as a measurement. The Organisation’s focus is also evident in their vision, where it aims to be “the most admired financial services provider in Africa” (LFSO2 Group Limited, 2017:14). Despite this, LFSO2 is not as active in SSA as some of the other larger banks in South Africa. This view is shared by the LFSO2, which has stated that they have lagged behind the other South African Banks when it came to their expansion into SSA (LFSO2 Group Limited, 2017). Table 2 illustrates the SSA countries in which LFSO2 operates.

LFSO2 Expansion timetable			
Year	Country	Number of SSA countries present	Method of entry
1997	Lesotho	2	Acquisition (Subsidiary)
1997	Malawi	3	Acquisition (Subsidiary)
1997	Swaziland	4	Acquisition (Subsidiary)
2002	Namibia	5	Acquisition (Subsidiary)
2004	Zimbabwe	6	Acquisition (Subsidiary)
2008	Multiple countries	-	Strategic Alliance
2010	Kenya	7	Representative Offices (Branch)
2013	Mozambique	8	Acquisition (Subsidiary)
2013	Angola	9	Representative Offices (Branch)

Table 3 2: LFSO2 expansion into SSA

The above table depicts LFSO2’s expansion into SSA, which started with the acquisition of three operations from an international bank in 1997. This expansion was fairly cautious as the three countries were all countries that neighbored LFSO2’s home market of South Africa. The organisation continued this cautious

expansion of acquiring operations in neighbouring countries when it acquired a majority shareholding in operations in Namibia in 2002 (Enoch et al., 2015). The Organisation also became the majority owner of a bank in Zimbabwe that was established in 2004. Prior to 2004, the Zimbabwean operations was Zimbabwe's oldest merchant bank ("Who we are," n.d.).

In order to address their lack of presence in West and Central Africa, the organisation utilised a different approach. In 2008, LFSO2 entered into a strategic alliance with a West African Pan African Bank (WAPAB) based in Togo (LFSO2 Group Limited, 2008). The alliance allowed LFSO2 to provide their clients access to WAPAB's operations and systems. At that time, WAPAB's operations were in thirty African countries; currently the bank has presence in thirty-nine countries. Even though the LFSO2 brand was not being used in the countries that WAPAB was present in, their clients would have access to larger markets. LFSO2 went on to strengthen their partnership with WAPAB by acquiring a minority stake of 20% in the bank (LFSO2 Group Limited, 2014). In 2013, LFSO2 continued their expansion strategy with the acquisition of operations in Mozambique via a minority shareholding. LFSO2 went on to buy a majority stake in their Mozambique operations in 2016 ("Rest of Africa," n.d.).

In terms of their organisational structure, LFSO2 operates in a similar fashion and has a similar structure to LFSO1. Their main business units are the retail business, the wealth business and the corporate and investment business. LFSO2 is different to LFSO1 because it does not have an extensive presence outside of the African continent because the two main regions it focuses on are the South African and the Rest of Africa (ROA) operations. With regards to their ROA operations, LFSO2 goes a step further by breaking it down into different regions, the Southern African Development Community (SADC) region and the Central and West Africa (CWA) region (LFSO2 Group Limited, 2017). The significance of this regional split is that LFSO2 has a different operating model for both. In the SADC region, LFSO2 owns and actively manages the operations. While in the CWA region, the organisation has a strategic alliance with WAPAB ("Strategic Focus Areas," n.d.).

In order to understand LFSO2's operations in SSA, senior managers responsible for strategy and operations on the continent were interviewed for this dissertation. The first person interviewed is the head of syndicate for LFSO2, responsible for all the banks syndication activities in South Africa and SSA. The second person is the head of LFSO2's representative office in Kenya. The third individual interviewed is LFSO2's head of global commodity finance. The fourth interviewee for LFSO2 is the head of the bank's balance sheet and manages the various transactions booked on LFSO2's balance sheet as well as raising funding for the bank's operations.

4. RESEARCH METHODOLOGY

4.1 Research Approach and Strategy

This dissertation mainly followed a qualitative approach owing to the complexities that exist in exploring the different strategies followed by banks for their expansions. The population that was utilised for the study are the banks listed on the Johannesburg Stock Exchange (JSE) under the banks sub-sector category. This dissertation utilised a case study research strategy, which is an empirical process of investigating existing activities of entities within their environment (Darke, Shanks, & Broadbent, 1998; Runeson & Höst, 2009).

4.2 Sampling

This dissertation focused on the expansion of SABs expanding into SSA. The choice of South Africa was driven by the unique circumstances that exist for South African MNCs because of the historic events of Apartheid. Due to this, SACs are seen as an ideal case study when exploring the creation of global strategies (Klein & Wöcke, 2007). Once the originating country of the MNC was chosen, the next choice made was the focus sector that would be used in the study. The financial sector was chosen due to the vital role it plays in every country's economy. Additionally, the South African financial sector was chosen as the South African financial services sector has "rapidly accumulated assets in SSA and are expanding gross sales from an already large base" (Henley, Kratzsch, Külür, & Tandogan, 2008:9).

In the South African banking sector, there is a limited number of companies in the JSE's bank sub-sector group (7 banks), and of these there is a smaller number that have expanded their operations into SSA. For this reason, a purposeful sampling approach was taken for this dissertation to use only two banks. Leacock et al. (2009) explain that purposeful sampling is the process of deliberately choosing entities for a sample because they have the required information that is vital for the specific research question. For this reason Saunders, Lewis, and Thornhill (2012) explain that it is also referred as judgemental sampling as the entities chosen are driven by the proposal's research questions. In addition, the cases chosen for the study were selected using a diverse case method. A method that aims to choose cases that will achieve a "maximum variance along relevant dimensions" (Seawright & Gerring, 2008: 300). This ensured that the cases in this dissertation reflected banks that had different approaches and therefore achieved different outcomes.

Once the relevant banks were identified, interview requests were sent to senior managers in the institutions that are involved in the formulation or implementation (or both) of the SSA expansion.

4.3 Data Collection, Frequency and Choice of Data

Even though Eisenhardt (1989) mentions that case studies utilise various methods to collect data, for this dissertation, the primary approach utilised was interviewing senior managers that were involved in the bank's SSA strategy. Leacock, Rose, and Warrican (2009) assert that interviewing is a common technique used for qualitative data collection. Interviewing involves having a discussion with participants and asking them questions in order to get an outcome that is relevant to the study. Another approach utilised to collect data was to review the relevant company material for each of the banks. This material, which was publicly available, was obtained from the bank's websites.

In order to get an accurate description of the organisations used in the case studies, the data collected from the company material of each organisation were utilised. This information was made up of the bank's integrated financial statements, investor presentations and web pages that discussed the African strategies of each

respective bank. The data obtained from these various sources was used to determine the different countries that each of the banks currently has a presence in, as well as providing a detailed breakdown of the countries that the banks expanded into in the past. This information was used to populate a table illustrating the various countries the banks entered, the year in which they entered these countries as well as the method of entry used to enter that specific country.

The data collected on the banks, especially the integrated financial statements and investor presentations, was utilised to describe the operations of both the banks in detail. Clearly illustrating how the banks chose to organise their operations and how their organisation was organised regionally. This also provided a clear picture of the different African expansion strategies each of the banks utilised when expanding. Lastly, each organisation's audited financial statements for the last ten years were used to establish what percentage of headline earnings the African operations contributed to the total company's headline earning. The various percentages over the last ten years were then averaged out to obtain an average percentage for a ten year period.

For the interviews, each of the managers interviewed signed the consent for participation that can be found in Annexure 1 (section 7.2) of the dissertation. This ensured that all interviewees would have their identities kept confidential. In keeping with this agreement, all the interviewees in Annexure 1 are only referred to using their initials. The interviews were recorded using an iPhone. As the individuals targeted for the study are senior officials, the interviews were carried out in a manner that ensured that their time was utilised respectfully. This was done by ensuring that all relevant information was obtained from the respondents in at least one meeting. Each of the interviews was on average 40 minutes. There were nine interviews done for the two case studies with five senior managers from the first bank in the case study and four senior managers from the second bank. The interviews were a mix between face-to-face (two) and telephonic (seven) interviews. The majority of the interviews were done telephonically as some of the interviewees are actively involved in implementing their organisation's SSA strategy. Therefore, they are either based outside South Africa or are constantly travelling.

The interviews were semi-structured with certain pre-set questions in place to determine key factors about the bank's mode of entry strategies. The pre-set questions, which can be found in Annexure 1, acted as a guide for the interview. Any additional questions asked were spontaneous and interrogated subjects that arose during the course of the interviews. The individuals were asked questions to cover the following aspects of their SSA expansion:

1. Does the bank have a defined SSA expansion strategy?
2. Why has the bank chosen SSA as an expansion destination?
3. Are there specific countries or regions in the continent that the bank targeted?
4. What strengths and weaknesses of the bank were considered before expansion?
5. What advantages and disadvantages of the host country were considered before expansion? 6) Describe your bank's entry strategy into new markets?
6. What factors dictated the entry strategy of the bank?
7. Is the bank satisfied with their expansion strategy so far?

4.4 Data Analysis Methods

Once the data were collected for the dissertation, it was all closely analysed. The type of analysis depends on the research approach taken. For this dissertation, where the data was obtained via interviews, the answers for the various questions were transcribed verbatim in Annexure 3 of this dissertation. The answers were also grouped together using the different research questions. This was meant to analyse the information in an easier manner. Once the answers were grouped together, they were analysed manually in order to determine if there were any broad themes or issues that consistently arose in the various interviews (Leacock et al., 2009; Saunders et al., 2012)

4.5 Research Reliability and Validity

The instrument used for collecting data in a study is important; this is because the instrument used will play a role in ensuring that the data is reliable and valid. Leacock, Rose and Warrican (2009) explain that an instrument is valid when it collects the data that is needed to answer the research question. For this dissertation, the instrument was valid because all questions asked during interviews

were designed to answer the research question. Leacock et al. (2009) further explain that an instrument is reliable when it measures data and will consistently provide similar results every time a study is repeated. Reliability can be obtained through transparency and replication, indicating that for the dissertation, all methodology and processes should be clearly stated.

5. RESEARCH RESULTS AND ANALYSIS

5.1 Research Findings

This section discusses the findings that were obtained from interviews with various managers in each of the organisations. The tables that follow are split using the dissertation's three research questions as themes. The interview guide used to obtain the findings for each of these themes can be found in Appendix 1. Under each research question, the findings established through the interviews are noted. These findings are then supported by quotes obtained from various interviewees. At the end of each table the similarities and differences between the organisations are discussed.

5.1.2 Which entry strategies have led to successful expansions for South African Banks expanding into SSA?

The initial questions asked in the interviews were meant to find out more about the organisations being researched. The interviewees were asked to describe how the organisations they worked for were structured as well as what countries the organisation is present inside and outside of South Africa.

The next sets of questions were designed to address the main research question for the dissertation. These questions aimed to establish whether the organisation had a clearly defined SSA expansion strategy and what drove the organisations desire to expand. The questions were also meant to ascertain the various factors considered by the organisations when expanding their operations. These factors included the characteristics of the target country as well as the qualities of the expanding organisation. Lastly, there were questions aimed to establish the exact mode of entry

organisations used when expanding their operations and what effect this mode of entry had on the organisation.

Findings	LFSO1 Interviewee quotes	LFSO2 Interviewee quotes
<p>There is a strategy to expand into SSA. Though the strategy is not detailed.</p>	<p><i>Even if you see the investment that goes into those markets, you can see there's a deliberate strategy, not to just say will have 21 offices or rep offices with people flying in and out of those offices. (LFSO1 Interviewee 4)</i></p> <p><i>You might find that there is no defined group/board strategy that says we're going to this country followed by this country. Because one cannot predict how the future will look. (LFSO1 Interviewee 1)</i></p>	<p><i>While we are opportunistic in Africa. We are increasingly following our clients as they expand into the continent. We want to be able to bank a Multichoice in Johannesburg, and in Kenya and in Ghana. (LFSO2 Interviewee 1)</i></p> <p><i>If that's what you do in Mozambique, why don't you replicate that in Botswana and Zambia.... Nobody really can give me a clear answer to that, so it's a little bit, call it, disjointed. Sort of, it's like this is a good idea, let's do it.... A little opportunistic without having a proper strategy (LFSO2 Interviewee 2)</i></p>
<p>Organisations used multiple methods to enter SSA countries.</p>	<p><i>That is based on opportunities that are present, it could either be a Brownfield, it could either be a Greenfield. (LFSO1 Interviewee 1)</i></p> <p><i>We either green fielded and opened rep office or what we did, origination, we bought the branch, and business or infrastructure from ANZ Grindlays Bank. (LFSO1 Interviewee 2)</i></p>	<p><i>We have 3 rep offices. One in Nairobi, one in Angola and one in Accra, Ghana...Up until the end of 2017, the rep offices were part of what they called rest of Africa. And rest of Africa is all the subsidiaries of LFSO2, in predominately SADC, which is Namibia, Zim, Malawi, Swaziland and Lesotho, and then Mozambique, and Mozambique where we have a majority stake on a bank called Mozambican</i></p>

		<p><i>Bank (MB)... The subsidiaries require a total different approach. There we are normal bank with retail, and corporate branches and ATM machines and everything. (LFSO2 Interviewee 2)</i></p> <p><i>It is a mix. As our African strategy intensifies, I think we'll probably look at evolving our rep offices into branches at a minimum. We're looking at bulking our presence, generally speaking, in Africa. (LFSO2 Interviewee 1)</i></p>
<p>LFSO1 has a CIB led expansion model</p>	<p><i>We are a CIB lead expansion strategy. So, in most cases, but it's not a formula, it's not by default. We go in being CIB led, we try and leverage off the ecosystem. (LFSO1 Interviewee 1)</i></p> <p><i>So slowly you start expanding, where you break away from CIB and start banking commercial space, the business space, you start banking the employees which become personal banking. Then you've got the CEO of the company that you can offer wealth products. (LFSO1 Interviewee 1)</i></p> <p><i>In other markets, I think we probably came out initially as a very niche market and not as a big personal and business banking bank. (LFSO1 Interviewee 4)</i></p>	
<p>LFSO2 has a hub and</p>		<p><i>We have a hub and spoke</i></p>

<p>spoke expansion model</p>		<p><i>strategy, which means that we identify the hub in the region. And we service the other countries from the hub. So, in East Africa our hub is Kenya, Kenya services Uganda, Tanzania and surround countries. (LFSO2 Interviewee 1)</i></p> <p><i>We have 3 rep offices. One in Nairobi, One in Angola and one in Accra, Ghana. The one in Accra, Ghana looks after Ghana, Nigeria predominately Senegal and Cote d'Ivoire. Angola looks after Angola. And then we look after the four countries. (LFSO2 Interviewee 2)</i></p>
<p>SSA is an important part of the strategy</p>	<p><i>LFSO1 group strategy purpose is Africa is our home we drive her growth. (LFSO1 Interviewee 2)</i></p> <p><i>But with the crisis in 2008, the bank decided to be an African bank, which is where we were born. And to focus on the continent versus emerging markets outside of Africa. (LFSO1 Interviewee 3)</i></p>	<p><i>We need growth, it's not forth coming in the domestic economy. So, we have to look elsewhere for our growth. For us the logical choice is Africa. (LFSO2 Interviewee 1)</i></p> <p><i>Sub Saharan Africa is our main focus...let's say English speaking Africa. Anglophone Africa in Sub Saharan Africa. (LFSO2 Interviewee 2)</i></p>
<p>The countries culture, regulatory, economic and political environment are key considerations for expansion</p>	<p><i>So, you might find in most cases as more economies are moving into democracy, they becoming politically stable the economic growth and foreign investment goes there. You might find they are also adopting international standards. Whether it's</i></p>	<p><i>Regulatory, political and economic friendliness was what was important to us. (LFSO2 Interviewee 1)</i></p> <p><i>Cultural differences are important. So we assess that, and then</i></p>

	<p><i>around Basle II, Basle III adoption, IFRS 9 and all of those standards and measure. It makes it easier for LFSO1 to go in there, because we believe if politically a country is stable then the economy just follows. (LFSO1 Interviewee 1)</i></p>	<p><i>obviously in terms of the country risk and the political profile, that's important for us, because there's no use doing business in a country that's not conducive, politically, to do so... . So in other words if there's regulatory framework that allows banks to be a, to trade freely, to enter and exit in terms of their cash flows, in an economical and business like commercial manner, that's a country we would like to deal in. (LFSO2 Interviewee 3)</i></p>
<p>Local employees are vital to LFSO1's success</p>	<p><i>It's actually people in the country that knows the country best. That's how operationally, we most probably have a competitive advantage, reaching more clients in a particular country that we do have a presence. (LFSO1 Interviewee 5)</i></p> <p><i>In our case that's one big factor. So, if you could ask what has been your key ingredient for success, it's been the ability to have key talent and competent individuals on the grounds to execute on the strategy. Defining a strategy is easy but where the rubber hits the tar is the ability to turn the strategy into results. (LFSO1 Interviewee 1)</i></p> <p><i>So, I think for me it's probably the differentiating factor. You don't get a satellite office that's capacitated by foreign nationals to come and do work</i></p>	

	<p><i>in a foreign market. It's actually bank, South African bank or an African bank going into the African market, and when you do get into that market it's actually local expertise from the local nationals from that locality. (LFSO1 Interviewee 4)</i></p> <p><i>Your best outcome is to have local people running those organisations. (LFSO1 Interviewee 2)</i></p>	
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Table 5 1: Case Study findings for the main research question

When the two organisations' responses for the main research question are compared, a few similarities are visible. The most visible theme that arose was that the two organisations shared a similar view on the importance of the SSA region as an opportunity for growth. Despite having slightly different approaches to their expansions, both banks agreed that the next logical growth opportunity for SABs was SSA.

We need growth; it's not forth coming in the domestic economy. So, we have to look elsewhere for our growth. For us the logical choice is Africa. (LFSO2 Interviewee 1)

There's a big reason, there's big opportunity within Africa. (LFSO1 Interviewee 4)

LFSO1 is quite large in SA and the market is quite saturated. So, the growth that's going to come into that business is definitely going to come from Africa. If you look at markets outside South Africa we are still in the top four but we're not necessarily commanding those markets and it does pose an opportunity you can still largely grow in those markets. That's where the real revenue is going to come from, you get a lot of development projects within the African continent. (LFSO1 Interviewee 4)

Both organisations acted on their belief of the opportunities in SSA by expanding their operations. The methods used by each of the banks for expansion were slightly different but what was similar, was the fact that both organisations did not have a rigid strategy in place. Both banks would decide on the countries they would expand into and the entry methods in those countries opportunistically. Once an opportunity presented itself, the banks would then assess it and act accordingly.

Let's say its opportunity based, and depending on the Group's appetite to grow and readiness to grow. Capital availability at that time and what makes sense. And whatever synergies we might foresee. Not in the medium term but in the long term. (LFSO1 Interviewee 1)

And once you understand all that, then we might either proceed to buy a bank or to open a bank or to partner with a bank or to just follow our clients. Depending where it is. Its opportunistic, that's what it is. (LFSO2 Interviewee 4)

In addition to these similarities, once the organisations decided they wanted to expand into a country they would both ensure the opportunity would undergo a thorough due diligence process. This process would guide the organisations on the correct entry method to utilise for that specific country. Mainly because different markets would have different characteristics, which would require unique approaches. Therefore, neither organisation would use exactly the same entry strategy for all of their expansions. LFSO1 entered markets by acquiring banks, starting new banks from scratch as well as by opening representative offices. While LFSO2 entered markets by acquiring banks, forming strategic alliances and also opening representative offices.

You know they'll analyse each county and that will determine if we move into those countries or not. (LFSO1 Interviewee 3)

Everything's regulated, heavily regulated across the world and in countries. Whether its oil and gas, there's emissions. Whether its infrastructure, there's certain standards etc. We do an assessment (LFSO1 Interviewee 2)

It's not always like that, you need to do your due diligence and then like anything, you come across hurdles. (LFSO2 Interviewee 4)

Another similarity of the two organisations was the factors they considered in SSA countries before expanding. In the due diligences that both organisations undertake when considering new countries to invest in, they both highlighted that the regulatory environment, economic environment, the political environment and the cultural aspects of the country were key factors. These factors were seen as vital considerations that would affect the success of any potential expansion into a new country.

We found that in Africa, in some of these markets its difficult to compete with locals. From a relationship perspective, from a cultural perspective. (LFSO2 Interviewee 1)

We keep track of political developments, economic developments...I speak to local economists, so we try to keep track of what is going on... that's one of the roles we have, is to keep the head office abreast of economic and social developments. (LFSO2 Interviewee 2)

Most cases, as more economies become democratic, they become politically stable, economic growth increases as foreign investment increases. The countries start adopting international standards.... Makes it easier for LFSO1 to enter the country, as they believe if a country is politically stable then economic growth follows. Making it easier countries move into being countries move into. (LFSO1 Interviewee 1)

As much as the organisations had similar views on certain topics, there were also key points that the organisations differed on. One of the differences between the two banks for their expansions is the actual model they use when expanding their operations into new SSA countries.

