



***Responding to International Competition:
The Formulation of Strategic Responses in
the South African Banking Industry***

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Abstract

South African firms, subject to the pressures of globalisation, are having to reassess their mode of competing, as they increasingly find themselves facing foreign and international competitive threats in their domestic markets. This research explores the strategic responses undertaken by South African incumbents subject to international competition by investigating the strategic responses pursued by three South African banks to the entrance of Barclays into the South African market in 2005.

The research also aims to explore the level at which these strategic responses are influenced by the firm's strategy formulation process, as well as the perceptions harboured by the actors within the organisation. A case study methodology is employed to offer a rich description of the processes undertaken by the organisations and the various factors influencing the strategic design process.

The research gives evidence to a number of strategic responses implemented by incumbents, ranging from an aggressive defence of domestic market share and profitability to an active expansion, taking South African products and services into new markets. These differences in responses are shown to be influenced by the organisations' strategy formulation process, its positioning in the market, as well as the perceptions that it has of the competitive threat.



Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

Gary Winslow

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1. Chapter 1: Introduction to Research Problem

1.1 Introduction

Globalisation is changing the environment that businesses are operating in to one that is characterised by an increasingly deep set of interdependent relationships between countries, organisations and individuals. The international trend toward globalisation has been driven by a number of powerful forces, including crumbling trade barriers, fast-paced technological advances, declining telecommunication and transport costs, international migration, and a highly mobile investment community.

As a consequence of these changes, firms are finding themselves having to compete against new, often multinational entrants seeking growth and expansion in locations previously beyond the economic reach of their existing operations. As local firms find themselves in a changing environment subject to the influences of global competition, they are forced to reassess their mode of competing and view the industry around them through fresh eyes.

1.2 Research Problem

Competitive threats from multinational players across the globe are increasingly making domestic players more conscious of their vulnerable state and incentivising them to proactively engage in an effort to ensure their sustainability in these turbulent times. Industries are brimming with signs of change as firms across the world scramble to take hold of resources and markets, both domestic and across borders in the face of increasing global competition (*Badrinath and Wignaraja, 2004*).



Emerging markets, characterised by high levels of growth and liberalised economic policies, are particularly vulnerable to these threats as multinationals, in their pursuit for growth, find these locations substantially more attractive than the saturated markets in the developed world (Keller and Moorthi, 2003). Local firms operating within these environments are being placed under immense pressure as they are increasingly subjected to the invasion of multinational players seeking opportunities for new growth and expansion within their markets (Dawar and Frost, 1999).

South African firms, having emerged from a period of sanctions imposed by the European Community, Common Wealth countries, Japan, the United States and numerous other countries (Levy, 1999), have up until relatively recently been excluded from a substantial component of international competition. In this new environment, like many other countries, South African operations will have to gear up to compete against an influx of multinational players.

Organisations that are subjected to this globalised environment, characterised by fierce competition and chaotic change, are finding it increasingly important to focus on the manner in which their responses are undertaken and their strategies formulated. Previous research has provided much insight into the tools and mechanisms that facilitate a comprehensive scanning of the environment, but relatively little that provides insight into the dynamics of the strategy formulation process (Boyd et al, 2001). The strategy formulation process is snowballing in importance as firms identify this as one of the key



processes in competing effectively (Hart and Banbury, 1994). Some firms are moving to a formulation process that is implemented through a deliberate design not unlike the manner in which it creates competitive advantage through the design of its products, operations and services.

In general, management tend to pursue a narrow perspective of strategy formulation, either practicing the virtues of planning, or the values of learning; analysis of the external competitive environment, or the imperatives of the firm's internal resources, but seldom both (Mintzberg and Lampel, 1999). Conventional wisdom and strategy literature has further led us to believe that the formulation of strategy resides as the responsibility of the chief executive and the senior management team (Shrivastava and Nachman, 1989). This precludes the important role undertaken by the business unit managers and individuals that reside within the organisation as part of the strategy formulation process (Watson and Wooldridge, 2005).

This research will seek to explore these issues through the investigation of the strategic responses that South African banking enterprises have undertaken in their response to the entrance of Barclays to the South African market in 2005. It will further undertake an exploration of the impact that the firms' perceptions of the competitive threat and its strategy formulation processes have on the responses that it chooses to implement.

1.3 Scope

The scope of the research will be limited to the strategic responses that the South African firms under investigation have undertaken in reaction to the introduction of a new player from outside international borders.

Globalisation and international competition are likely to be experienced quite differently across industries (Iversen, 2004). Some aspects might be generic across industries, while some might be more context specific. Porter (1985