LFSO1 interviewees explained that the bank used a CIB led expansion strategy when expanding its operations. This means that when the bank initially entered a

new market, it would enter by providing its CIB services to the market. LFSO1 would then leverage off these services to offer more services from its other business lines. The LFSO2 interviewees explained that their approach to expansion would utilise a hub and spoke model. This means that when the LFSO2 identifies a region they would like to expand into, they start by entering one key country. Once established in the key country, they would service nearby countries.

In Cote d'Ivoire, we started off as a rep office and now we have just become a corporate and investment bank. After 5, 6 years of being there, so we have a new licence, and now we can operate as a corporate bank. (LFSO1 Interviewee 2)

We have a hub and spoke strategy, which means that we identify the hub in the region. And we service the other countries from the hub. So, in East Africa our hub is Kenya, Kenya services Uganda, Tanzania and surround countries. (LFSO2 Interviewee 1)

As stipulated earlier, some of the entry methods utilised by the organisations when entering new markets are similar. However, LFSO2 differs in two of the approaches they utilised when expanding. One of these is by servicing markets by providing cross border services. This means that product specialists fly into countries where LFSO2 has no presence to provide financial services. The other method that LFSO2 used that was different was to establish a strategic alliance with WAPAB, a bank in which LFSO2 owns a minority stake.

Out of our office in Sandton we do of transactions cross border. It's not a full-scale suit-case banking model but it's sort of a suit case where you get guys flying in and out of countries. (LFSO2 Interviewee 1)

The expansion strategy in West Africa is reliant on WAPAB. By virtue of our shareholding in WAPAB, we have access to those markets and we team up with WAPAB wherever it makes sense for LFSO2. There isn't a LFSO2 strategy for West Africa apart from the WAPAB shareholding. We rely on that. (LFSO2 Interviewee 1)

5.1.2 How will the success of a bank expanding into SSA be defined?

For the first sub-question, six questions were asked in order to understand the level of success achieved by the bank in its SSA expansion. The questions were also asked with the intention of obtaining an understanding of the organisation’s definition of success. The questions also aimed to understand whether the organisations had expanded in line with their defined strategies and whether their strategies changed over the years. In order to get a clear picture of the organisations expansion, questions in this section attempted to establish how much revenue the organisation generated from their SSA operations and whether their presence in new markets provided any additional benefits to those markets. Lastly, interviewees were asked to give their own opinion on whether the organisations expansion could be seen as a success.

Findings	LFSO1 Interviewee quotes	LFSO2 Interviewee quotes
LFSO1’s is deemed to be successful	<p><i>Well, I do think it is successful, I’ll tell you why. Because you had good returns made firstly. If you go look at the financial performance... the ones released over the past years, the Africa expansion strategy, the African countries contributed acceptable levels of returns and profits into the group.(LFSO1 Interviewee 5)</i></p> <p><i>If you had to compare ourselves to our competitors, we are competing and competing very strongly. (LFSO1 Interviewee 1)</i></p>	
LFSO2 view their SSA expansion as a success. Though there seems to be a belief		<p><i>I think it a success in relation to the actual investments we’ve made into Africa, which hasn’t been substantial.</i></p>

<p>that they can improve.</p>		<p>(LFSO2 Interviewee 1)</p> <p><i>Yes, I think so. We are very careful in terms of expansion and obviously the calibre and type of people and the number of people we put on the ground. So I think the cautious approach would stand us in good stead. (LFSO2 Interviewee 3)</i></p> <p><i>I do think we're still subscale in Africa; we're not doing enough that can be done. We need to be more aggressive and grow more. (LFSO2 Interviewee 1)</i></p>
<p>Success is assessed using multiple approaches/methods</p>	<p><i>You define in various levels, market growth, your return on equity in terms of your investment, the performance of the business using all your financial, your cost to income ratio, your ROE, your interest rate and return, and all those different financial measures (LFSO1 Interviewee 2)</i></p> <p><i>What is our measure of success?</i></p> <p><i>If you look in terms of how we've penetrated the market, how strong the brand is in those markets; the relevancy of the brand is in these markets, the revenue generated from these markets. (LFSO1 Interviewee 1)</i></p>	<p><i>We're still delivering value for shareholders on the organic side, not on the WAPAB side. (LFSO2 Interviewee 1)</i></p> <p><i>We're not trying to be the biggest bank in Africa. We're not trying to be the number one bank in each of these markets We want to grow our footprint and grow our earnings. But not at any cost. (LFSO2 Interviewee 1)</i></p>
<p>LFSO1's expansion has led to additional</p>	<p><i>That's what our purpose is and how we grow an economy that everyone in the</i></p>	

<p>benefits in the countries they expanded into.</p>	<p>economy starts to benefit. (LFSO1 Interviewee 2)</p> <p><i>In terms of LFSO1's branch network, we have quite an extensive branch, and that is providing jobs to the locals, the local Zambians, obviously, that is who we hire. And from a technology point of view, whatever the group rolls out, it's rolled out in each of the countries. From a payments perspective, from a point of sales perspective, from a branch network perspective, all of that is taken to each country. (LFSO1 Interviewee 3)</i></p>	
<p>LFSO2's expansion has not provided additional benefits in the countries they expanded into.</p>		<p><i>The people? I don't know, I don't think so., ...I keep saying there is a lot of talent human capital in Kenya. (LFSO2 Interviewee 2)</i></p> <p><i>We merely piggyback on those; we haven't spent a huge amount of money on IT and technology in the rest of the African continent. (LFSO2 Interviewee 3)</i></p> <p><i>There's a whole host of international banks already in the market. I wouldn't say we've added much value. (LFSO2 Interviewee 1)</i></p>

Table 5 2: Case Study findings for the Sub-question one

The responses provided for the first sub-question highlighted that despite the view that their expansion strategies were successful; both banks had slightly different

views on how to judge this success. Despite the multiple aspects used to judge success, interviewees from both entities discussed the revenue generated by their SSA operations when discussing whether their banks were successful.

LFSO1 interviewees pointed out that the revenue in their SSA operations had grown considerably over the last ten years. Indicating that the increase in the revenue points to a successful expansion. LFSO2 also referred to revenue to highlight their success. Discussing the ambitions to grow their SSA revenue to 20% of their CIB revenue by 2020. Additionally, both organisations highlighted that despite some of their operations struggling the revenue earned could be viewed positively, considering the funds the banks spent when expanding.

Ten years ago, Africa regions contributed less than 10% to LFSO1's earnings. In 2017, it contributed 27%. We have our own internal aspirations, we call it our 2022 aspiration. We'd like Africa region to contribute over 40%.

(LFSO1 Interviewee 1)

I think it's a success in relation to the actual investments we've made into Africa, which hasn't been substantial. (LFSO2 Interviewee 1)

A difference noted between the banks are the methods utilised to determine whether the banks expansions were successful. In both organisations' financial statements, they utilise the headline earnings generated in the SSA operations to discuss their SSA expansion progress. However, that's where the similarities end. LFSO1 differs as it also uses the strength of the organisation's brand in the markets as well as the level of penetration the bank has achieved in that country. Additionally, as LFSO1 believes in the concept of sustainable profitability, the organisation also consider the positive impact that their operations have on society as a measure of success. LFSO2 also utilised a different measure of success apart from revenue generation. They measured their success by assessing the value that their actions deliver for LFSO2 shareholders.

If you look in terms of how we've penetrated the market, how strong the brand is in those markets; the relevancy of the brand is in these markets, the revenue generated from these markets. (LFSO1 Interviewee 1)

It's not only revenue. We try to remain relevant and we believe in sustainable profitability. In every market, we operate in we make sure we have a positive impact in society. (LFSO1 Interviewee 1)

We're still delivering value for shareholders on the organic side, not on the WAPAB side. (LFSO2 Interviewee 1)

First and foremost because we work for shareholders. (LFSO2 Interviewee 3)

Another difference that was noted for the first sub-question was the view taken by both organisations with regards to their impact in the market. LFSO1 felt that their presence in the SSA countries they operated in led to an improvement in the technology and human resources available. The LFSO1 interviewees highlighted the investments made in IT infrastructure as well as the continued training of local staff as a reason for this improvement. On the other hand, LFSO2 interviewees were not as confident about their organisation's impact. Most LFSO2 interviewees indicated that their presence did not have a significant impact on the countries that they were present in.

I think that LFSO1's staff are generally well experienced and the experience that they do get from the cross boarder collaborations between the banks in country. I do think they differentiate themselves from the best of the banking industry. It gives them good experience and it does make them a very marketable, (LFSO1 Interviewee 5)

There's a whole host of international banks already in the market. I wouldn't say we've added much value. (LFSO2 Interviewee 1)

5.1.3 What were the key challenges facing South African banks that expanded their operations into SSA?

For the second sub-question, seven guiding questions were asked with the goal of understanding the challenges faced by SABs that expanded their operations. There was also an attempt to understand what steps were taken by the organisation to address these challenges and improve their performances in SSA countries. In addition, the questions explored what effort was made to ensure operations in SSA operated in a similar fashion to the South African operations.

Findings	LFSO1 Interviewee quotes	LFSO2 Interviewee quotes
<p>Culture is seen as a key challenge for expansion</p>	<p><i>Culture is a big thing, they differ. Every country differs by culture. (LFSO1 Interviewee 1)</i></p> <p><i>So, I think the biggest thing is they need the indigeneity of those people. And I think, it also speaks to a lot of things because when you go into an environment. You almost need to know what the cultural expectations are. (LFSO1 Interviewee 4)</i></p>	<p><i>We found that in Africa, in some of these markets its difficult to compete with locals. From a relationship perspective, from a cultural perspective. (LFSO2 Interviewee 1)</i></p>
<p>LFSO1 allows its foreign operations to be fairly autonomous</p>	<p><i>The offices might be similar in that we're part of the same group but you certainly don't get the sense that you're getting a replication of exactly the bank across the African market...You'll see the differences and how they get operated, you've given full carte blanche of what you have to do there.... (LFSO1 Interviewee 4)</i></p> <p><i>There's a certainly a flexibility allowed, to let them run their operations,</i></p>	

	<p><i>process wise depending on what their regulations require and then obviously what is better suited to their market and their country. (LFSO1 Interviewee 5)</i></p> <p><i>Yes. As much as the subsidiaries are autonomous legal entities. There is a parent company. At any given time, if the country asks for help or the group looking into the country and see that help is needed. It's in the groups interest is to make sure they are a success. (LFSO1 Interviewee 1)</i></p>	
<p>LFSO2 operates all its SSA entities centrally.</p>		<p><i>The actual operations are centralised, all the subsidiaries run on the same banking platforms. (LFSO2 Interviewee 2)</i></p> <p><i>We are still very much a South African bank. Decision making and leadership happens out of South Africa. It's not decentralised, so you need to fit into LFSO2 South Africa. Whether you're in Nairobi, whether you're in London, those are just branches. Everything happens out of the centre. (LFSO2 Interviewee 1)</i></p> <p><i>LFSO2 operates on what they call a centralised treasury model. So, in other words, each of the divisions don't have their own funding and or borrowing capabilities and all that. It all</i></p>

		<p><i>comes through one single treasury operation. Centralised is what it's called. (LFSO2 Interviewee 4)</i></p>
<p>LFSO2's management is not aggressive about the SSA expansion. This is a key challenge to LFSO2's African expansion.</p>		<p><i>You have hit the nail on the head, there is no Africa mind-set. People don't think further than the Limpopo river. (LFSO2 Interviewee 2)</i></p> <p><i>LFSO2 by its nature is one of the more conservative banks of any of the South African Banks. (LFSO2 Interviewee 2)</i></p> <p><i>We have very seasoned and experienced leadership that have seen many business cycles. Who are able to steer the ship in the right direction. That being said, I do think we need very Africa specific leadership as well, guys who've seen African problems, and are bold enough to make big decisions with regards to the continent. (LFSO2 Interviewee 1)</i></p> <p><i>We still have Afro pessimists. Non-believers as to why we are actually doing business in Africa. A lot of the challenges we face are more internal than external. (LFSO2 Interviewee 1)</i></p> <p><i>We never go in guns blazing, that's not how we operate. (LFSO2 Interviewee 4)</i></p> <p><i>Some of the biggest challenges is</i></p>

		<p><i>convincing sceptics that you can actually be successful in these markets and not lose money. (LFSO2 Interviewee 1)</i></p>
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Table 5 3: Case Study findings for the sub question two

From the responses obtained for the second sub-question, there were further similarities established between the two organisations. The first similarity was in how both banks viewed the different cultures in different markets as a challenge to expansion. Both entities highlighted that as a new entrant into a market, the culture of that market is an important factor to be cognisant of.

Knowing the economy was almost natural and they try and leverage off of that. So, the fact that I already knew the Botswana market, I already knew the nuances, I already knew the culture, already speak the language. (LFSO1 Interviewee 4)

You have your obvious challenges and barriers like languages and culture etc. which you need to navigate your way through. (LFSO2 Interviewee 1)

The first difference that became apparent for the second sub question was that the expansion intensity of the banks was different. This was supported by using Figure 1 of this dissertation, you can determine the intensity of both bank’s expansion. Expanding into new markets by acquiring banks, starting new banks from scratch as well as by opening representative offices, LFSO1 expansion can be seen as “Aggressive”. The presence of LFSO1 in twenty SSA countries further supports this point. LFSO2’s initial approach of acquiring bank could be seen as aggressive, but the recent approach taken by the bank of cross boarder banking and representative offices (branches) suggest that their strategy can be viewed as a conservative expansion strategy. Additionally, LFSO2’s presence in only eight SSA countries highlights this point.

There was a clear path around being the leading African bank. And I guess it’s also testament having seen that their footprint is now up to 21 countries. And

It's just not satellite offices, it's actual banks that are in those localities serving those different markets. (LFSO1 Interviewee 4)

We've got our own internal aspirations...we'd like to contribute more than 40%... the bank is giving the right focus and attention to it. (LFSO1 Interviewee 1)

LFSO2 by its nature is one of the more conservative banks of any of the South African Banks. (LFSO2 Interviewee 2)

However, because of the cyclicity of doing business in Africa we will not invest as heavily as say a LFSO1 will in pursuing our African expansion strategy. It's very selective in terms of product, people and resource deployment. (LFSO2 Interviewee 1)

I do think we're still subscale in Africa, we're not doing enough that can be done. We need to be more aggressive and grow more. (LFSO2 Interviewee 1)

The conservative and aggressive expansion strategies of both banks are also visible when the differences in management approaches for both banks are considered. LFSO1, which has the more aggressive strategy, has management that is constantly driving the bank's expansion strategy forward. Ensuring that all employees understand that LFSO1 is serious about the activities on the continent. This is in contrast with LFSO2's management approach, as LFSO2's interviewees expressed that there isn't sufficient buy-in from management about the SSA expansion. This lack of buy-in is listed as a challenge for the bank's successful expansion.

I think the strategy is well understood, from the group level point of view, management and staff. It's been enforced as part of the purpose of the bank, Africa is our home we drive its growth. You find that it's entrenched into the legal entities as well. (LFSO1 Interviewee 1)

The LFSO1 group strategy purpose is Africa is our home we drive her growth. We created/refreshed that in 2014 around the African continent. (LFSO1 Interviewee 2)

We have very seasoned and experienced leadership that have seen many business cycles. Who are able to steer the ship in the right direction. That being said, I do think we need very Africa specific leadership as well, guys who've seen African problems, and are bold enough to make big decisions with regards to the continent. (LFSO2 Interviewee 1)

The biggest challenge and we still face it. Is credit appetite, it's a big issue...the credit appetite; again everything is measured the way we do it in South Africa. (LFSO2 Interviewee 2)

Another difference that became apparent during the interviews was that the head offices of both organisations took different approaches to managing their SSA operations. LFSO1 takes a semi-autonomous approach, allowing the SSA operations a certain level of freedom to govern themselves while still playing a role in the management of the operations. LFSO2 on the other hand runs a very centralised management model where the SSA operations are heavily influenced by LFSO2's management in the head office.

Yes. As much as the subsidiaries are autonomous legal entities. There is a parent company. At any given time, if the country asks for help or the group looking into the country and see that help is needed. It's in the groups interest is to make sure they are a success. (LFSO1 Interviewee 1)

But for all intent and purposes everything is run out of the Botswana office, all decisions are taken within the Botswana market, all that we get from South Africa is a full satellite office that oversees the operations in those local markets. (LFSO1 Interviewee 4)

In essence, LFSO2 is a South African bank, you can argue your point but, our approach, in everything we do, we are a South African bank (LFSO2 Interviewee 2)

We are still very much a South African bank. Decision making and leadership happens out of South Africa. It's not decentralised, so you need to fit into LFSO2 South Africa. Whether you're in Nairobi, whether you're in London, those are just branches. Everything happens out of the centre. (LFSO2 Interviewee 1)

5.2.1 LFSO1 Finding Summary

LFSO1 is a good example of a SAB that has taken their expansion into SSA seriously. The Organisation has been expanding its operations into African countries for a very long time. This is evidenced by the LFSO1 opening its first subsidiary outside of South Africa in 1892, 30 years after the bank was established. As well as the bank having a presence in 20 SSA countries. The Organisation's actions demonstrate that they view the SSA region as an opportunity for growth.

LFSO1 does not have a detailed strategy but does have a broad idea of what it wants to achieve with its SSA expansion. This knowledge assists LFSO1 in spotting the opportunities that will most likely suit its operations. The LFSO1 also ensures that the whole bank from the board to the staff understand the importance of the African region to the Organisation's future prospects. LFSO1 acknowledges that in order to succeed in the continent, they need to be aware that each of the markets in which they operate are different. They understand that culture is important and that the right local human resources can make a significant difference to the success of the bank in the country.

Overall, LFSO1 is an organisation that has expanded aggressively into SSA. In so doing, they have insured that the strategy is entrenched in their workforce. Table 5.4 below illustrates the revenue that LFSO1's SSA operations have contributed to the group's earning over the last ten years.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	1	2	3	4	5	6	7	8	9	10
LFSO1										
Group headline Earnings (R'mln)	14 150	11 718	11 283	13 599	14 918	17 194	17 323	22 187	23 009	26 270
Earnings from SSA (excluding SA) (R'mln)	1 842	1 206	746	1 030	1 802	2 635	3 939	4 313	4 537	5 696
Percentage	13%	10%	7%	8%	12%	15%	23%	19%	20%	22%
Average percentage										15%

Table 5 4: LFSO1 SSA contribution to headline earnings

5.2.2 LFSO2 Finding Summary

LFSO2 is a SAB that is also aware of the importance of the SSA region. They have shown their interest in the region by expanding into eight SSA countries. However, the Organisation is more conservative in their approach. Even though the Organisation has opted for multiple entry methods into SSA markets, its conservative nature is visible with the majority of their subsidiaries being in neighbouring SADC countries. In addition, LFSO2's acquisition of a minority stake in WAPAB can be described as a conservative approach. This is because by buying this stake, LFSO2 effectively positioned itself to have access to 39 countries. Yet their twenty per cent stake also implies that the bank does not have to stress over or take too much responsibility for WAPAB's operations.

Another example of the Organisation's conservativeness is the hub and spoke model that LFSO2 utilises. By doing this, the bank invests in infrastructure in a key market in a region, and then services the neighbouring countries from this "base". Again, this paints a picture of an organisation that does not want to take on too much responsibility or too much risk. Table 5.5 below illustrates the contribution of the SSA operations to LFSO2 headline earnings.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	1	2	3	4	5	6	7	8	9	10
LFSO2										
Group headline Earnings (R'mln)	5 765	4 277	4 900	6 184	7 483	8 670	9880	10 831	11 465	11 787
Earnings from SSA (excluding SA) (R'mln)	182	133	139	126	162	173	357	691	(287)	(810)
Percentage	3%	3%	3%	2%	2%	2%	4%	6%	-3%	-7%
Average percentage										2%

Table 5 5: LFSO2 SSA contribution to headline earnings

5.3 Empirical Findings Summary

This section of the dissertation presents the empirical findings that were derived from the three research questions posed in section 1.3. Followed by the research –based blueprint that was derived from the empirical findings. The following are the empirical findings for each of the questions:

Which entry strategies have led to successful expansions for SABs expanding into SSA?

1. The financial organisations had SSA expansion strategies in place. The strategies were not rigid and not overly detailed.
2. Financial organisations considered expansions into new markets when opportunities presented themselves.
3. Organisations view SSA as an important region that provides future growth prospects.
4. Financial organisations make use of multiple entry methods to enter SSA countries.
5. Each organisation utilised a different business model to expand their operations once they've entered a new SSA market.
6. The key factors of the host country that are considered before expansion are the regulatory environment, the economic environment, the political environment and the countries culture.

7. Local employees are an important aspect to consider before expanding. They can be vital to the success of the expansion.

How will the success of a bank expanding into SSA be defined?

1. Financial organisations utilise different methods to judge if their expansions are successful.
2. One of the key factors considered when measuring an organisations expansion strategy is the revenue earned by the organisation in their SSA operations in relation to their total revenue as a company.
3. The expansion of a financial organisation can lead to improved technology in the host country
4. The expansion of a financial organisation can lead to improved work force in the host country

What were the key challenges facing South African banks that expanded their operations into SSA?

1. The culture and language in the host country are potential challenges for a financial organisations expansion.
2. The support of an organisation's management is vital for an organisation to succeed in their expansion.

The empirical results obtained from the research are summarised into a research-based blueprint in Figure 5.6 below. This blueprint can be used as a theoretical framework for a SAB deciding on the entry method for expansion into new SSA countries.

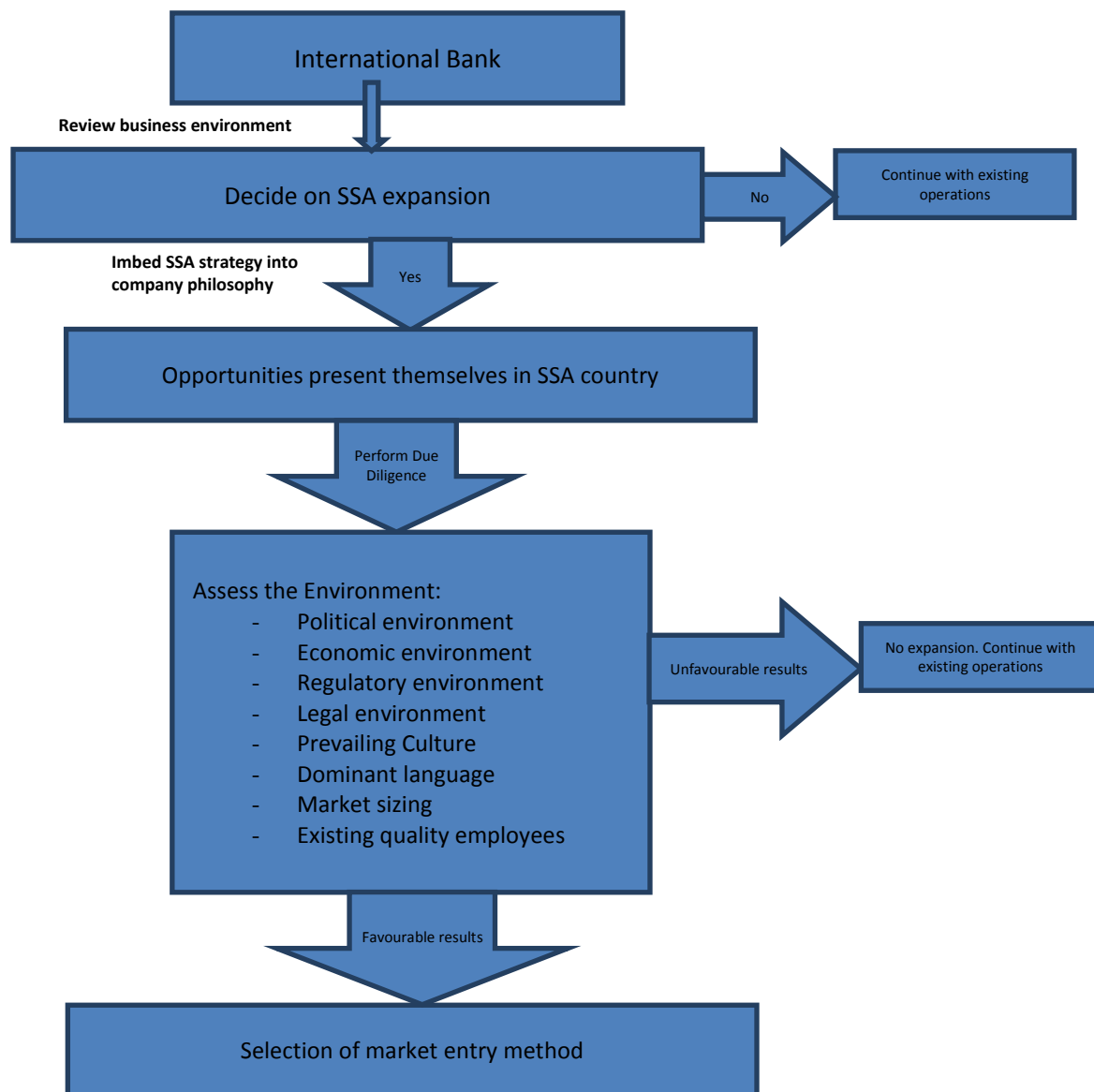


Figure 5.6: Market entry framework for International banks expanding into SSA

The blueprint highlights the importance of SABs ensuring that the entire organisation buys into the SSA expansion strategy, from the board, all the way to the employees. In order to achieve this buy in, the SSA strategy should be built into the strategy and culture of the organisation, ensuring that the required drive is embedded in the organisation when the opportunity to expand arises.

Once an opportunity presents itself, the organisation should perform a thorough due diligence, covering key characteristics of the potential host country. This should indicate the advantages and disadvantages that exist in the country. If the due

diligence does not make for a compelling case, the organisation can decline the opportunity to expand. However, if the due diligence indicates that the opportunity on offer will be fruitful, the bank's management should use the results of the due diligence to decide the best entry method for the country.

The market entry framework provides a fairly comprehensive guide for international banks to follow when considering expansion into SSA. Due to this, the framework should be considered as an important addition to the policies of international banks. Especially banks planning to expand their operations in the SSA region in the near future. The banks should also strongly consider the importance of integrating their SSA expansion strategy into their overall bank strategy. This will ensure a strong level of commitment, understanding and support throughout the organisation.

Despite the fact that this dissertation strongly focused on SABs and their expansions into SSA. The interviews with the management, the empirical findings as well as the research-based blueprint that was developed did not overly focus on the financial sector. Therefore, the outcomes of the dissertation can be considered for companies that operate in different sectors. That being said, once companies from different sectors are considered, additional investigation to ensure that there are no unique characteristics that would require consideration.

5.4 Existing Research in Relation to Research Findings

The research for this dissertation aligns with the some of the concepts discussed in existing literature about the internationalisation of a company's operations discussed in Chapter 2. This section will further discuss the similarities and differences that were evident in the case studies.

Eclectic Paradigm (OLI Approach)

The approaches that both organisations used in the case studies aligned well with the OLI approach. This is because both organisations considered the three advantages discussed in the eclectic paradigm when expanding their operations into SSA. With regards to the ownership specific competitive advantages, the technology

that LFSO1 utilises as well as the strong afro-centric culture imbedded in the bank can be seen as advantages that gave LFSO1 an edge when expanding their operations.

Over the last four to five years, we've invested a lot of money investing in rolling out our core banking platform. It's rolled out to 14 countries. With this platform, there is agility and we can be nimble in terms of delivering solutions. Speed to market is also there. (LFSO1 Interviewee 1)

If you look at our purpose, which is a defined purpose across the group. It says Africa is our home; we drive her growth...There's that overarching aspiration, to say that this is our home, we want to grow and we want to grow economies. (LFSO1 Interviewee 1)

Similarly, LFSO2 also had ownership advantages in the form of strong technical skills in the teams that exist in the South African operations. These resources provide LFSO2 the opportunity to provide cross boarder services in multiple SSA countries.

We do a lot of business in Africa already that the market is not aware off. It's not that visible because we don't have big operations in country. Out of our office in Sandton we do of transactions cross border. It's not a full-scale suitcase banking model but it's sort of a suit case where you get guys flying in and out of countries. (LFSO2 Interviewee 1)

In addition, both organisations have strong and experienced leadership which assisted in guiding the bank's movements.

We have very seasoned and experienced leadership that have seen many business cycles. Who are able to steer the ship in the right direction. (LFSO2 Interviewee 1)

For the locational advantages, both organisations were attracted to expansions in SSA by considering similar factors in the countries. The economic, legislative and political environments were seen as important factors. With one interviewee

explaining that LFSO1 considered the existing policies in the country as well as the legal framework in place. Both organisations also considered the cultures of the countries into which they would expand as important. While mostly similar, there were some differences as LFSO2 also considered the regulatory environment and languages spoken as important factors.

There are different steps, you look at your policies, and you look at your infrastructure. Policies you're talking about government policies, local legislation. Everything's regulated.... We do an assessment. (LFSO1 Interviewee 2)

You're looking at your legislation, you're looking at your judiciary, you're looking at capital, you're looking at growth, you're looking at whether they have currency restrictions. (LFSO1 Interviewee 2)

We found that in Africa, in some of these markets, it's difficult to compete with locals. From a relationship perspective, from a cultural perspective. (LFSO2 Interviewee 1)

We wouldn't go gung-ho into a country and expect that our presence will give us massive growth. We don't do that, we very carefully assess the market and opportunities before we jump into a new market. (LFSO2 Interviewee 3)

For the internationalisation specific advantages, both banks utilised various operational models in the countries into which they expanded. With both opting to operate branches in some countries as well as full subsidiaries in other countries. LFSO2 added to the various operational models they utilised by having a strategic alliance with WAPAB.

There have been criticisms of the eclectic paradigm more recently that it does not accurately address the actions of modern companies. Nevertheless, this dissertation has illustrated that the key competitive advantages of the OLI approach were considered by both organisations when expanding their operations. The dissertation also played a role in adding to the limited research of SACs expanding their

operations while considering the OLI approach. The dissertation supported Klein & Wöcke (2007) views that the competitive advantages SACs possessed, in the form of advanced technology and world class management assisted them in their SSA expansions. Additionally, by discussing how both organisations considered the advantages discussed in the eclectic paradigm and by focusing on the specific methods banks use to measure their performance, this dissertation further built on the research of Cerutti, et al. (2007). Adding to the scarce literature covering the relationship of the eclectic paradigm and international banks.

Lastly, the dissertation added to the literature discussing the eclectic paradigm in relation to the expansion of MNCs into emerging markets. This dissertation also addressed the impacts that the expanding banks had on the countries they entered. LFSO1 continually stated that their presence in the countries in which they operated provided a positive impact, not only through improved technology and human resources but also by ensuring that the operations provided a positive social impact in those countries.

In terms of LFSO1's branch network, we have quite an extensive branch, and that is providing jobs to the locals, the local Zambians, obviously, that is who we hire. And from a technology point of view, whatever the group rolls out, it's rolled out in each of the countries. From a payments perspective, from a point of sales perspective, from a branch network perspective, all of that is taken to each country. (LFSO1 Interviewee 3)

Through the funding, the investment, the policymaking, the advising, the employment, everything... that's how we play a role on expanding the economy. (LFSO1 Interviewee 2)

The interviewees of both organisations did not discuss the potential negative impact of their entry into new markets. LFSO1's interviewees did highlight that the bank is very competitive in the markets that they enter, which could lead to the local banks losing their clients and in turn, reducing their revenue.

If you had to compare ourselves to our competitors, we are competing and competing very strongly. (LFSO1 Interviewee 1)

Interestingly enough, this same point can be used as a positive, especially if one considers that the increased competition can lead to financial stability in the country (Claessens et al., 2001; Claessens & Van Horen, 2014; Detragiache et al., 2008).

Mode of Entry

This dissertation supports the statements by Lensink, et al. (2008) and Agarwal and Ramaswami (1991) that banks would carefully consider the advantages and disadvantages of expanding into new countries. Interviewees from both entities referred to the process of performing due diligences before considering expansion, with one interviewee explain the process as standard.

You do your due diligence, you highlight your risks and have risk mitigants etc. (LFSO1 Interviewee 1)

The dissertation further built on the understanding of the various entry methods chosen by the banks for each market. The research supported the idea that the entry method will also dictate the future choices banks will make when expanding into the country. One of the interviewees explained the various steps the banks will follow in the countries.

As our African strategy intensifies, I think we'll probably look at evolving our rep offices into branches at a minimum. (LFSO2 Interviewee 1)

If and when we decide to convert this office into a formal bank... But we probably not the intention of becoming a big retail player, so we probably going to look for a bank that has a couple of branches in Nairobi, selectively in the industrial area, and then a branch in Mombasa, maybe 1 or 2, Kisumu and maybe.... the major economic hubs in the country. Rather than buying a bank that has a branch network in every town and ATM machines everywhere. (LFSO2 Interviewee 2)

Uppsala Model

The dissertation built on research around the Uppsala model. The model discusses the gradual organic expansion of an MNC in a host country. Even though the organisations in this research utilise multiple expansion strategies, both organisations made use of the Uppsala model in some form. LFSO1, which has a more aggressive expansion, utilised a CIB led expansion strategy. A strategy they used starts with one business line operating in the country and then eventually expanding the bank's services until the bank provides all its services in the country.

So slowly you start expanding, where you break away from CIB and start banking commercial space, the business space, you start banking the employees which become personal banking. Then you've got the CEO of the company that you can offer wealth products. (LFSO1 Interviewee 1)

In terms of what happened in Angola, were we first had a rep office and then we got the financial license and then we started actively banking the market. (LFSO1 Interviewee 3)

And then slowly but surely as they understand it more clear to them in terms of what the legal risks and the risks are they would expand into more complex products, like your corporate investment, global markets, wealth. (LFSO1 Interviewee 3)

Both organisations utilise the Uppsala model with regards to their representative branches. The model indicates that the banks initially enter markets with a capital light representative office, then slowly develop and grow their presence until there is a fully operational subsidiary in the country.

Forsgren (2002) criticised the Uppsala model for over relying on local management for their expansion strategy. However, the research in the dissertation suggested that LFSO1 strongly believed that the local management in the host country contributed to the success in their expansion.

So, I think for me it's probably the differentiating factor. You don't get a satellite office that's capacitated by foreign nationals to come and do work in a foreign market. It's actually bank, South African bank or an African bank going into the African market, and when you do get into that market it's actually local expertise from the local nationals from that locality. (LFSO1 Interviewee 4)

5.4 Limitations

Research studies are bound to have some limitations or barriers that affect the results of the study. One of the limitations for this dissertation is related to the size of the sample utilised. There might not be a sufficient response from banks accepting the invitation to provide an interview for the dissertation. This can lead to a situation where the findings are not broad enough to address the topic.

Another limit was that the organisations being investigated were fairly large, with LFSO1 and LFSO2 having 48,322 and 31,887 employees respectively. This meant that the possibility of interviewing all employees was impossible. Owing to this, the interviews for this research were conducted with senior managers that would have the most relevant knowledge for the research topic. The interviewed managers headed up units in the organisations that either assisted in creating the organisations SSA strategy or played a key role in implementing it. These individuals provided vital information on their organisations strategy but this information cannot be assumed to be the opinions of the entire organisation.

Another limitation will be that the information gathered about the strategies used by banks will come from executives involved in the development of these strategies. In cases where the strategy utilised was unsuccessful, you might find that managers are not clear or reasonable in assessing whether their strategies were the reason for the failure. In these cases, more investigations might be required in order to establish what actually happened.

5.5. Research Conclusions

This dissertation set out to establish which strategies utilised by SABs led to a successful expansion into new SSA countries. The final objective of this dissertation was to create a research-based blueprint for future SAB expansions into the SSA region. The creation of this blueprint would instil confidence in SABs and encourage them to consider expanding their operations into SSA. Which in turn would lead to additional social and economic benefits being disseminated in various African countries.

In order to achieve this, the entry methods of the two case studies were evaluated. This evaluation also included the factors that the organisations considered before deciding on the method of entry, the challenges experienced because of the expansion, how deeply the SSA expansion strategy was embedded in the organisation's philosophy, as well as what impact that the SSA expansions had in the host countries.

In order to achieve this, the dissertation set out to answer the following questions:

1. Which entry strategies have led to successful expansions for SABs expanding into SSA?
2. How will the success of a bank expanding into SSA be defined?
3. What were the key challenges facing South African banks that expanded their operations into SSA?

In addressing the above research questions, this led to the development of the empirical results and research based blueprint that were discussed in section 5.3. The blueprint provided a step by step map indicating the steps that a SAB would need to take in order to expand their operations into SSA successfully. A key observation that was highlighted was the importance of SABs ensuring that the entire organisation buys into the SSA expansion strategy, from the board, all the way to the employees. This unreserved commitment ensures that there is uncompromising drive into SSA.

5.6 Further Research Opportunities

Considering the findings in this dissertation, there are several options available for further research. Further research could focus on whether the expansion into other emerging markets in the world, apart from SSA, could utilise the same approach that was established in the dissertation. Researchers could also investigate whether the expansion model established in this dissertation can be used to assess expansions for non-financial companies. With the continued interest of the investment world in the SSA region, there is still a strong need for research to help improve the prospects of the market.

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7.1 LIST OF APPENDICES

Appendix 1: Interview Tools

Invitation letter

Good day,

My name is Matome Modiba, I am a candidate for a Masters in Commerce specialising in Development Finance from the Graduate School of Business at University of Cape Town. As part of my Masters curriculum, I am researching the expansion of South African Banks into sub-Saharan Africa. With this research, I aim to get a better understanding of the different entry methods banks utilise when entering new markets and how these entry methods influence the success of the bank.

As <xxx>'s Executive for <xxxxxx>, I would like to request some of your time for an interview to discuss <xxx>'s expansion into the African continent. I know that you are very busy but would appreciate your assistance in this endeavour.

As is stated in the attached consent form, please note that the research will not identify you by name.

I look forward to receiving your response.

Kind Regards

Matome Modiba

Masters in Commerce Candidate

e-Mail: MDBMAT008@gsb.uct.ac.za

Cell: +2772 589 0084

Consent for Participation Form

Consent for Participation in Interview Research

I volunteer to participate in a research project conducted by Mr Matome Modiba from the University of Cape Town's Graduate School of Business. I understand that the project is designed to gather information about the approach South African banks follow when expanding their operations into markets in Sub Saharan Africa. I will be one of approximately three people being interviewed from this institution for this research.

My participation in this project is voluntary. I understand that I will not be paid for my participation. I may withdraw and discontinue participation at any time without penalty. If I decline to participate or withdraw from the study, no one in my company will be told.

I understand that most interviewees will find the discussion interesting and thought provoking. If, however, I feel uncomfortable in any way during the interview session, I have the right to decline to answer any question or to end the interview.

Participation involves being interviewed by researchers from University of Cape Town's Graduate School of Business. The interview will last approximately between 45 and 60 minutes. Notes will be written during the interview. An audio tape of the interview and subsequent dialogue will be made. If I do not want to be taped, I will not be able to participate in the study.

I understand that the researcher will not identify me by name in any reports using information obtained from this interview, and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies, which protect the anonymity of individuals and institutions.

Faculty and administrators from the University of Cape Town's Graduate School of Business campus will neither be present at the interview nor have access to raw

notes or transcripts. This precaution will prevent my individual comments from having any negative repercussions.

I understand that this research study adheres to the UCT Code of Research involving human subjects at the University of Cape Town's Graduate School of Business. For research problems or questions regarding subjects, you may contact Miriam Hoosain, the Executive Director of Human Resources for the Faculty of Commerce at Miriam.Hoosain@uct.ac.za and Moonira Khan, the Executive Director for Student Affairs for the Faculty of Commerce at Moonira.Khan@uct.ac.za.

I have read and understand the explanation provided to me. I have had all my questions answered to my satisfaction, and I voluntarily agree to participate in this study.

I have been given a copy of this consent form.

_____ My Signature

_____ My Printed Name

For further information, please contact:

Mr. Matome Modiba (Cell: +2772 589 0084 E-mail: Matometmodiba@gmail.com)

_____ Date

_____ Signature of the Investigator

Interview Guide

Introduction

Good day, my name is Matome. I am a candidate for a Masters in Commerce specialising in Development Finance from the Graduate School of Business at University of Cape Town. I am researching the expansion of South African Banks into sub-Saharan Africa. With an aim to get a better understanding of the different entry methods banks utilise when entering new markets and how these entry methods influence the success of the bank. I have three sets of questions around (insert bank name) expansion into the sub-Saharan Africa. My questions revolve around the methods (insert bank name) used to enter new markets, how (insert bank name) assessed whether the expansion strategy was successful and what challenges (insert bank name) faced during the expansion.

Before I proceed with the interview, could I start the session by asking you to talk about yourself, your role and how long you have been working at (insert bank name).

Which entry strategies have led to successful expansions for South African Banks expanding into SSA?

- Could you please explain how (insert bank name)'s operations are structured?
- Is there a reason why the bank is structured in this manner?
- Does (insert bank name) have a defined plan for how it expands its operations into new markets in sub-Saharan Africa?
- If there is a defined plan, could you please describe it?
- Is there a reason that (insert bank name) has chosen the sub-Saharan African region as a destination to expand its operations?
- Apart from South Africa, what countries does (insert bank name) have operations in?
- What factors led to (insert bank name) setting up operations in these specific countries?

- Could you please describe the steps that (insert bank name) usually take when initially entering a new market?
- Is there a specific reason why the bank focuses on these steps/topics when expanding into new markets?
- There are various methods a bank can utilise when expanding into new markets. Does (insert bank name) prefer to enter new markets by operate with branches, subsidiaries or a mix of both? Could you please elaborate on this?
- The choice of how a bank enters a new market has an influence on how the bank will raise the capital/equity that the operations require. How does (insert bank name) arrange equity/capital for the operations in the new markets they enter?

How will the success of a bank expanding into SSA be defined?

- Has (insert bank name) been able to keep to its initial defined expansion plans when expanding into new markets?
- If (insert bank name)'s expansion plans have changed, could you please expand on how they changed?
- Would (insert bank name) deem these expansions as successful? Could you please elaborate on your answer?
- What share, by assets and by revenue, of (insert bank name)'s African operations lie outside of South Africa?
- Has (insert bank name)'s expansion led to an improvement in the technology and systems used by the banking industry in the new markets you entered?
- Has (insert bank name)'s expansion led to an improvement in human resources in the banking industry in the new markets you've entered?

What were the key challenges facing South African banks that expanded their operations into SSA?

- What were the most common challenges that (insert bank name) experienced when expanding into new markets in Sub Saharan Africa?
- How did (insert bank name) approach these challenges?

- What specific factors/characteristics of the new countries did (insert bank name) consider before entering the market?
- What characteristics of (insert bank name) were considered before expansion?
- Has (insert bank name) sent any management to run their operations in new countries?
- What training does (insert bank name) provide to staff in their new operations?
- Does (insert bank name) actively attempt to ensure that their operations in the different countries operate in the same way as their South African operations?
- If one of the bank's operations in another country is not performing as expected, what steps can (insert bank name) take?
- If you were able to redo (insert bank name)'s expansion into SSA, would you do it differently? Could you please elaborate on your answer?

Conclusion

Thank you so much for your time, your input was appreciated and it will assist me in finalising my research.

Appendix 2: Organisation Interviewees

Name	Role	Reference in dissertation
OM	Executive Manager, Africa Regions	LFSO1 Interviewee 1
RP	Head of Group Strategy/ Human Capital/ Marketing and Communications	LFSO1 Interviewee 2
SG	Head of Syndication: Southern and Central Africa	LFSO1 Interviewee 3
MM	Head of Investment Banking Botswana	LFSO1 Interviewee 4
LW	Head of Credit: Real Estate	LFSO1 Interviewee 5
SG	Head of Syndications	LFSO2 Interviewee 1
JvL	Head of Kenyan Representative Office	LFSO2 Interviewee 2
ZM	Head: Africa Business Global Commodity Finance	LFSO2 Interviewee 3
MB	Head: Balance Sheet	LFSO2 Interviewee 4

Appendix 3: Coding and Analysis Tables

How are LFSO1’s operations structured?
<u>Interviewee 1:</u>
<p>If you look at LFSO1, you’d say we have three regions, and I’m using the word region loosely. We have our base, which is South Africa, which is the biggest contributor to the overall group’s finance. We can regionalise that as much as South Africa is a country, but we can call it a region by virtue of size and contribution to the overall income statement and balance sheet.</p> <p>And then we have what we call Africa regions, which is all other legal entities and operations in SSA, excluding South Africa. That would be the 19 countries. South Africa becomes the 20th country in SSA; so we have about 20 SSA operations.</p> <p>The last region is the international markets. We have presence and representative offices where relevant. We have six international offices, Dubai, Hong Kong, UK, and Brazil, which mainly facilitates trade, facilitates deals and connects clients internationally. At a high level, that is how we are grouped.</p> <p>Then we’ve got key business lines, which is Personal and Business Banking (‘PBB’), Corporate and Investment Banking, (‘CIB’) and the last one is Wealth. Those our three business lines that we use as our channels of offerings. Whatever products we offer, we can offer them through PBB, CIB and wealth.</p> <p>The structure is “segment driven”. The reason we structure like this is because we might be targeting different segments. That will appease and appeal to different products i.e. Individuals like me and you would want the basics of home loans, credits cards etc. So, we’d you’d be classified under personal banking. But Anglo American, they want something different. They want something more complex; they might be an Investment Bank client. It’s more the ability to customise based on the customer’s needs. It’s customer centric from that perspective.</p>
<u>Interviewee 2:</u>
LFSO1 is made up of 6 or 7 key groups of products. One you’ve got your wholesale In the wholesale bank, you’ve got what we call our Corporate and Investment Bank,

CIB. Most organisations would call it CIB.

Which has got your global markets, all your trade actions and facilities, and capital raising facilities etc., in the bond markets etc., that's all under global markets, FX trading etc.

Then you've got investment banking, which has got M&A area, which looks at all the mergers and acquisitions and also looks at capital raising initiatives for corporates. And then you've got the investment banking, which is generally raising or advising. Whenever you enter an IB contract, you [are] advising or financing. Sometime it can be a combination, but they can't be in conflict. That's your investment banking arm. Then you've got TPS, transactional processing systems. That looks at all the payment facilities, if you can just imagine in corporates and individuals, we are all making payments in and out of organisations across the world. That tens of trillions of Rands/Dollars moving around the world all the time. That's the TPS area. Then you've got the coverage area, which is all your relationship banking with all your big corporates, global corporates, local corporates, medium sized corporates, Africa Corporates. Generally, the client service team, so each client has got a one point contact. All different expertise, legal, advice, tax, structuring etc. to help the client grow their organisation. So you're dealing with big blue chip companies who are looking Africa's investments and being part of Africa's growth. Then you're looking at all the African companies, either local or cross national across the continent who are looking to do similar processes in their organisation.

You've got investment banking, wholesale banking, coverage, global markets, and TPS. That's pretty much your construct, and then behind that you've got all your support infrastructures that help navigate and govern those businesses.

Then you've got Personal and Business Banking, PBB. Which has three parts to it; you've got what you call your commercial bank, which are your medium-sized enterprises. There not quite corporate and they are not small. They are medium-sized. Then you've got your small enterprises, which are often called business banking. That's generally your infrastructures that you find locally across countries that are that are small enterprises that are owned by the owner, which is a small construct.

Then you have your retail bank, which is us, you and me. We use the banking

facilities. In those constructs in the retail banking, you've got your card division. Your home loans division, lending division, your insurance divisions then you have your transactional, which is your current account and your Internet banking and all those things we use every day. So that your PBB world.

Then you've got your wealth business, which looks at all your private clients and your wealth clients. That's generally when people reach a certain level in their wealth now. As you start to acquire wealth, initially you might use transactional products and loan etc. But as you accumulate wealth you start to build equity, you start to purchase assets; you start to invest in the stock market or offshore. Your needs become a slightly more complicated and more complex. You start moving into private banking where someone is assigned to you to look after your wealth growth. And then you get your wealth business, which looks after your wealth clients who have, a number who owns businesses, they have private wealth, family wealth, enterprise wealth. In addition, a business partner or a client service team looks them after.

And then we have South African Insurance Company (SAIC), which we're an owner, we're a 54% owner of SAIC. That would be our fourth business line. That's got 2 parts to, which is South African Asset Manager (SAAM), the Asset Manager. All different investments fall into asset management; portfolio, private, commercial etc. And then you've got your insurance part under SAIC, which is your personal, long-term, short-term, health cover and also retirement benefits under that. That's your 4 parts of LFSO1. Our proposition is if you join one of them, corporate, commercial or join retail, what we try do is give you a seamless experience across all those groups. Picture yourself coming into LFSO1; you want to start an organisation. We can help you with that, the retail we can help you with that, if you've got family we can help you with that, you need insurance we can help you with that. So even a big corporate, say I need funding, I employ people, we can help with that. If you look across the whole organisation, the organisation has products and services across the group. The skills are different under wholesale, retail, wealth and SAIC, you can imagine lots of actuaries under SAIC. The skills are slightly different. Not saying you can't use them across the business lines. But the products are different. And that's why we're structured.

And also your governance, your regulator regulates those 4 businesses very

vigorously and differently.

Interviewee 3:

Let me start with the region that I cover; it includes the Southern African countries. So, Mozambique, Zambia, Zimbabwe, Namibia, Malawi, Mauritius, Lesotho, Swaziland, DRC, and Angola. In terms of how the business is set up, I think it's replicated from Johannesburg, in each of the countries. So it's the major two areas that it's split by is CIB and GM. And then GM is the global markets in terms of the derivatives, the traders etc. And CIB is corporate and investment banking, which is split between the retail side and the investment banking side, and the sort of SMME market, which is the middle of those two.

Interviewee 4:

LFSO1 has a head office or is headquartered through LFSO1 South Africa, which is based in Johannesburg and then we've got offices right across the region through 21 other African countries. So, my specific office is based in Botswana, where we have a full on banking service out of Botswana, Gaborone. But reporting into LFSO1 South Africa or LFSO1 Group.

The main reason why it's set up this way is because we continue to be an African bank. We want to be, we're Africa growing our African footprint. The context is that the LFSO1 group doesn't just want to be an African bank working out of South Africa. So, within our natural habitat, we go to African countries and become that African bank that is in the locality of the different regional offices.

Interviewee 5:

LFSO1 has a very good footprint into the Africa region. So, the way I understand it, how LFSO1 operates, is that they have fully fledged banks that they are shareholders or own, you know majority of it. They have banks in various geographies in Africa. They have a fully fledged business in that particular country. Take for example, like Nigeria, we have a full bank there, it's independently run, it's got all services from private banking, wealth, personal business banking, corporate banking, global markets. And we leverage off that to have a footprint, a local footprint, when I say that it's actually people in the country that knows the country best. That's how operationally, we most probably have a competitive advantage, reaching more clients in a particular country that we do have a presence.

What are LFSO1's defined SSA expansion strategy?

Interviewee 1:

Yes and no. From the history, if you look at how LSFO1 expanded beyond SA. It's based on two or three things. One is presenting opportunities at the time. You might find that there is no defined group/board strategy that says we're going to this country followed by this country. Because one cannot predict how the future will look. And our economies, it's only now that they've become stable. They have been very volatile. Not only economically but politically as well. So, you might find in most cases as more economies are moving into democracy, they becoming politically stable the economic growth and foreign investment goes there. You might find they are also adopting international standards. Whether it's around Basle II, Basle III adoption, IFRS 9 and all of those standards and measure. It makes it easier for LFSO1 to go in there because we believe if politically a country is stable, then the economy just follows. That is based on opportunities that are present, it could either be a Brownfield, and it could either be a Greenfield. Let me give you an example, if you look at our latest expansion into the West region, in Cote d'Ivoire. Cote d'Ivoire is a pure Greenfield, we didn't buy any bank, and we didn't merge with any bank. Go in there solely to start from scratch and build it up, bottom up. That is an expansion.

But in other countries, our expansions into Lesotho and Zambia, we bought existing banks because it made sense. And were opportunities that presented themselves.

Let's say its opportunity based, and depending on the Group's appetite to grow and readiness to grow. Capital availability at that time and what makes sense. And whatever synergies we might foresee. Not in the medium-term but in the long-term.

Interviewee 2:

So we're in 22 countries across Africa, including South Africa. And we're not in North Africa. Cote D'Ivoire is probably our furthest north. You can look on the website and you can also get our year-ends, it's all in those books. We've got probably tiers in terms of size; you've got your big West and East territories. Then you've got your smaller type countries like Swaziland, Lesotho and Botswana. Then you've got Namibia. What we do is we look at bringing; I'm going to call it the universal bank. When I say universal bank, I mean all those products I've just

spoken about. We look at growing a universal bank in those countries, and we go by the size of this market. Obviously, SAIC wouldn't necessarily have a good footprint because Botswana would be too small for SAIC and they would have their own competitors. But we provide people in Botswana with access to SAIC; perhaps you won't have a branch or an office in Botswana. That's why you look at your franchises, the size of your franchise and in the big countries everything is there. SAIC, your PBB, your CIB your wealth etc. all the businesses present of the universal bank. Then what we do is look at the local market and we look at how we grow the country. Then we also look at the international market, so if you look at Africa, you've got to go back to

Africa is our home we drive her growth. Let me explain what we mean by that, we're saying that purpose as a financial institution is to enable an economy. We don't own an economy; we can't drive an economy, but what we can do as a financial institution is we can enable an economy. The way we do this, we start with you and me. If you and I are successful, we in our small way enable an economy to grow. We could start a business, we could buy assets, and whatever we doing with our finances we're enabling growth. From the smallest to the biggest. Then when we go to a small medium sized business, you're creating employment, providing revenue for a country. Then you go into a commercial and your corporates, they're providing much bigger scale infrastructure. So, when we go talk to General Electric, GE, and GE as a client wants to come into Africa, but when they come into Africa. GE is a number of different companies. Let's say you want to come in to manufacture and they wanted to manufacture. Or let's say its energy and they go into a country and find gas and oil, or they find other sources of energy. They then want to grow that infrastructure; they want to invest in that country, which is exactly what that country wants, it wants capital, it wants investment, and it wants policy. But as soon as GE decides they want to invest in the country and say we like this area because there's good gas or energy we can look and grow. Then they have to create infrastructure. So, we talk about sectors in our coverage model in CIB. There's the energy sector, there's the power and infrastructure, there's the retail sector, there's the oil, and gas sector. What starts to happen is when an investor comes in, what happens? They start to employ people; they start to build houses,

they build roads, they start to enlarge the port, and they start to enlarge the airport. I've been travelling to Africa for 20 years and to me I go to Africa 20 years ago and the airports were airfields in some ways. You go today to Africa, and every airline is parked against the bridges, the airports are big. There's a good example of growing an economy, but how's that grown through international finance, local and national investment. That's what our purpose is and how we grow an economy that everyone in the economy starts to benefit. If you look at Cyril Ramaphosa's investments speech at workday, probably 2 Fridays ago, where he's raising several billions of rand for investment. That's exactly what he's doing in the economy, saying you need to invest in our economy. This is the resources we have; this is the infrastructure we have; this is the kind of opportunities we have. That's how you grow an economy, and that's how we grow our countries. Is we look for those opportunities and we match them with investors, organisations and clients who want to grow. You can start with you and me saying we want to successful people and we want to do our bit, going all the way to a big GE type organisation, a big oil company, or BP or Shell or the big hotel companies. You can choose any company, big global company, that's who we want to attract into Africa.

Interviewee 3:

I'm not generally involved in expansion. I look at countries we're already have presence in. I'm pretty sure we have a proper strategy in terms of which countries, you know they'll analyse each country and that will determine if we move into those countries or not. So yeah, they will be a defined plan.

Interviewee 4:

I think we have seen it come to fruition. LFSO1 officially started in Botswana 1992. There was a clear path around being the leading African bank. And I guess it's also testament having seen that their footprint is now up to 21 countries. And it's just not satellite offices, it's actual banks that are in those localities serving those different markets. I think staying true to Africa is our home and we drive her growth and once you go into the locality, for me Botswana is my home and we drive her growth and you can even see in terms of the projects that they get to participate in, they are truly transformational projects within the different regional offices.

Interviewee 5:

As you know, well, as you may know or not know, already in the press, LFSO1 has

chosen some 2 or 3 years ago to focus particularly on this continent. One of the phrases, I may not quote it 100% correct but in for it all in Africa, or something like that. So, the focus of LFSO1 is to focus on banking services and all products on this continent, which means by default that we're not going to focus on other continents, like Europe, Britain, the Americas and so forth. So, the strategy is really focused on Africa, and you know obviously there are particular countries that they've identified to do business in. And that is a very aggressive strategy; it's the one that we all chase throughout Africa.

Why has LFSO1 chosen SSA?

Interviewee 1:

If you look at our purpose, which is a defined purpose across the group. It says Africa is our home; we drive her growth. In the past six or seven years, the bank took a stance when we sold off some of the operations internationally. The stance that was taken was to say we are going to consolidate, put focus, effort, and growth in the African continent.

Because we thought for Africa, that's where opportunities were lying. By then Africa was defined as one of the emerging markets.

There's that overarching aspiration, to say that this is our home, we want to grow and we want to grow economies. And I think we've done well.

Interviewee 2:

The LFSO1 group strategy purpose is Africa is our home; we drive her growth. We created/refreshed that in 2014 around the African continent. Before that LFSO1 was in about in, I think nearly every emerging market in the world; Russia, Asia, Brazil, Argentina etc. We just focused on growing Africa and then sold off and disinvested all our risk in various other parts of the world. And then changed our construct to a coverage office. We have a coverage office in New York, a coverage office in London, Beijing, Hong Kong, Dubai, and Brazil. That looks at continent of Africa from those countries on growth in Africa. They are not banks, they are coverage offices.

Interview 3:

Having started in South Africa and before the emerging market crises, we were an emerging market bank. But with the crisis in 2008, the bank decided to be an

African bank, which is where we were born. And to focus on the continent versus emerging markets outside of Africa.

Interviewee 4:

There's a big reason; there's big opportunity within Africa. LFSO1 is an African bank and I think key to that strategy is we want to see Africa grow. The core of that strategy is also around natural resources. We believe that there are a lot the natural resources within the African continent. We believe that we want to move the people of African continent forward.

I guess that's the strategy we sticking too, if you do have some context we used to be in other markets, Argentina and some of the other markets outside Africa. But I think what you'll then now see that everything is focused on the African continent. You'll see our Chinese Office, our UK Office, but part of that strategy is for them to link into investments into Africa. We are a true African bank that's trying to really do a lot on the continent and it's clear in terms of where we are.

Interviewee 5:

Matome, I don't think I know the answer to that, only to say that I think it's something that I feel they are comfortable with, they provide services to their clients. It's a continent or a market, I think where the risk is acceptable to them and that they know they can handle, you know, 95% to 100% of the risk. So, they understand it. And obviously if you look at the history, the exposure and the presence in the other countries, like the BRICS, into Europe, even into China, not that I dealt with it, but what I could read from it, they were disinvesting out of those countries and they were closing those businesses down. And I guess the reason is that they, it's just the focus that is selected in the way they positioned themselves as the leading Africa bank.

What steps are taken when initially expanding and what factors were considered?

Interviewee 1:

You do your due diligence; you highlight your risks and have risk mitigants etc.

Most cases, as more economies become democratic; they become politically

stable, economic growth increases as foreign investment increases. The countries start adopting international standards. The country could adopt Basle II or III OR IFRS 9 etc. Makes it easier for LFSO1 to enter the country, as they believe if a country is politically stable then economic growth follows. Making it easier countries move into being countries move into.

These are fundamentals. Culture is a fundamental as well.

However, for any operation to be successful you need people who understand the local dynamics. You could have all of those, however you cannot rely on experts, you cannot rely having the resources moving from SA to run operations in Malawi.

You need someone who can connect with the market you're trying to service, someone who understands how the markets ticks and then also be able to customise whatever the strategy you put in to be relevant to the market you trying to service. In our case that's one big factor. So, if you could ask what has been your key ingredient for success, it's been the ability to have key talent and competent individuals on the grounds to execute on the strategy. Defining a strategy is easy but where the rubber hits the tar is the ability to turn the strategy into results.

You need people who understand, people who are experienced, people who are "connected". By connected I mean people who have developed relationships with key stakeholders, internally and externally. Someone who can engage with regulators, with the SEs of the companies you will be targeting, someone who can engage with individuals and SMEs in the country.

Interviewee 2:

There are different steps, you look at your policies, and you look at your infrastructure. Policies you're talking about government policies, local legislation. Everything's regulated, heavily regulated across the world and in countries. Whether its oil and gas, there's emissions. Whether its infrastructure, there's certain standards etc. We do an assessment.

That's exactly what we do with clients; we partner them on what these opportunities could look like. Now it depends if they're well established organisations or they are

green fielding, you're looking for opportunities but not quite sure where. That's what a LFSO1 does, it shows the opportunities. This is where we think we can be a good partner to a local enterprise or to a local government or whatever it is. But what you are doing is, you're looking at your legislation, you're looking at your judiciary, you're looking at capital, you're looking at growth, you're looking at whether they have currency restrictions. Some countries don't release dollars, they keep dollars. You know, all your remittance type structures, cost of capital, cost of infrastructure, interest rates. It's a bucket of things. We're so sophisticated in all of this, in that it's not a hard job to do. Those would be all the elements a client would be interested in but we would also want to get right, before you do any business.

Organisations would say they are client led and we'd say the same. So, where our clients want to go, we go. We see opportunities, let's say in the retail sector, let's say if you took one of ours like Checkers, Pick n Pay, Woolworths, whatever it is, and we saw opportunities in Africa. They could either come to us or say we want to grow into Africa, which are the best markets you think we need to grow in to, we can advise them. Or they might say, look, are there partners for us in Africa because we think we could partner with, that's your mergers and acquisition area in CIB. There is actually a big retail construct in Malawi that we think could match Pick n Pay. So you'd bring clients together and say what about a merger or joint partnership or joint venture. So that's how you grow, and that's how we grow in terms of looking for opportunities. Either the client comes to us and asks us or we in terms of our work see opportunities for our clients and go to them.

Interviewee 3:

What type of business is occurring in those markets, and if you know, take for example. I'm trying to think of one that makes sense, Mauritius for example, we're not the largest balance sheet in the country; we're not the most used bank in the country or even the second most used bank in the country. But in general, we try to be the best, first or second biggest or used in the country. But in Mauritius it's slightly different cos you're having a presence in Mauritius, a lot of corporates have their head office based in Mauritius but the operations are in continent. From a relationship point of view and from a bank and account perspective it helps with banking those clients and then obviously looking at their transactions and their debt service and having them as a client. So, it makes sense to set up an office in

Mauritius. And look at the types of transaction we do out of Mauritius, there are not many that we do in the local currency, Mauritius Rupees, there mostly done in dollars. But then if you look at Mozambique, we are still not the biggest balance sheet, but are the most used bank in the country. Most banks are in dollar. The Portuguese banks have the biggest balance sheets; we're probably the third largest in the country. But, from a banking perspective we have the forex, we have the right platforms we have a good number of branches. Those are the kind of things that will determine whether we move into the country. We recently opened an office in Cote d'Ivoire; there is a lot more activity happening on that side of the continent, which is what lead us to opening that office.

Interviewee 4:

I can't go much into that, cos for me it was a different experience, the market was already set up. When I came to Botswana the Botswana office was already set up. But maybe what I can say is probably on the resources side they do take certain steps or proactive steps in getting people on the ground. I am a Botswana national I was schooled in south Africa. I joined the LFSO1 program, but as soon as I joined it was quite clear that we want to resource Africa. So, the idea is also not to be exporting South Africans into the African continent. The idea is for us, it's for the bank to actually groom the citizens of those nationalities and have them go and work in those environments. Ensure that their offices within the African continent are capacitated with Africans. So, if you look at our offices around the continent its actually not South Africans working there, it's Africans working in African offices. So, they're not just there being deployed to go do work to come back to South Africa, it's actually people from those local markets. That's where you get the local knowledge as well. So, I think personally I stand testament to that cos I was trained in South Africa, but effectively it for a Motswana to be working out of the Botswana office, and this is what we continue to strive in doing. So, I think for me it's probably the differentiating factor. You don't get a satellite office that's capacitated by foreign nationals to come and do work in a foreign market. It's actually bank, South African bank or an African bank going into the African market, and when you do get into that market it's actually local expertise from the local nationals from that locality.

High growth, high growth or high potential, they follow resources, they follow

markets where they know they can make a difference. The way they are going I believe that soon we'll probably be in most of the African countries. They are natural countries, so, naturally we would assume the whole of Southern Africa, cos most of our countries are not too different from South Africa. So, Southern Africa would be natural. We've seen LFSO1 do East Africa, and the strength that we have there is that we then have a full-on office that almost replicates the South African model into East Africa. So right now, we have a Kenya that looks Uganda, looks after Rwanda, looks after Tanzania. That also ensures that the offices is fully capacitated to handle East African issues, East African projects and are able to pick up on East African nuances. Then you've got the same office that sits out in Nigeria which looks after the West Africa region. Similar to South Africa, Kenya and Nigeria they're offices are almost semi head offices that operate the region. I think that's a key strength because the understanding is that those localities almost have similar nuances. So, West Africa the culture is very similar. So you have a head office in West Africa that is able to pick up on West African issues. Then they are able to deal with them quicker, instead of having west Africa reporting into South Africa. You have West Africa reporting into Nigeria, East Africa reporting into Kenya and you've got the Southern African countries reporting into south Africa. I think that's a very strong play for them. The dynamics that you see with the other banks is that they all report into the head office. You'll probably see even with a StanChart where they still report into the UK, where decisions take forever to be made because it has to go through maybe even the Singapore office. On the LFSO1 side what you see that at least because on the specialisation, because what you also get is the product and services are also not the same across those different regions. The requirements are different; the resources you see in those markets are also different. Staff is also quite different so the dynamics are also picked up in centralised offices.

Interviewee 5:

Do you know what, I know a very limited, because on a strategic level I don't go into a level or, you know, banking wide. What I do know is normally, they would look at; this is the way I understand it, rightly or wrongly. Normally they would look at a country where they understand legal risk and understand the market.

Entry methods that LFSO1 prefer/utilise?

Interviewee 1:

The bank is opening to entering a country either through brownfield or greenfield. With greenfield expansion, LFSO1 wouldn't buy a bank but go into a country and build up from the ground up. For brownfield (Lesotho, zamia) bought existing banks because the opportunity presented itself and made sense.

Post the standard steps of expansion. As a financial institution, normally but not in all cases, depending on how we expand. We are a CIB lead expansion strategy. So, in most cases, but it's not a formula, it's not by default. We go in being CIB led, we try and leverage off the ecosystem. So, we'd identify the key clients we want to bank. You find that some of the clients existing in that country are multinationals. For example, let's say we bank Shell in Mozambique and Malawi, and we want to expand into country Y. When we realise that Shell is present in country Y, what we try to do is see how we can expand the banking relationship that we already have with Shell. Once they get the opportunity, then we can look at how do we bank their suppliers, how do we bank their buyers and how do you bank their employees. So slowly you start expanding, where you break away from CIB and start banking commercial space, the business space, you start banking the employees which become personal banking. Then you've got the CEO of the company that you can offer wealth products. So that's the strategy.

There is a big opportunity for PBB; if you look at studies they would say most Africans are unbanked. The biggest challenge in the operations is the ability to reach people on the outskirts. It's easy to go to the main city but it's costly to go further away from the main city. It might not make a business case to fund brick and mortar because it might not fund itself by virtue of the volumes and the costs associated. When it comes to PBB and certain commercial products, you need to be creative. Creative banking comes in, how do you utilise innovation and technology.

The preference will be dependent on the dynamics of the country at the time and where the bank is in terms of its aspirations in that particular country.

I think when you've got enough ability to influence processes, strategy and driving

the strategy in country, it's the best option you can define what you want, you can shape it the way you want.

But you might find you have constraints. Let's look at Ethiopia as an example, ideally, you'd want to have a bank in Ethiopia, it's a fast-growing economy, it's a big market etc. But regulation does not allow us at the moment. Is it something the bank will look at, most likely. Hence, we have a rep office.

If you look at a country like South Sudan, South Sudan has its own challenges, politically and economically. We are there, we are present. It's one of our extended branches from Kenya. The bank will have to have a smart and creative way to say how do we remain relevant, taking into account the constraints.

The pros of greenfield you are setting up your own systems, you can put up the latest technology, be as nimble as you want, you can be innovative, you don't have legacy issues holding you back and it's a new brand. You're in control of everything. But it's costly, you could breakeven in years.

The brownfields also have positives. You already have infrastructure, people are already there, skilled. You're making money.

But you're also inheriting a lot of things. Technology you did not want a culture you did not want a reputation you did not want. Even if you're going to re-brand.

In any strategy, it's the due diligence that you make. You will make a call based on what is sound for the business case.

Interviewee 2:

You could work across Africa, when we started Africa, we started as you just described. We either green fielded and opened rep office or what we did, origination, we bought the branch, and business or infrastructure from ANZ Grindlays Bank. You can look at that on the internet, many, maybe twenty something years ago. We bought the existing business in Africa then we grew some of our own, fulfil led a footprint of what I just described as the 21-22 countries. The culmination. I'll give you Cote d'Ivoire, we started as a rep office in Cote d'Ivoire, and that's generally regulated, so quite often a regulator, your central

bank, the regulator for financial institutions. Will regulate you in saying you can only start as a rep office, and then you can grow an infrastructure. They all have their different limits. Each one you need a license for, so rep office you need a licence for, retail bank you need a licence for, investment banking. So, all these require licences and regs, so in Cote d'Ivoire we started off as a rep office and now we have just become a corporate and investment bank. After 5, 6 years of being there, so we have a new licence, and now we can operate as a corporate bank. Going where the client wants us to go, then client might say we need some retail infrastructure, because we've now employed people and we see that we're growing. We could either go and partner locally or we could proactively open 2 or 3 branches, perhaps in different centres. Each country by country that would be an assessment because you want to compete and win but you also don't want to waste branch infrastructure when there's enough branch infrastructure to partner with a local bank. They call them corresponding banks. So you can partner together locally.

Interviewee 3:

A lot of this depends on the country. If you look at Nigeria we acquired a bank there and if you look at Cote d'Ivoire we first had a rep office and then, through that, I suppose even before guess even before the rep office, a DD would be done to determine whether it makes sense, to even set up a rep office first. Because that is going to create, incur costs, to set up a rep office. And once a rep office is set up, I think in Cote d'Ivoire we had it for a few years before we decided we were gonna get the banking licence and open up a proper office. It was similar in terms of what happened in Angola, were we first had a rep office and then we got the financial license and then we started actively banking the market.

So I think it's a, not an aggressive strategy, it's more conservative in that, you know, we'll determine if it makes sense first, and then move in, you know, depending on the type of market.

Interviewee 4:

Predominantly it's a subsidiary, predominantly it's a subsidiary; it's a subsidiary model. But I think what we have seen in other markets where there were introductory banking offices; they've gone with a rep office. I think specifically in Ethiopia, I'm not sure if they now have a full on office. I think there, when they enter

a market and it's probably the first time they are entering. Or it's an entry point to go and test that market. But a lot of, probably, 18 out of the 21 are subsidiaries and the balance of it is rep offices for purely new markets. But, predominantly subsidiaries.

Interviewee 5:

They would, they prefer, if you look at what we've got over the whole continent, they prefer to, I don't wanna say buy up, but I would say partner, with other banks, in that country. They would then take major shareholding leverage or something that existing market. There is one or 2 countries where they started, like Ivory Coast, where they started their own bank. And then normally what they do is they start with the smaller products, when I say the smaller products, they start with the personal bank, the man on the street, the retail banking. And then slowly but surely as they understand it more clear to them in terms of what the legal risks and the risks are they would expand into more complex products, like your corporate investment, global markets, wealth.

How does LFSO1 arrange equity/capital for SSA operations

Interviewee 1:

It differs on the deals we want to do.

In certain instances, it could be raised by the group while in other instances it can be a combination of the two. Where you raise on the market and the group will also contribute towards that.

It's all about the cheapest way to raise it; whatever is the cheapest at the time will be the best approach to raise capital.

Interviewee 2:

We do it as a group; the LFSO1 group governs all of that. That's why I said I work quite closely with the chief financial officer. Because obviously, we have to provide capital and provide infrastructure. You don't only provide capital infrastructure you also provide the security. So, in other words, whatever you're lending out, in terms of your twin peaks and your reg requirement in terms of you have to hold capital. You know this was all from the crisis time, of 2007 and 2008, where you've got your different requirements of how much capital organisations have to hold against how much they lend. You've got tier 1, tier 2 and tier 3 type capital and then you've got tier 1, tier 2 and tier 3 type of risk. And depending on those, the amount of capital

varies in terms of how much you need to hold. So, the group ultimately is responsible. You always want ... go to the parent. Also whenever an occupation opens in a country generally there's a parent company owned by a legal subsidiary. When you go into country you could go one of two ways. You could either go in or own all of your shares so you 100% LFSO1 or you could have local partners, or local investors. You could be 60/40, 60% LFSO1 and 40% minority shareholders. They're different constructs but I think the best way is you have to go market by market. The international investors sometimes, when we talk about America, or when we talk about Europe or we talk about the UK. When they talk about Africa I think they don't, the global organisations realise were a number of different countries that operate differently.

Interviewee 3:

I don't know the exact answer for that but having seen what's happening at Cote d'Ivoire, it would initially be an injection from the head office, and post that they'd do the fund raising exercise. Either from a capital markets perspective from bonds or by private placement. Short answer.

Interviewee 4:

So we raise capital in our local markets, so we're a full on office, a South African parented subsidiary, but we're a full on office locally. I think one dynamic that you see on the LFSO1 side is the subsidiaries are not listed. So that's probably one of the limitations that you naturally then see throughout the group. Because we're not listed, let me talk about Botswana in this instance. We're in the top 4 banks but we're the only bank that is not listed. So that makes it slightly difficult at times to raise funding, but I guess to the local market we are quite a well-known bank. We've been around for quite some time, we've got investments in the local environment, so when we do go out to capital markets to raise funding it's usually not expensive. But I think the one thing we've received from investors is our non-listing on the stock market.

Interviewee 5:

So, to be honest with you, Matome, I don't think I'm going to give you the right answer on that, because that's mainly managed by the finance team and the larger EXCO. But I would imagine that they get funds from shareholder investments, they

get funds from debt capital markets. To me, that is, I'm guessing now to be honest with you; I don't think I'm going to give you the right answer with that one. You're going to have to speak to a finance guru.

Has LFSO1's expansion been a successful?

Interviewee 1:

We've been very successful. I think we've been very successful. The reason why I say we've been successful, so if I had to say what would be our measure of success, maybe that would answer. So if you look at how we've penetrated the market, you look in terms of how strong the brand is in those markets, the relevancy of the brand in those markets as well, the revenue generated from the market. As an example, its public knowledge, for example in Mozambique for example, I think in the 2017 financial year, we made a one billion headline earning. And that's a wow from a SA bank. If you had to compare ourselves with our competitors as well, I think we're competing and we're competing very strongly.

It's not only revenue, because one, we try to remain relevant but also we believe in call it sustainable profitability. So hence, in every market we operate in we make sure we've got also a positive impact, in the society. Whether it's through the corporate social investments that we embark on, whether it's through funding of let's say educational programmes. Most countries have what they call a flagship project they run. Just to make sure that we're not only extracting revenue but that we a positive impact in the communities.

But over and above that we've partnered with, there's a non-profit organisation called the Global fund. We have a three year partnership with them since 2017. We donated millions of US dollars to them in fight and combating of HIV/AIDS in Africa.

Let me take you back, ten years ago. Africa regions contributed less than 10% towards LFSO1's earnings; in 2017 they contributed 27%. So it's doubled, more than 100%, no sorry in 2016, I'm lying in 2017. In the first half of 2018, we contributed 32%. If you plot that graph and see the trajectory, where's this is going, it says you cannot ignore the contribution of Africa regions into the Group.

We've got our own internal aspirations, we call it our 2022 aspiration, so we want to where we can, and this is not public knowledge but we'd like to contribute more than 40%, which is attainable and is substantial. What I'm trying to say to you is

Africa regions is where the growth opportunities are, I think the bank is giving the right focus and attention to it. If you see the investment that goes into the region as well.

Interviewee 2:

You define in various levels, market growth, your return on equity in terms of your investment, the performance of the business using all your financial, your cost to income ratio, your ROE, your interest rate and return, and all those different financial measures. You look at those. You can look at the economic growth of the country, they're generally aligned to. Financial institutions tend to align to the economy. Nigeria is a good example of 3, 4 years ago Nigeria went through a crisis. I think liquidity funding. We were there, again LFSO1 has the reputation of staying, the good and the bad, our performance was down when that was there. You look at the latest 6 months of performance by mid-year; you'll see Nigeria was up. So, come out of that title the markets have adjusted, for some of the limitations but for now it's on an upward trend. So again, you kind of align yourself and performance wise, you certainly don't want to be performing worse than the economy. You should be part of the economic growth. So we have various measures, if you go to our financial year book, You'll see country by country write ups in terms of that.

I think its bout 37%, just under 40%. Out of Africa and the rest is SA. It's in the 30's. But if you go and look at financial book, it's got all the pie graphs and everything. Look at the CIB business and how it splits across rest of Africa, look at PBB, look at wealth and look at SAIC. They're all different but they all add up to about 37%.

Interviewee 3:

So, I don't know of any that have not been, any countries on the continent that we have left. But you look at, what I mentioned earlier, the emerging markets strategy. That was, not necessarily wasn't successful, but it was successful until the emerging markets crash happened. So, they decided to change that strategy that meant we closed offices in those countries. I think the main ones were Central Europe, which were Russia and we had an office in London, we still an office in London but we don't have a banking license anymore. And an office in Brazil, I

don't know of any others, I think the rest have been closed, so we still an office in Brazil but we don't have a banking license. We also have an office in New York where we also don't have a banking license, which we did. In terms of the continent, I don't think we've had to close any offices and I think the measure of success is the bottom line. If the bottom is making money or not.

To be honest I don't know exactly how much. I know it's not, it is more than 50% but not a lot more. So, we still get the majority of the revenue from South Africa. But I'm uncertain. Let me check up on that and I'll give you a more definitive answer.

Interviewee 4:

Locally I'd say yes there has been. We were a very small bank back in 1992 and I think across, probably for the 10 years we were here. The market used to view us as a boutique bank because all we did was corporate and investment banking and very niche of it. But I think over time we've adapted to the market. We brought bigger banking products to the Botswana market. So we're now a full on personal and business banking franchise with a full on corporate and investment banking franchise. I think that's why you'll see the dynamic that they've now fully capacitated both the team on the ground. That's why some of us needed to be deployed, so we don't have briefcase bankers coming in and out of the country. And the success rate is over time, usually in the local market then we sort of gauge where your profits are and then you gauge within the local context what position of the market you command. And if you then see those dynamics where our corporate investment banking in Botswana is actually top of that list. And it's something that has been built over time, it a factor of the projects you've been involved in. And how you've actually participated in strategic causes in the Botswana market. And then you'll see within our personal and business banking we are probably 3rd or 4th. That's predominantly of the back of we don't have a trade currency versus what our completion has, and you'll see that competition is Barclays, its FNB, it's StanChart. Those banks have been in Botswana for quite some time. With Barclays, it has a lot of legacy; it's a legacy bank in the local market, naturally because we are a British protectorate. Similar to StanChart. FNB has a very big PBB or personal and business banking franchise here locally. But I, overtime we've grown significantly. But our success factors are just built on profit after tax, were built on the projects we've been strategic, projects we've been involved in as a bank. As well as how we

continue how we continue service our customers here locally. Because there are also customer surveys that we have done every year and our scores keep improving over time.

About 20%, the idea going forward is to keep increasing because we, I think the understanding is we LFSO1 is quite large in SA and the market is quite saturated. So, the growth that's going to come into that business is definitely going to come from Africa. If you look at markets outside South Africa we are still in the top four but we're not necessarily commanding those markets and it does pose an opportunity you can still largely grow in those markets. That's where the real revenue is going to come from; you get a lot of development projects within the African continent.

Interviewee 5:

Well, I do think it is successful, I'll tell you why. Because you had good returns made firstly. If you go look at the financial performance, you know, the ones released over the past years, the Africa expansion strategy, the African countries contributed acceptable levels of returns and profits into the group. There's obviously like any other vehicle, at a cycle, at a point in time there might be stress in the country here or there. But I think a diversified approach hedges that risk for them on the continent. If you also think about how the clients, because of the brand, and they know that LFSO1 is well positioned in Africa. I think that 9 out of 10 times they come to LFSO1 first for new business, because they know from an operational implementation and maybe value add that we can give to customers that come to us. So I think on 2 levels, firstly it's the returns and the financials, they contribute. I think there's a growth strategy on that one. Certainly what I've heard from my EXCO. And secondly if you look at the clients, they always come to us for first stab in terms of business. Or at least, if there's another bank involved, we would be one of the front runners in terms of the deal or the new business. Because of our footprint and experience in this continent.

Has LFSO1 led to an improvement in technology and HR in the host country?

Interviewee 1:

Talking about technology, we've invested a lot of money in rolling out our core banking platform... It's rolled out into the 14 countries that we have; it's been a journey for the past 4/5 years. With that being in there, there a lot of agility and we can be nimble in terms of now, delivering solutions, we can be quicker , we can be relevant, speed to market is also there. Also improvement in terms of processing. Either in the front, either at the back.

For now it's per country, but the journey is to have that signal view. Especially for your multinational because you must be able to see across. Part of our aspiration, which we're almost there now, is to ensure that our multinationals they don't have to be treated like they are in different countries. If they want to open a facility in Zambia and we already bank them in Nigeria, we don't have to be asking for the same documents. There might be KYC in the specific country. So that's where we're heading to.

Each country has its own unique challenges. Let's talk now people resources, you'll find that some countries have got no skills, for example. You might definitely be dependent on secondment, who do we second to go an assist with a view to upskill the locals as time goes on. People from different countries coming into South Africa as well to learn different ropes so that go back. So that's that exchange, call it exchange programme. That has worked very well. If you look at the composition of staff in SA, it's so diversified. Guys coming from different countries. If you go to countries and look at the composition of staff as well, especially the management, it's also diversified. We try do it in a more coordinated collaborative way.

Interviewee 2:

I would definitely say so, not LFSO1 but the clients we bring into the economy. We're a function of the client. You've got to look at a financial institution and say, I like to look at it as an enabler. So, financial institutions do well with clients, the cornerstone of a financial institution is the client. So, if we bring big clients in Mozambique, there are fabulous stories about gas found offshore and the growth that... that's where financial institutions play a role. One through the funding, the investment, the policy making, the advising, the employment, everything. Insuring, that's how we play a role on expanding the economy. So, I'd never say LFSO1 did this on their own, it's impossible for that. We do it through the clients; we do it

through the governments.

We do sometimes, our drive is to, and your best outcome is to have local people running those organisations. If we're short on let's say skills. We would tend to find someone; I would say that 80% of your organisation in country is local and a couple key roles. But our drive is always to either pass on these skills to a local person and don't forget you're also regulated on this. So, you've got to get approval to, if you want to send a foreigner, just like in South Africa, if you want to send someone here is a whole process of approval that you have to go through on why you're getting an international person to come to the country. Before you get a work permit. Then generally you have to pass on those skills in a given timeframe of 2 to 3 years. That's one part and then the other part we teach our people so what we will do is send you for short terms, 3 to 6 months, in to certain countries, so you can go learn about.

If you look at the world of digitisation and financial institutions are digitising incredibly fast. At the same time your clients are being digitised, you have to teach your employees on how to be digital. If I can put it in that construct. Then you're also training your people on how to lead and manage change across the organisation.

For instance, we have a group of Nigerians coming from the Nigeria office in two weeks' time and they are coming for three days. What we call it we are going to immerse them in our strategy. I'm going to speak to them for a couple of hours. Our regulator will speak to them. So in other words they leave and go back to Nigeria very immersed deeply in LFSO1

Interviewee 3:

Yeah, without a doubt. We can take Zambia for example, outside of the big international banks, there's only one real big local player, which is ZANACO. In terms of the major banks in the country. It's between LFSO1, StanChart and ZANACO. The other international banks have presence but they're not that big. But with that, in terms of LFSO1's branch network, we have quite an extensive branch, and that is providing jobs to the locals, the local Zambians, obviously, that is who we hire. And from a technology point of view, whatever the group rolls out,

it's rolled out in each of the countries. From a payments perspective, from a point of sales perspective, from a branch network perspective, all of that is taken to each country.

Interviewee 4:

A whole lot, I talk from experience. I've gone through a lot of training. I think for me, the trick firstly, was me being a Botswana national. So knowing the economy was almost natural and they try and leverage off of that. So, the fact that I already knew the Botswana market, I already knew the nuances, I already knew the culture, already speak the language. It was a bit of an additional point for them to continue training me, at least in the technical bits. So, I think what they try and stay away is to try and train people into local cultures. So they'd rather have the local culture and then teach, and then train the people into technical, in the technical field. Rather than doing it the other way round where they then to bring technical people and try and train them in the local knowledge. So, I think the biggest thing is they need the indigeneity of those people. And I think it also speaks to a lot of things because when you go into an environment. You almost need to know what the cultural expectations are. When you go and see state owned entities, what's the expectations? When you are speaking to a customer what are the local nuances that you need to be aware off. So for them they will do the technical training, but for the local, cultural, political and all other things they prefer to then have those people already from that African country.

It has, It has, I wouldn't naturally say we are a leader, currently, but it has. We're not a technological leader within the market. But, I think the basis for that is probably just nuance we have across the group where our systems are not uniformed. So, a lot of the products that get deployed in SA don't naturally reach the African market at the same pace. But it's also a greater understanding of what the local markets are able to absorb. So, we're probably not at the same pace as LFSO1 is deploying the products or solutions or digitisation. But we're certainly on par in terms of the local market and their requirements.

So LFSO1 trains its own people, they train people and then those people are the ones who work in those offices. They employ from the local market, employ those

and send them back to their home country. Those are the guys who work on the ground. So, you don't get a lot of expatriates in the LFSO1 offices. You get few who are there for probably 2 or 3 years, and a clear understanding that they are there to leverage of the team and to ensure that there is skill transfer. Those are the MDs and most of those are locals.

Interviewee 5:

So there's a big drive in this bank at this point in time, to do things smarter, quicker and faster for the client. I mean, moving credit decision and so forth closer to the client, so that that speaks to a process that's been enhanced. And that process that we've been enhancing does require an investment in time into technology. So there is a group wide platform being built where you can link into get your client closer to, I would say the bank. And there is strategies at this point in time being run, they call it lending transformation, closer to the client. And there is a lot of nuances to it, but there's definitely a drive to that and there's a target date for it to be implemented, 2020.

Ok, from a human resources perspective I think that LFSO1's staff are generally well experienced and the experience that they do get from the cross border collaborations between the banks in country. I do think they differentiate themselves from the best of the banking industry. It gives them good experience and it does make them a very marketable, what's the word, marketable staff or employees of other banks. I mean, you know from your own experience that normally the LFSO1 people are targeted because of the experiences and the exposure they get. But I mean, just from a HR perspective there's a lot of opportunities, there's a lot of growth, there's really unlimited opportunity in this bank. If you are willing to take some, you know, climb out of your comfort zone.

So, in the past, they have seconded senior executives into certain countries, and there are still some of them in Africa. But then one of the key, key, key responsibilities is to make sure there is a succession plan to train up local employees as executives. And they've done it in certain instances, in countries like Nigeria, in countries like Kenya, countries like, you know, they have got, at a very senior level they have executives already coming through the system. But yes, you

always need some sort of guidance from more experienced executives that's seconded there. But really the opportunity to do that is far and few in between now.

Absolutely, we have a very strict training policy and it's one of our frameworks. So, besides that you have to do it, and I think that the culture of people, within LFSO1, you know, go to the next level. It's one of the things LFSO1 communicates well to its staff, and provides good opportunities.

What were the common challenges that LFSO1 experienced?

Interviewee 1:

I think like any other foreign bank, you can't pretend to be a local. So, the biggest challenge is how do you compete with the local banks, which have been in the market for long and are entrenched. You have to earn their trust. The biggest challenge is what is your value proposition that you're bringing in, what the other banks haven't done before? From that perspective. In our case, our strategy is customer-centric, so when we go into the market, for example, we are not pushing products. So we don't sell products but we sell solutions. It's a matter of saying let's understand what customers' needs are, let's understand what their frustrations are, then let's craft a solution that is relevant. And that is, call it our differentiator from that perspective. But the biggest challenge is competing in the foreign land.

I think, for example, I think we are non-compromising when it comes to the values and ethics of the bank. Part of our values, to say we do the right business in the right way, and we don't compromise on that. Whatever the regulations stipulate, we adhere to that from that point of view, we have got our own internal policies and processes that we adhere to, so we are not shaken in terms of finding ourselves on the wrong side. And the people we do business with as well, we want to be associated with credible partners.

Interviewee 2:

First of all, we always look at challenges with opportunities. I know that's a bit cliché. Opportunities exist in Africa like never before. Africa is a growing economy, growing continent with a big middle class. You look back in the years; there was a small middle market, middle class type market.

You either had super wealthy or super poverty but now you've got the big infrastructure of people coming out of education, people starting businesses. You

should get the book, have you seen that book in Exclusive books called Done, D.O.N.E. Go and, if you can get a hold of that book, that book looks at the silent. Things that just happened and growth that's happened and middle markets that have been emanated, quite silently. In other words no big fanfare, but when you look back 10 years and you look now; you'll say my goodness, what happened? All of a sudden there's a big infrastructure that's just grown, and that's what digitisation enables. Energy, new solar energy. New ways of doing business. All of sudden you've got this big market, big middle market that's emerged. That's got lots of attitude, lots of opportunities, and wants to grow. So, you've got this emerging market, and then you've got this rich infrastructure of resources across Africa. From mining, to gas, to oil, to, again just have look on the internet and clients are going actually we've been to the America's, we've been to Australia, we've been in Europe, we've been in the UK, we've been in Asia, but we've never really been in Africa. Africa is probably out there in the world, the richness of the resources is what all the big organisations see. For each country there's a different life cycle in terms of the economy, and where financial institutions help is by bringing a governments, let's say a big global organisation and local players together to create the opportunity. So maybe priorities are needed, maybe legislation is needed, maybe pricings needed, maybe infrastructures needed. That's how we can bring all those parts together to help fulfil that opportunity in Africa, and Africa is not short, as I say it's fast moving, we might want to see, often Africa is painted as a bit gloomy. But I must say that I'm very excited by what I see. Even in South Africa, is the pace of change. We , yes we have, countries have political problems but astute investors, as long as the judiciary system is up and running and trusted, and I would say south Africa is one of those. Where your legislation and judiciary system is extremely strong. If you look at the high court, you look at the legislative and you look at the constitution and you look at, very publicized, very strong etc. Investors feel very comfortable; all countries go through political upheavals. Now we are nearing elections in May, so we'll go through kind of the stormy first quarter of next year. Astute investors and businessmen can see past that , they look past you, what's the opportunity, what's the infrastructure like, what's the risk like , what's the financial institution infrastructure like, and if there's something missing . This is where the financial institutions can play a part in helping both sides fill that gap. I

would never let economics, politics, and opportunity, erode each other. If I can put it that way. Because each one can stand on its own and one of them might be in a shaky situation. But just because you're going through a political storm, it doesn't mean our opportunities cease to exist. They're still there when you come through elections in May, if I can put it that way.

Zimbabwe is another one, I think, an African country to look at. Also been changes in government. The opportunities are still in Zimbabwe. You can see the governor trying to now create better constructs to enable international growth. Stabilise their currency, that's exactly the green shoots of kind of what a country can go through. And also, African countries can accelerate extremely fast, because often there's not much baggage, not like these first world countries who need loads of infrastructure to kind of follow on. African countries can change very quickly and they can adopt this digital world and this energy world and this new infrastructure world. So fast. That if you're not there for the start then you often will miss the opportunity because it's moved so fast.

Interviewee 3:

Sorry, I don't know the exact answer to that but. I suppose the challenge as you say is, we are a South African bank, so I think, what they've done to help with that, in almost all countries the strategy is to employ local people into the bank. People with networks with experience. I think that's how they managed to be successful in those countries. So, if you look at all the countries we will deploy people from South Africans to assist in setting up etc. But once that's happened, the local guys are employed to run the business.

I think they do, but generally if it's necessary, so if they can't find someone within the country then they will. I think an example would be Malawi, where they had a vacancy for a long time for the CEO. They were not able to find someone so they asked someone, but someone who has a lot of experience. He spent a lot of time in Zambia and Angola and Kenya in various roles. While he was South African he understands.

You probably know, are aware of the training facility in Morningside. Quite a big facility and that is used for internal training only. And it offers accommodation for

people coming in from outside of Johannesburg, be it within South Africa or outside of the country.

It is advised, I suppose the strategy in general is. Like when I joined the bank there was an induction session, which gave us a download of all of that, I also attended a leadership session that didn't focus on that but that was part of what was included. So it is something they take seriously.

Interviewee 4:

Probably, I'd speak of one where they did Rwanda out of Kenya. For some time, we went into Rwanda out of our Kenya office. I think the one thing that the bank does very well is that they get a clear understanding of what they're dealing with. So, what we saw back in, probably 10 years ago now, is them being able to deploy funding through, cos I remember there was a time where they used to have to drop off cash through helicopters or whatever it was. Cos there were certain challenges in that Rwandese market at the time, and now it's a different bank all together that's currently there. So, there are challenges in terms of local nuances but the good thing that the bank does very well is they get to understand it. And they find a way around it.

In other markets, I think we probably came out initially as a very niche market and not as a big personal and business banking bank. And that played against us for some time because it almost seemed like we are a bank for the affluent and not the general Motswana on the street. But I think that dynamic is slowly coming to a change, where they are seeing our footprint, they are seeing our ATM capabilities, they are seeing the solutions we're bringing on board that these guys are here to stay. They are not just here, coming in and out ducking to South Africa. One thing that our clients appreciate is that the local people are actually the ones that come out and explain their products to the customer. It's not that every time there's a project then you find that there are brief case bankers coming in and out of the country. You actually get the local content because the local resources are quite technically strong to also stick to the solutions that the bank is providing. Which I think our customers appreciate a lot.

The one thing that we probably battle with in Botswana is our footprint is quite limited but I think the bank then continues to see what alliances they can build with specific other agencies, such as the post office or a retail store. Because the dynamic of it is the market is changing. We're not going to be that bank with the brick and mortar that's currently in the local market. We're going to be a digitised market that won't require us to have a physical presence across the country. I suspect, even our limitations are now becoming a bit of our strong point because we are then getting to the digitisation quicker than our competitors, who have had large footprints that they are needing to deal with currently. The strength that we now had is that now we are online platforms that people are able to use and they are able to also use the platforms of other alliances, and they are still able to bank with LFSO1.

Interviewee 5:

I would say, you know the regulatory risk, each country's regulatory risk is something we don't particularly have a control over. You know sudden decision from governments or regulators that could impact us. And then, you know, global economics, as you know global economics can impact on what we, we do a lot of foreign currency loans, foreign currency loans in US dollars that could lead to some volatility at points in time. But legal risk, legal risk I would say is third in the line.

I would say, obviously, again, it attracts because when you regulate rules, there's an element of certainty. In term of legal. I would think at the end of the day it would be how big is the market in a particular country, and what do they think that market's need is for the products that we deliver. If you go look at the countries that we are in, these are, although third world countries, I mean this whole continent third world, but they are very sophisticated banking industries already. So, it's not that we are pioneering the banking industries in these countries. So I would say Matome, at the end of the day, there must be sufficient markets for the products and the visions that this bank has.

Does LFSO1 actively attempt to ensure that their operations in SSA countries operate in the same way as the SA operations?

Interviewee 1:

Like any other bank, you'll have your aspirations defined on the ways of working. The culture you want to aspire to, but having said that, that does not limit where there could be differences. Either by virtue of the culture. If you go to the west, the west culture is different to the south culture. If you go to Cote d'Ivoire and those are small things, for example, if you're going to meet up, if you're going to have a formal meeting. You have to dress up formal with a tie and all that, but in SA I can be very casual. But from a LFSO1 point of view we have our own ways.

Remember, as much as those are, let's call them autonomous legal entities. There's a parent company, which is LFSO1. So, at any given time if either the country itself raises its hand to say we need help, they will definitely help commissioned. Or it could either be the group looking into the country, I think there's help required here, that will also be commissioned. Because it's in the group's interest to make sure it's a success.

Part of that, we've got pre-defined induction programs. Taking people through the ropes, what LFSO1 is all about, the history, boom, boom, boom, boom. But also infusing what the values, the ethics, the ways of doing work are at LFSO1. So that's one, that's one tick. But over and above as you work and get exposed, either to different leadership styles, different business units etc. People get to understand the type, what are the core things that drive the bank. So it's a combination of both. So you'll have the global leadership college, we'll have the one job exposure.

I think the strategy is well understood, from my perspective, I think it's well understood. From a group level point of view, from management, from staff. I think I'd assume in every town hall that any leader would have had, it's been enforced as part of the purpose of the bank. Africa is our home we drive her growth, Africa is our home we drive her growth. It's been entrenched, to the extent that if you go to countries, they've customised it to their own local as well. If you go to Zambia they'd say, Zambia is our home we drive her growth. It's entrenched into the legal entities as well.

Interviewee 2:

In any global organisation, is what you call, let's say we're an international organisation. It's called global standards, so you have architecture, so architecture governs any big organisation. I would say we get to being a more than 2 or 3

countries and you start to employ a couple thousand people. Every organisation needs has to shift into this. This is what you call your architecture. This is what you look at in terms of all of your decision rights. Who makes decisions; you asked me this earlier about capital, about resourcing. In those you have to be very clear about where those decisions are made in your architecture. Who decides in terms of the risk appetite, your group operates. The way the group operates on risk appetite is we set standards. So these standards have to be met in country before we can do business. Then you have your regulatory standards. That would be South African standards, global standards and local country standards. You can't breach those standards, so these standards are everything. There are standards for IT platforms, performance of key roles, and you can't breach those. That's how you get consistency across your organisation. That's the only way you can go without making mistakes.

So each country will have a compliance officer, a regulatory officer, obviously a chief executive, a finance officer, a legal officer. In each country you've got a construct of I'd say probably ten key people who watch all that governance. You can lose your licence, you can get fined.

Interviewee 3:

In terms of reporting lines, it's based on the fact that the guys in country will report to the, obviously, the ultimate head in the country who runs the LFSO1 office there. They will also have dotted lines into the various heads who sit in Johannesburg. So, if for example you are the head of coverage that sits in Zambia, you'll report into the head of CIB in Zambia and through that in turn you'll report to the head of the country, the CEO essentially of country. You'll also report to the head of coverage that's in Johannesburg for that specific area. If it's split into sector or not but ultimately, essentially to two people if you sit outside of Johannesburg.

I wouldn't say Jo'burg has to be answered to; I think it's just in terms of keeping things in line. I mean, we want groups. So, Zambia from a coverage perspective seems to be doing something different to what is happening in the rest of countries, and Johannesburg for that matter. It sort of doesn't make sense. So, it's more to keep in line with the strategy, and also to provide assistance from Johannesburg to the in-country guys and vice versa, depending on where deals and transactions are happening. So it's not necessarily to keep an overview but just to keep the group in

the same direction. Ultimately, all countries have their own board, and they will make the ultimate decision. Obviously it's in line with what is happening within the rest of the group but if it's a decision that's made for Zambia, for example, it will be made by the board. But, in conjunction or in line with the rest of the group.

Interviewee 4:

Not at all, so the only thing that the, the South African office is a South African office that's servicing a South African market. So, what's being done in the South African office is what the South African market requires. So in South Africa, the LFSO1 group is a big group and it has a big personal and business banking brand, it has products of its own, which are addressing the issues of a South African market. When you look at a Botswana Office you'll see the dynamic is slightly different, we're a large corporate investment banking bank and largely what that recognises is it looks at what the drivers of the economy is. So, for Botswana the big driver of the Botswana economy is the diamond sector. And a lot of that is addressed through our corporate and investment banking arm and then you'll see a very small personal and business banking market. And then as you move into our product suite you'll see that they are slightly different also adjusting to what the local aspects are.

The offices might be similar in that we're part of the same group but you certainly don't get the sense that you're getting a replication of exactly the bank across the African market. You'll see an African bank that has banking operations across the continent. You'll see the differences and how they get operated; you've given full carte blanche of what you have to do there. That's why you'll get a CEO who is a Motswana, you'll get a CFO who is a Motswana, the board is a fully Botswana board. The only thing is that we report because we are a subsidiary to a larger group. But for all intent and purposes everything is run out of the Botswana office, all decisions are taken with in the Botswana market, all that we get from South Africa is a full satellite office that oversees the operations in those local markets. That's why you also don't get executives who are running the office from south Africa, you get the executives that are actually sitting in the country. Doing the day to day running of the actual bank.

Interviewee 5:

Look, there's a footprint, there's a footprint in terms of what products, so by

naturally having the same product offerings, or most of the same product offerings. Yes, there's a bit of a footprint, in terms of what, how segregation of products will happen. There's a certainly a flexibility allowed, to let them run their operations, process wise depending on what their regulations require and then obviously what is better suited to their market and their country.

If you could re-do LFSO1's SSA expansion, would you do it differently?

Interviewee 1:

I think there's no one answer that fits all. So in certain markets you'll say, wow, we did really well. So, let's not paint a picture that everything is rosy, and everything is easy, we go in and excel. I think there are countries where you go in and say gosh, we did it very well. I think there are countries where, we could have done it differently. I would say, as we progress to expand from the lessons learnt from previous acquisitions. Then you refine and fine-tuned your strategy going forward. Could we have done it differently? Yes, in certain pockets. Certain pockets we would have done the way we've done it. I think it's just dependent on where you are, for example in certain pockets, I think we could have, probably been bold enough to say, ok cool we're going to call it a full bank, which is CIB, PBB, boom boom boom. Everything, rather than doing a instead of think staggered approach. In other pockets you'd say, it's a good plan we started slowly. So it depends how the market responds to that, and the readiness of the market to absorb the the operations.

In hindsight I'd say, there's no one size fits all.

I don't know your exposure. But in Africa regions for example, the dynamics are so vast. That the biggest mistake you could make is to say this worked in Botswana, therefore...

And those small things, believe me they will humble you, because you're going to get the big things right; you'll get your licence, you'll get this, you'll get your system, you'll get whatever, you can be ready to operate. But understanding the nuances of every country is very key. Unfortunately, some of the stuff, you'll only know once you're in. Otherwise there wouldn't be a word called risk.

Interviewee 2:

No, I think we've gone. I think our steps have been incremental and that's the way we've grown our footprint. One of our competitive advantages, the footprint the

serves the right multinationals and investors. The only country that we're not in that is spoken about is up North, Egypt etc. And we're not there. Often there's a lot of investment. Our sub-Saharan footprint, we've grown incrementally and I'd say it's fit for purpose for where we want to invest now. If your clients start wanting to invest then we have to start looking at those opportunities. But for now I'd say we're fit for purpose.

Interviewee 3:

I don't know, I don't think so. Maybe I'd change the strategy in one of two countries. In general, it's been very successful. Except for one or two countries, they are either number 1 or number 2. In terms of size and not popularity but in terms of the bank that the country uses. Even it's not a local bank they offer what the local, the, you know the personal retailer and what the corporate perspective what is required in that country. So, I think it has been done really well.

Interviewee 4:

I wouldn't at all. I think for me if you have a passion for Africa, there are 54 countries. If you want to be an African bank you can't short change the LFSO1 progress cos even when you look at what you consider to be the big 4 banks and their plans to have grown onto African continent, they are very different because they have no clear strategy in term of wanting to be an African bank. If you've got a bank that's headquartered in the UK, decisions are being made out of Africa but the expectations is that it will service the African market adequately. Then you've got a different story, what you then get is satellite office on the continent with then international expertise, then it will become a much tougher journey because you are then trying to short change the local nuances which is a significant part of doing business in the market. So, what really works for LFSO1 is for them having made the decision a while back saying our focus is Africa, if there's anything that lies outside of Africa it's for focus back into Africa. If there's any channel, China/ ICBC shareholding that happens it for the benefit of Africa, and we are an African Bank. So they're not a South African Bank, they're an African bank who are looking to grow on the African continent. And that strategy hasn't changed; it doesn't look like it will change for a while. You can see in the growing number of offices on the continent. And even if you see the investment that goes into those markets, you

can see there's a deliberate strategy not to just they will have 21 offices or rep offices with people flying in and out of those offices. There are actually investments in the people in those countries; there are actually investments in the projects that are being done in those markets. I think for me the strategy, I wouldn't change the plans; I also wouldn't change the strategy they are on. I'll probably even say let's maybe lets also do it quicker.

Interviewee 5:

I don't think so, no, I don't think so. To be honest if you, I think they've had a good recipe and I think if you look at what LFSO1's done on the continent, I don't think , I'm not saying it's perfect. By in large I would have followed the same pathway.

How are LFSO2's operations structured?

Interviewee1:

LFSO2 has your typical business segment, which cater for everything from retail banking, all the way across to corporate and investment banking. We have a LFSO2 wealth and investment arm. We have a LFSO2 retail banking arm, we have a LFSO2 CIB franchise as well. Within the retail arm we also have business banking. It's the way big South African banks are typically structured.

Within LFSO2 CIB we have a full-service offering. From transactional banking, all the way through to structured project financing type transactions.

Previously we had a separate investment bank and all our corporate banking activities were handled out LFSO2 Corporate. Both those institutions were viewed as separate banks all together. Internally and from a market perspective. It became apparent that this was not the most efficient structure for LFSO2 in the south African market. The bank decided that a merger was the way to go. It resulted in significant cost saving and presented a more cohesive LFSO2 CIB operation to the market. It is in line with all the other banks. It's the most efficient and effective way of delivering on our 2020 objectives. You'll find it on the Internet; it's a list of goals and metrics that the bank has committed itself to achieve by 2020. A lot of which involve Africa and our Africa strategy. So that's also the other reason why we are so aggressive, basically we have stated goals which the market is very well aware

of. It would not look good if we don't achieve those by 2020 and times running out. So, the bank's obviously tracking its goals and realised that we need to speed things along a bit to get there.

Interviewee 2:

The rep offices, they used to be, the rep offices, we have 3 rep offices. One in Nairobi, One in Angola and one in Accra, Ghana. The one in Accra, Ghana looks after Ghana, Nigeria predominately Senegal and Cote d'Ivoire. Angola looks after Angola. And then we look after the four countries. Up until the end of 2017, the rep offices were part of what they called rest of Africa. And rest of Africa is all the subsidiaries of LFSO2, in predominately SADC, which is Namibia, Zim, Malawi, Swaziland and Lesotho, and then Mozambique, and Mozambique where we have a majority stake on a bank called MB.

Then as from January, February this year, the rep offices were moved to the corporate and investment bank. Because most of the products that we offer are CIB products and they report into a lady that looks after, amongst others, commodity finance, aircraft finance, you met Greg White, syndications. So, we report into her because predominantly 90% of the stuff we do is, falls into her, CIB, her space. So that actually works much better than being part of ROA, we are small. The subsidiaries require a total different approach. There we are normal bank with retail, and corporate branches and ATM machines and everything. So that is where we basically are at the moment. And now we're at the stage where we need to look at what's the next step, right. We've been here 8 years as LFSO2 rep, representative office. There is little bit of pressure building up from the central bank Governor, saying to us guys when are you converting it into a formal bank. And he basically wants us to acquire an institution because he is highly unlikely to issue new licenses. As you know we have over 45 banks in this, in Kenya, and some of them you can put a question mark behind the word bank because they are so small, they're not active. He said I've got a number of licensees that I'd like you to look at, so we're having this internal debate, strategy sessions about what are we going to do.

Interviewee 3:

So we basically have, I would say 3 main divisions. The one is private wealth, which basically deals with your high net worth individuals. The other one is retail

and business banking, from a business perspective, and that's for the smaller businesses, in general your retail, like the branches and those types of things. And then the division where I sit is corporate and investment banking, so sitting in corporate and investment bank is obviously the corporate division that deals with all the bigger corporates, and there are certain thresholds in terms of turnover and size. Naturally all your Johannesburg stock exchange listed entities will sit under the corporate stuff. And then investment banking, there's whole lot of things, we do diversified lending, we do structured commodity finance, that's' what I do, we do aircraft finance, we do project finance, we do energy, you know renewable and all those type of things.

Interviewee 4:

How's LFSO2 structured, LFSO2 is structured, basically 3 division. Retail, business banking and corporate. The Corporate is CIB, so it's corporate and investment banking. Those are the 3 areas that they market out to the market place. If you think about it differently, its mom and pop money, it's small business money and its big business money.

What are LFSO2's defined SSA expansion strategy?

Interviewee 1:

We do have plans.

The expansion strategy in West Africa is reliant on WAPAB. By virtue of our shareholding in WAPAB, we have access to those markets and we team up with WAPAB wherever it makes sense for LFSO2. There isn't a LFSO2 strategy for West Africa apart from the WAPAB shareholding. We rely on that.

East Africa is an organic strategy, what we have done is set up our own operations. It's owner managed. We have thought of partnering with local banks on the ground. We may do that in Kenya is we want to grow the office. In Angola, we also have representation.

Even though we don't have the retail presence we can still roll out the LFSO2 brand and try and build credibility in those markets.

We've been in Africa for many years we just haven't been as present or as active as some of the other banks.

Yes, it's more aggressive than it's ever been previously. There's more risk appetite in the system.

We also have a very entrenched sector focus strategy in LFSO2, which means we have certain core competencies. We believe, we're very good at delivering on, for example, mining, energy, infrastructure, and what we do is, oil and gas as well. Those teams have very big mandates to do business anywhere on the continent, if not even outside Africa. Our oil and gas mandate because of the nature of the asset class, it's a global mandate. Those guys do deals, offshore Nigeria and the North Sea; it's a bit unique in LFSO2, in the South African context. Energy guys will do projects finance locally and will finance projects in Africa. Because our belief is that we understand the assets class really well, same goes for mining. And so, because of our follow your client approach coupled with our technical knowhow we believe that we can deliver on solutions in each of those countries. We do a lot of business in Africa already that the market is not aware off. It's not that visible because we don't have big operations in country. Out of our office in Sandton we do of transactions cross border. It's not a full-scale suit-case banking model but it's sort of a suit case where you get guys flying in and out of countries.

It's very much investment banking activities, we don't do any transactional banking, which then means we don't do local currency.

There's bigger risk appetite, theirs bigger country limits available to use. There's a bigger push from the top down to do business in Africa. It's on people's scorecards; the numbers are monitored all the time. What we probably don't have that the other banks have is, we don't have an Africa governance structure. A separate governance structure, we don't have separate risk committees, just to adjudicate African credit only, we don't have a separate Africa investment banking team, things like that, it all gets done by one team. I think, right now it's probably unnecessary to carve out a specific Africa business but in time I think we could get there.

Interviewee 2:

We also of course, LFSO2, we have a 21% shareholding in WAPAB in Togo. So, the pressure started to build up earlier in the year when the LFSO1 results came out and it was clearly that more than 50% of LFSO1's revenues were coming out from outside of South Africa. And then the analysts as well as some of our non-executive directors asked questions about what are you guys going to do, and don't come to us with this WAPAB story, we want to know what LFSO2 is going to do. That started up building a bit of pressure on EXCO, saying ok, now we need to start looking at, particularly East Africa.

We have always had that East Africa is a key focus area for us and it's mainly got to do because, you know there are certain similarities, the language is one thing. It's close to home, sort of, it's right next to SADC, it's part of, some of the countries are part of COMESA. So, there is a logical link that we should be doing something in East Africa rather than convert, or buying a bank in West Africa or even in Angola for that matter. And West Africa, of course, is a total different animal compared to East Africa. We have always said that where we can, we will work with WAPAB, but we'll also compete with them. In reality, WAPAB in East Africa is small, they have capital constraints because most of them are under capitalised, or require capital to grow. And we are more of benefit to them than they are to us, so they quite often come to us and say listen we've got this client, we've got this deal, it's outside of our single obligor limit, can you guys help us out. Instead of us, occasionally we use them in, for instance, Tanzania where we're quite active with commodity guys and then we open a collection account with WAPAB. Where we get the repayments, because, we have access to their electronic payment platform etc. etc. in Jo'burg. So, we can monitor the payment flows going through that account. So, from an operational side we actually use them, from a funding perspective, we hardly use them. They actually use us more than the other way around. So, if and when we decide to convert this office into a formal bank, then yes, we'll probably compete with WAPAB. But we probably not the intention of becoming a big retail player, so we probably going to look for a bank that has a couple of branches in Nairobi, selectively in the industrial area, and then a branch in Mombasa, maybe 1 or 2, Kisumu and maybe.... the major economic hubs in the country. Rather than buying a bank that has a branch network in every town and

ATM machines everywhere.

Interviewee 3:

Yes, we use our WAPAB footprint for that. So, we have, we're the biggest individual shareholder in WAPAB. So in term of WAPAB, we use that footprint of about 28 countries where they have representation as our African footprint. As well as the fact that we have regional offices and rep offices, for instance in Lesotho, Malawi, Namibia, Kenya, Angola and Ghana.

Interviewee 4:

Yes, exactly, within CIB, which is corporate and investment banking. There is the Africa division, and under the Africa division, that's where there are these strategies about what we're going to do in Africa, how we're going to play in Africa, how we're going to position ourselves in Africa. And one of the strategies you'll know, because it's public, is WAPAB strategy, where we own 20% of them. The 2nd Africa strategy is where we acquire for ourselves, a good example of that, is MB in Mozambique, where we just buy the bank, its ours. Swaziland is us, Lesotho is us, Namibia is us. The approach is, the SADC countries, the eastern side of Africa is us, we tend to have our own footprint. When we get to North Africa and everything, we'll rely on WAPAB probably.

Why has Nebank chosen SSA?

Interviewee 1:

We see it as a natural next step for the bank.

Because of proximity and because our knowledge of African markets is still stronger than what it would be in Western Europe.

You have your obvious challenges and barriers like languages and culture etc. which you need to navigate your way through.

If you're looking for growth it makes logical sense to look at opportunities in SSA.

That is still our stated strategy. However, because of the cyclicity of doing business in Africa we will not invest as heavily as say a LFSO1 will in pursuing our African expansion strategy.

It's very selective in terms of product, people and resource deployment. At the moment, we don't have product people in country, its coverage people.

Where we think there's potential growth in that particular market, we'd look at overlaying our coverage capability with some product capability. For example, in Ghana if we think there's a strong pipeline of debt opportunities over the next 18-24 months we might hire one or two product guys to sit in the country and help with that. But it's very selective.

Prospects for South Africa, we need growth, it's not forth coming in the domestic economy. So, we have to look elsewhere for our growth. We are very small in the UK so that's not a market we want to be competitive in. So, for us the logical choice was Africa.

Interviewee 2:

Sub Saharan Africa is our main focus; it depends on where you cut off sub-Saharan Africa. We're probably not going into the DRC and the Central African Republic; it's probably going to be as far as Zambia. English speaking, let's say English speaking Africa. Anglophone Africa in Sub Saharan Africa. I don't think there's any inclination that we would go to Francophone. And Francophone is very much dominated by the French banks. Like SocGen and Credit Agricole and the like.

Interviewee 3:

Yes, LFSO2 is an African bank and we exclusively deal with Africa. We wouldn't necessarily get involved in deals in South America or other parts of the continent. We do however have a representative office in London, and that's purely because of the fact that most of the big international companies, JSE listed companies have dual listings in the UK. It also gives us a footprint into Europe where our client base might just be based in Geneva for instance. So a lot of my clients are big corporate traders sitting in Geneva, and they trade beyond the African continent.

Interviewee 4:

It's close. It's close, it's Africa, our clients are here and there is and there is an extension of infrastructure coming out of South Africa, starting to creep north. And it's our clients, in other words, we're building those road, those railroads, those shopping centres etc. As we go up and it slowly spans up the southern piece. And then obviously around the client base Shoprite Checkers, for example, wherever they go we'll follow them for example. So, when they gone and that, then we'll

follow them up there. We make loans available, we bring property division to them, we build their distribution centres etc. etc.

What steps are taken when initially expanding and what factors were considered?

Interviewee 1:

We scoped those markets at the time and identified them as growth markets for the long term.

While we are opportunistic in Africa. We are increasingly following our clients as they expand into the continent. We want to be able to bank a Multichoice in Johannesburg, and in Kenya and in Ghana.

Regulatory, political and economic friendliness was what was important to us.

There are certain territories that are easier to deal with than others.

We're very careful in knowing where we want to play in each of these markets.

We're not trying to be the number one bank in all these markets. We are happy to be the second bank of choice to a Multichoice or a Shoprite.

We found that in Africa, in some of these markets it's difficult to compete with locals. From a relationship perspective, from a cultural perspective.

You've got big multinational banks already operating on the continent for a very long time.

We are more focused on ROE rather than revenue generation, which then means we don't change anything and everything. We're quite considered in the type of business we want to do in those countries and the type of clients we want to follow.

We're not trying to be the biggest bank in Africa. We're not trying to be the number one bank in each of these markets. We want to grow our footprint and grow our earnings. But not at any cost.

The legal and regulatory frameworks are important, political climate is important. Sizing the market to understand what the opportunities really are. There's no point going to Nigeria and being the 15th biggest bank there. All the top corporates are

banked by big financial institutions and you'd be wasting money.

I think we have very seasoned and experienced leadership that have seen many business cycles. Who are able to steer the ship in the right direction. That being said, I do think we need very Africa specific leadership as well, guys who've seen African problems, and are bold enough to make big decisions with regards to the continent.

Right now, we're a bit too SA heavy, in terms of our leadership experience, we probably need that.

Interviewee 2:

I have a lady here who does KYC and due diligence. So, we actively have an active due diligence role, where we chase transactions. We will do the initial, sort of the basic due diligence on the ground here to make sure the entity that we looking to deal with has no PEPs, and meets sort of the initial LFSO1 KYC due diligence requirements.

Also, particularly in a country like Tanzania, where if you talk to local entities. In some places, English is even a problem. The main language in some parts of Tanzania is Swahili. We had it last week where we met the chairman of a cotton farmer and this guy spoke 2 words of English. I was there with one of my guys, Samuel, and the whole conversation turned into Swahili. That is quite interesting, when you do due diligence in Tanzania. We come with all these forms out of South Africa, we talk about FICA, but they don't even understand what FICA is. Then you have to explain it, and then it's quite useful to have a local person who speaks Swahili explaining this is what you're looking for. Makes life a lot, a lot easier.

The role of this office, now I've got your question, the role of this office is to be, very much, the eyes and ears on the ground for LFSO2. So, we keep track of political developments, economic developments, you know, we're members of the chamber of commerce, we have functions. I speak to local economists, so we try to keep track of what is going on. Particularly on the, as you know, the debt front here in Kenya. We're all slightly concerned about levels of Chinese debt. So, I guess that's one of the roles we have, is to keep the head office abreast of economic and social

developments. Of course, also seeing, identifying target names.

Interviewee 3:

Ok, so I think for a new market perspective, firstly it's obviously the easiness of the ease of access to that market. In terms of travelling to it, in terms of building client relationships and also cultural differences are important. So we assess that, and then obviously in terms of the country risk and the political profile, that's important for us, because there's no use doing business in a country that's not conducive, politically, to do so. I think also the other thing is access to foreign currency and obviously trade flows and political stability, and I think the other thing we also need to work on, or need to assess very carefully is the political and trade framework that's set there. So in other words if there's regulatory framework that allows banks to be a, to trade freely, to enter and exit in terms of their cash flows, in an economical and business like commercial manner, that's a country we would like to deal in. And then there are a lot of things, and obviously the client profile of which we're looking at, the size of the businesses. There are a lot of countries that have exclusive, that have excellent policies in terms of trade and commercial frameworks but the client base are too small to put footprint on the ground.

Interviewee 4:

There's the bank's own intentions, and then there are the clients centric to follow our clients, the client services where they need them, on the way up there.

Obviously, there is an analysis done on the country. Whether or not there's an opportunity there for LFSO2, to play, and obviously to establish ourselves and make a profit. If that opportunity is through an acquisition like MB in Mozambique. The we look it and probably buy that. The opportunity may also be like what I said, Shoprite Checkers. Where we don't have a bank sitting in Nigeria but we've got clients sitting in Nigeria who need money from us, then we would piggy bank on their requirements and go into that country. But similarly, there's due diligence done starting with the country itself. That falls into a thing in LFSO2 called SIRC, which is a committee that oversees the foreign relationships for the bank. And they would come and tell you if they have sound banking, whether there are sound banking partners, whether there's availability, we know what the taxes are, what the rules and regulations are.

It takes time to do all the due diligence. So, although you want things to move a lot quicker.

Entry methods that LFSO2 prefer/utilise?

Interviewee 1:

It is a mix. As our African strategy intensifies, I think we'll probably look at evolving our rep offices into branches at a minimum.

We're looking at bulking our presence, generally speaking, in Africa.

We have a hub and spoke strategy, which means that we identify the hub in the region. And we service the other countries from the hub. So in East Africa our hub is Kenya, Kenya services Uganda, Tanzania and surround countries.

We have a hub for West Africa in Ghana; our coverage banker will service Nigeria and surrounding countries.

Interviewee 2:

That's an interesting question, the subsidiaries, the existing subsidiaries. I'm talking about Lesotho, Swaziland, Zim, Malawi and Namibia. They have been there forever, right; they have probably been there like 15, 20 years. Then about 3 years ago, they bought a minority interest in this MB in Mozambique. Which last year they converted into a majority stake. And look, I'm not a part of the strategy team but the only reason I can think of is Mozambique is a natural, so integrated into the South African economy. And with all of the projects that are going on in Mozambique, the aluminium projects, pipeline, and port and everything. It's a logical, probably a more logical step for LFSO2 to say ok let's buy a bank and create a proper institution in Mozambique. Because of the, we have our client base expanding into Mozambique. A lot of movement of people across the border. I've always seen Mozambique as an additional province to South Africa, right.

Interesting question which I have asked internally, I've said ok, if that's what you do in Mozambique, why don't you replicate that in Botswana and Zambia. Because the same applies for Botswana and Zambia. If you go to Lusaka, Lusaka is like Jo'burg, you've got Checkers and you've got Mr. Price and you've got First National Bank. So why are you not there, and why are you not in Botswana? You've got FNB is in Botswana, LFSO1. And nobody really can give me a clear answer to that, so it's a

little bit, call it, disjointed. Sort of, it's like this is a good idea, let's do it.

A little opportunistic without having a proper strategy. Interesting to see now with ABSA, and now the acquisition of Barclay, how that is going to pan out. I was talking to your friend Daniel the other day and he said the lifts are red from the inside but on the outside, we're still blue. It's quite an interesting model, we'll see how the whole thing works out.

Interviewee 3:

So I think predominately what we did, is we made a significant investment into WAPAB. So basically that gives us a footprint in the countries, so we rely on WAPAB to do 2 things for us. The one is to manage our on the ground client relationships, because they are there and they have footprint already, so bricks and mortar is already been established. And two they do local currency lending, so for instance in Ghana where cedi is local, in Zambia where kwacha is local, or whatever, it doesn't really matter. Wherever they have local currency capability that's where they would do that and we do the foreign currency lending. So we have a very good working relationship with that partner, so I think from your model this is another one. This is a fourth one that you could also use to actually gain market share in a country. And at a much reduced cost, which only make the investment into the other bank and that gives you representation on the ground.

Yes, I think so. We are very careful in terms of expansion and obviously the calibre and type of people and the number of people we put on the ground. So I think the cautious approach would stand us in good stead. We wouldn't go gung-ho into a country and expect that our presence will give us massive growth. We don't do that, we very carefully assess the market and opportunities before we jump into a new market.

Interviewee 4:

And once you understand all that, then we might either proceed to buy a bank or to open a bank or to partner with a bank or to just follow our clients. Depending where it is. Its opportunistic, that's what it is, maybe a nice word.

How does LFSO2 arrange equity/capital for SSA operations

Interviewee 1:

It's all raised of the LFSO2 South Africa balance sheet. Nothing is raised in country for any of our African operations, capital and funding raised either out of South Africa or out of London.

It's all centrally funded, centrally managed. Managed at a LFSO2 group level.

Interviewee 2:

So far, all the capital has been raised at the centre, as you call it. We haven't done a capital raise of late. As you know, OM has now formally disinvested itself from LFSO2; their shareholding is now down from 54 to 19.9. So, you know we, LFSO2 for the first time in 10, 15 years has got no have a majority shareholder. That's quite interesting, so we can now, we no longer have to go to the OM plc board if we want to make an acquisition, so it's our, we're now the masters of our own destiny. We make the decision or we should be making the decision.

The thing is, you touched on it; not being a pan African bank, there was at some point a thought about maybe we should look at a regional player as a possible acquisition target or something. My take was, guys do we have the human resources to do a regional acquisition?

I don't believe so, besides that you suddenly have to deal with 3 or 4 regulators instead of 1, you also have to integrate them. I have seen that when I was still with American Express Bank and ABSA took over NBC bank in Tanzania and I met the Absa guys who were charge of the integration. For him it was an eye opener, here was a head of retail bank from Absa Cape Town he was sent to ... head up this NBC bank which came from this socialist environment, government owned. It's like, wow, this is not the way we are used to do stuff. That is, in essence LFSO2 is a South African bank, you can argue your point but, our approach, in everything we do, we are a South African bank. So, if you make an acquisition then yes you have to, A, you have to adapt you have to the laws and the lay of the land. I had this argument to with my boss, when Daniel left, right; he left basically as a career move but also financially, right. And I said to him he gets paid certain benefits, he said we don't pay for this, like club fees. We don't pay for club fees. Not in South Africa but in Kenya it's the norm.

So, you need to be open to adapt to what is locally acceptable. You can also see it

in some of the transactions we're looking at, particularly in sort of the project finance space. Where people say, this is how we do it. In South Africa yes, in Kenya you can't put this in a square box, because the transaction is round and doesn't fit in a square box. But then we can't do it, I say we can, but you have to think outside of the box.

I've been pushing for a long time and hopefully in 2019 it's going to happen. That we are gonna to get people here on a rotation programme, to get used to how things are done. People like yourself that are sort of on sort of a grad program, we have a grad program, everyone else does. Since I came here 4 years ago, and I've written papers about it and cost things etc. etc. I said why don't you make a rotation programme part of the grad programme at the end. So, your potential highflyers that you want to keep and you think hey these people can be of value to our organisation going forward. But we need African experience because we don't have that. Let's get these people into the Nairobi office, right. You can get a special pass etc. etc. and you can review it for a maximum of 6 months before the tax perspective they get complicated. They can work in this office for 6 months, right. The problem you have is people come and visit here, they see opportunities, ja great, fantastic, they go back to Jo'burg, they sit in their cubicles and they forget about it. You must have seen it. You need to put people outside of their comfort zone and put them here in this market. I've suggested, guys why don't we do something with WAPAB, why don't we get LFSO2 people, graduates or people that are regarded as high flyers, why don't we sent them to some of the WAPAB offices, why don't you send them to Lagos, or Accra.

You have hit the nail on the head, there is no Africa mind-set. People don't think further than the Limpopo river.

Interviewee 3:

Not really, so they would be responsible for their own capital base and regulatory capital requirements. We would obviously fund into those clients, but that would be a totally different thing, just in terms of what we need to do for our regulatory requirements.

Interviewee 4:

It's really such a simple model, how they do it, and then LFSO2 operates on what they call a centralised treasury model. So, in other words, each of the divisions don't have their own funding and or borrowing capabilities and all that. It all comes through one single treasury operation. Centralised is what it's called.

Has LFSO2's expansion been a successful?

Interviewee 1:

I think it's a success in relation to the actual investments we've made into Africa, which hasn't been substantial. We're still delivering value for shareholders on the organic side, not on the WAPAB side. With very limited capital spend.

On the WAPAB side, it's quite public that they have ups and downs. And so, they've had a few missteps, I think and we took a loss on WAPAB in the last financial year. It's turned around this year, but It's debatable as to whether that's delivered for us, the West African strategy.

I do think we're still subscale in Africa; we're not doing enough that can actually be done on the continent. We're sub-scale, so we need to be more aggressive and grow more.

It's not big; it's probably closer to 10. It would be very much smaller on assets, on the revenue side it's probably 10%.

We have a goal, so we want to, we want earning out of Africa to be at least 20% of Group earnings, of CIB earnings by 2020.

Interviewee 2:

Yeah, I think so; WAPAB also went through a difficult period, last 3 years. This year, should be a lot better, at least profitable. I think also they now have the appropriate management in place, a couple of ex-Citi banks that they have brought in. They overhauled the various management in a number of subsidiaries including East Africa. They put different people in there. If I look at the Kenya operations, the WAPAB operation is a lot more stable, from a people perspective people actually staying with WAPAB, contrary to, let's say, 3 years ago, when it was like revolving doors. Now it is, now they can actually grow the business, so there are people actually staying which is good news because the organisation has become a lot more stable from a HR perspective.

Look, if I look at what we have done, particularly in the last four years, where this office was, from a deal origination and a profitability perspective. To where it is now, it is a different office, right. And the 2 people that have been here since, for the last 5 years, they will say that to you. The office has changed quite dramatically, and we are now. When I joined this office 4 years ago, people in LFSO2 Jo'burg didn't even know that there was an office in Nairobi, right, have we got an office in Nairobi, or like where are you guys? Now everyone knows who we are, cos we have been shouting from the roofs and said, hey guys, we are actually here, we are part of the team.

I understand, if I look at everything, some of the subsidiaries are struggling, like Malawi is struggling. So, the total revenue from outside of South Africa is less than 10%.

If I look at the revenue I make, I make more money out of the rep office than Malawi and Zimbabwe, made together. That is, and of course, your cost factor in Malawi and in Zimbabwe is much higher, because we've got 6 people here. Compared to having a whole infrastructure, of retail ATMs and all that type of stuff. So, your cost factor is a lot higher, and that another thing that, sort of, people look at. Like you know, this is what we make as a rep office, what is the incremental revenue opportunity if we make an acquisition?

Interviewee 3:

I think the WAPAB exposure was probably about, started about 4 years ago. And initially we struggled but I think we've got it bedded down quite good. So that works for us now. I think in East Africa, it's common knowledge that we're also looking at expanding there, and maybe putting our own footprint on the ground. Especially in Nairobi, so we see Nairobi and East Africa as a growth prospects for LFSO2. And we'd like to have a bigger LFSO2 exposure branding there, and I think, as I said its common knowledge, in terms of the public saying we're looking for possibly an acquisition in that area, to actually expand our footprint.

Interviewee 4:

Thinking of successful, its measured by ability to stay in that economy. A good

example would be in Namibia. So LFSO2 goes into Namibia, sets up LFSO2 Namibia. LFSO2 Namibia starts to thrive and operate as a bank, and it starts to over time contribute to the overall headline earnings of LFSO2 group. Then of course, the cost and the difficulty of dealing with the regulations and the regulators and everything, is taken into account. After some time, LFSO2 Namibia becomes its own success story, so it's there, it operates and it makes money.

Then let's flip to the other side of the continent, and go to MB in Mozambique, not there yet. So MB in Mozambique, we're still throwing resources, we're throwing intelligence, human resource capital at it. And we are trying to establish it, like we did in Namibia. It's in a different stage of its development. Swaziland, Lesotho and other ones that are very successful, that we have on our books. We even hold banks in Zimbabwe, just by the way. The Zimbabwean banks are some of the most profitable that we have by the way. But you struggle with the externalisation of foreign currency, so I don't get my profits out of the country at the end of the day.

You can log in online, go into our financials. That's publically available information. Look it up and they will show you what we've done over the last 3 years. It's nowhere near what LFSO1 and them are generating out of it. Which is obviously where the carrot comes, we can see from our competitor banks how well their doing. It's obviously enticing for us to go there and try get a piece of that.

Has LFSO2 led to an improvement in technology and HR in the host country?

Interviewee 1:

No, it hasn't. It something we're looking into. Especially disruptive technologies, but those disruptive technologies are still more domestic related.

It's not as good, we need to get better, integrating things like systems or whatever across the group is probably the next priority for us.

Fairly competent, and there is a whole host of international banks already in those markets. So, I wouldn't say we've added much value.

We haven't sent like executive leadership there, but often the guys go in and out of

those countries.

I don't think there's any specific training that takes place. I'm not sure.

We do have a training centre; it's just a training centre. It's not where staff attend strategy sessions. We don't have, it's a very good point you make, something we should be considering. LFSO1, everyone goes through the Global leadership Centre, they understand that this is an Africa bank, this in our DNA, this is our strategy. We don't have that, we need to get that.

Interviewee 2:

The system we have, that is no doubt about it, we have the systems. The people? I don't know, I don't think so. I keep saying to the people in Jo'burg, look you know, we still haven't replaced Daniel, I keep saying guys there is a lot of talent human capital in Kenya. Can easily, look at Daniel; he was educated, so many of them, so many people here that are US or UK qualified. This is home, and because the country is doing well, doing pretty well, there's a stream of people, diaspora people, wanting to come back. Because they see the opportunities in this market. So, you know, you will find that with Absa, the quality of people you have at Barclays, it's as good as you'll find in South Africa or even better.

I think our technology is on par with any, I worked for HSBC; the LFSO2 technology is on par with HSBC or Standard Chartered.

Everything is actually very much driven by us here in the office. The teams come out when we want them to come out. There are a couple of teams that come out on their own initiative, that's very few in between. Most of it is driven by us because we are the deal originators.

There's a lot of focus on staff development, there's a lot of training. It's both training on line via the desktop, but also the classroom training where people are going to Jo'burg. There's a lot of focus on training.

We have a leadership program that is done through Duke university. These guys or those teams they come to Nairobi part of their leadership program. I think it's a mixture of both but predominately leadership, but it's a bit of mixture of both. There

are different programs, there is a grad program that is run through Duke, then there is a leadership program, those are the more senior guys.

Interviewee 3:

So no, not necessarily. I think technology in other African countries is pretty much well, best dealt with the people on the ground. So WAPAB has got a wide range of technology enhancements and customer service profile that they've rolled out in terms of apps and access to accounts, those types of things. We're merely piggyback on those; we haven't spent a huge amount of money on IT and technology in the rest of the African continent. But as you may know, I mean we've got the money mobile app in South Africa and there's a whole lot of things which gives us a good footprint in terms of our technology platform in South Africa.

So generally from a WAPAB perspective, we don't get involved in human resources there. You know, we're basically; we try not to interfere with what they do on human resources. We do however work closely with them in terms of putting LFSO2 representatives in the regions where they operate, to assist and also to aide in deal flow.

It's a combination of both. So, we'd obviously inject local management and people which we feel they are best suited to run those countries for us until as such time we identify local talent. So I think that's important for us, is to not only merely, you know, inject people from South Africa. That's not what it's about; it's about understanding the culture and growing the local client base.

Interviewee 4:

In the ones where we are, most definitely. Lesotho, Swaziland, Namibia and now Mozambique. The level of technology you get, the customers there are treated like the customers here. Where they get the LFSO2 money app, they can transact on their cell phones. They can go on line assuming they have bandwidth or wifi to do it etc. etc. So it's bringing it to them all the time.

Improvement in terms of an upskilling, yes, because the staff that operate in those regions. I mean they often come to our treasury here and they see the things we

do, they see the things we're capable of. And although they don't need that capability themselves, they always know they've got it here. And once they know about it they can offer those services and products to their clients on that side, to help improve their lot on that side. From an upskilling perspective, yes. And obviously, money, capital, if you go to a LFSO2 branch in Lesotho, it's very much like going to a LFSO2 branch here. Look and feel, everything stays pretty standard.

It's both training as well as a transfer of IP. Intellectual Property of the very experienced staff here is passed across to them. You have to make them aware of, be careful of this, stay away from those products. This is a scam when these guys are coming, you know that this is a roll of rubbish, don't even go down this road etc. etc. down with.

What were the common challenges that LFSO2 experienced?

Interviewee 1:

We still have Afro pessimists, like every bank does. Non-believers as to why we are actually doing business in Africa. Some of the biggest challenges are convincing sceptics that you can actually be successful in these markets and not lose money and all those good things. A lot of the challenges, I think we face are actually internal as supposed to external. It's about buy in, it's about ensuring the governance processes are efficient and effective enough to allow us do business in Africa. At the moment, it's something we're working on. It's about ensuring or risk framework and various policies, group policies cater for African expansion, because some of them have been left behind. And it's about people internally building a knowledge base of these markets. Many people here, don't really know who key clients are in Kenya, what drives interest rates, what the cultural nuances are like in Kenya. There's a lot of knowledge awareness and education that needs to happen internally first. So that the entire organisation knows exactly what we're trying to achieve. For us our challenge is, before we even get to clients we got to fix that. Get the organisation ready and pulling in one direction to deliver.

Interviewee 2:

The biggest challenge and we still face it. Is credit appetite, it's a big issue. How much appetite, the credit appetite, again everything is measured the way we do it in South Africa. And again, if I look at RMB for instance, they operate a rep office;

they have a credit person on the ground, here in Nairobi. And I have been saying that, we need a credit person on the ground who knows the local market, who understands the local corporates, for instance. So that is a weakness, slowly but surely people start to realise maybe we should have a credit person on the ground. Have you ever met the RMB lady, she says to me, since this person came on board, this credit person, my life has changed? He had credibility with the risk people in Johannesburg, so you know, his input was valued. I think that is one of the weakness we have, that we still haven't got a credit person on the ground so we, and our limited risk appetite. And I think LFSO2 by its nature is one of the more conservative banks of any of the South African Banks. I think we have the lowest default ratio of all the banks. And we actually proud of it, which I find astonishing. The first thing, when we announce our results, whatever it is, it's the lowest of the banks. Well, it should be the lowest, the appetite is not there.

Interviewee 3:

We luckily don't have that problem. But normally what you would end up doing is, if you feel that the business has a future, you will recapitalize that business and inject new management, or management with a different structure and view to see if we can't change the status quo. It normally starts with recapitalization. But like I said we luckily don't have those issues at the moment.

I think the approach to risk and obviously the size of the clients. We need to realize that we don't have the large corporates in the rest of Africa that we almost always have in South Africa. From a corporate and investment banking perspective we need to understand that's a different market, that it's a different risk profile and we need to apply those risk frameworks very carefully. The other thing is also, the, you know, because we can't offer local currency in these countries it's a difficult proposition to actually grow a client fully. You can't fully bank a client, in a local, you know, in an African country if you can't give them local currency. That's why we try get WAPAB involved, if and when they are on the ground, just to make sure we understand that.

Interviewee 4:

It's not always like that, you need to do your due diligence and then like anything,

you come across hurdles. Like there's exchange control, there are single obligor limits, things like that. Along the way, you have to take into account, adjust and amend for. It's a process, it sounds simple when you put it on paper. Practice it, implement it, it's a little more difficult. And remember, I'm seen as a foreigner coming into their country to buy their bank. I'm seen as a foreigner coming into their economy to compete with their bank. So, essentially, they see us like an invading force there. And with that comes massive cultural management. I'll give you a subtle example, so LFSO2 when we go into these countries, we remove anything proudly South African off of all of our presentations. Proudly South African works well when I'm in South Africa. But when I'm in Kenya, they don't give a shot about South Africa, they want to know about Kenya. So, you need to tailor your presentations to what you're going to add or bring to that economy.

The usual ones I guess, you have to understand their regulations, you have to understand their exchange controls. The exchange controls goes to the availability of foreign currency. MTN in Nigeria, with the money they, you can see what happens, in those countries like that. And then obviously, politics. You need to know how stable the politics are in the country. I mean if the country is at war, we're not about to go in, I promise you. So, a lot of that is considered. And then obviously, the opportunities. So, what are the opportunities, what areas can we play in, where can we add the value. What are the scale of activity do you require to firstly break even and then to try and make some money out of it.

Does LFSO2 actively attempt to ensure that their operations in SSA countries operate in the same way as the SA operations?

Interviewee 1:

We are still very much a South African bank. Decision making and leadership happens out of South Africa. It's not decentralised, so you need to fit into LFSO2 South Africa, the way we do things. Whether you're in Nairobi, whether you're in London, those are just branches. So once again, quite dissimilar to LFSO1 where there's a lot of independent decision making in Stanbic Nigeria, for example. They run very autonomously, we're not like that, everything happens out of the centre.

Interviewee 2:

The actual operations are centralised, all the subsidiaries run on the same banking platforms. And yes, occasionally we do replace people. Talking from this office, we definitely have a different mind-set than most of the people in Jo'burg. It also depends on, it's also product specific, cos the interesting part of sitting in a rep office you have a bit of birds-eye-view of all the various product people. So, you know which product teams are more responsive than others, right. So, if you have a potential client that comes to you, and he says, you know, this is a project. And then you think, Oh, my gosh, this is going to be this team. You already know that this team is not gonna, the response time of this team is not as well. You've got a guy like Greg, who is very responsive; we actually need more people like him. While others are, call it floating a little bit.

Interviewee 3:

No, no, definitely not, so we work under a strict group framework in terms of risk management and policies and also regulatory and compliance issues. So we do not relax the rules because we go north of the Limpopo. Definitely not. It's a first and foremost to actually maintain the standards that we put ourselves up for here in South Africa.

Interviewee 4:

Always, you'll find we're on many of their boards etc. etc.

If they don't do it immediately, then we put them on a path to operate like that. We send our own people there and our own people sit on their boards, interact with them and give them guidance and advice and the like. And we often second staff them as well. It's a process, like anything, there's no quick win here. Everything we do, everything I've spoken to you about, takes years and years to actually get through. But once it's through and it's up and it's running, then you can see from the operations where they are now standing on their own basically.

If you could re-do LFSO2's SSA expansion, would you do it differently?

Interviewee 1:

I would, I think you need, if you want focus, you need a separate Africa business. You need separate risk, different risk committees, you need different IB team, you need to align objectives and scorecards measurements accordingly. You need to invest. Reality of Africa, my belief is, it's not easy for us to do light touch banking when our brand is already not that visible in Africa. We are not Citi bank or

StanChart, where guys have very big local presence and operations. So, the suitcase model, while it works for our sector teams it doesn't work for the whole of CIB. So, you need to invest properly on the ground if you want to reap proper rewards in Africa. I would do that differently, I would not just open a little rep office in Kenya; I would open up a branch. Staff it properly and commit to that particular jurisdiction for the long term. Because that's the other thing, it's a long-term game, you will take lots of hits and at the same in good years you'll hit out the park. So, I would do it that way.

Interviewee 2:

I would be more assertive, if I had a strategy paper thrown at me of 54 pages and I go to slide 54 and I can't find a conclusion. Then I go to my strategy team, where's the conclusion? And they say we're not there yet. Are you telling me you produce 54 slides, which is sort of a like a McKinsey type investigation, with lots of graphs and little balls and everything. For me it's quite simple. How much money do I, prepared to spend. How much money am I prepared to invest in potentially buying a bank, one side of the excel spreadsheet. And on the other side of the excel all of the revenue opportunities. You don't need 54 pages of slides to come to a conclusion. The thing is that the decision-making process, we are sort of tip-toeing but we don't want to put our feet into the water. We see, if I look at what LFSO1 did, all these years bank when the bought ANZ Grindlays Bank's operations. LFSO1, particularly in Kenya, had to re-capitalise their business 5 or 6 times in a row. They lost their capital every year, it was only when they took over and indigenous bank, CFC bank, because then they had a market of scale. Then they really had an indigenous bank, because ANZ Grindlays Bank was not and indigenous bank it was a subsidiary. That is when they started making money. You need to have the stamina to do that, and I sometimes wonder, and I said it to the people in Jo'burg, I said guys, are we prepared to have losses in the first 2, 3 years of operation? Because that is the reality. You know you admire a bank, you're not going to acquire a license, you acquire a bank. You see it now with State Bank of Mauritius who acquired Chase bank, I now they have discovered, I think it's KES1.3 billion of stuff, that they were not aware off. You find when you buy a bank, once you have the control, you only find out how bad it is or how good it is. Your due diligence is not going to tell you that. And I don't sometimes think that we have the

stamina to do that. If I had done it differently, I would say guys, have we got 50 million to spend? Yes we have, or have got 150 million to spend? Yes we have. What can we buy for that? Just do it. And it's also got to do with, if you look at, and then you look at people internally. Well, you know you've got Mike Brown and Brian Kennedy, who's head of CIB. They both retire in 2 years, and they are like, not under my watch.

Then there's another school of thought, which says maybe they should do it, and if it is a mess, somebody else can sort it out. I think in the LFSO2 scenario it's not under my watch. I want to look after my share scheme and my bonuses etc.

Interviewee 3:

I think you asked me that question 3 years ago, I would have said that, you know, we'd be struggling with WAPAB, and we might have had to, we could have looked at different options. But I think now, where our senior management and group EXCO managed to change that around. I think it's been a perfect way to do this; it's been a hard, tough couple of 3 years. I think, all the people at LFSO2 will tell you that, but from a WAPAB perspective it's going very, very well now. I think the profiles working well, we're very fortunate we could have a partner like WAPAB on the continent.

Interviewee 4:

Personally, as we gain experience and our teams gain experience here. I believe we can do more countries quicker. So, you can speed it up. You can be a little more aggressive and speed it up. But remember, you always have to remember, everything is a function of resources, both human and capital. So, you assume that I have unlimited human resources and unlimited capital and money to spend, then of course we can do it in a tenth of the time.

It's a conservative, I don't think we're aggressive anywhere. We live and we learn and we take it in bites, that if it goes wrong we can absorb, we're not a gung-ho crowd.

We never go in guns blazing, that's not how we operate.

Even with WAPAB, in the beginning everything worked well. And even they got into

trouble over the last 3 years. You can go see in our financials, WAPAB has actually leant on us, financially, for the last 3 years. And now suddenly this year, they are contributors again. So, you'll see there's no quick win strategy here, you have to be in here for the long haul.

There's no, put MB in charge, don't worry, he'll generate a billion rand for you in this financial year, that's all pipe dream nonsense, it never works like that.

Appendix 4: Editing Certificate

<p>EDITING AND PROOFREADING CERTIFICATE</p> <p>7542 Galangal Street Lotus Gardens Pretoria 0008 24 November 2018</p> <p>TO WHOM IT MAY CONCERN</p> <p>This certificate serves to confirm that I have edited and proofread Mr M Modiba's dissertation entitled, "Strategies of South African banks expanding into sub-Saharan Africa".</p> <p>I found the work easy and intriguing to read. Much of my editing basically dealt with obstructionist technical aspects of language, which could have otherwise compromised smooth reading as well as the sense of the information being conveyed. I hope that the work will be found to be of an acceptable standard. I am a member of Professional Editors' Guild.</p> <p>Hereunder are my particulars:</p> <p> _____ Jack Chokwe (Mr)</p> <p>Contact numbers: 072 214 5489 jackchokwe@gmail.com</p> <p> </p>
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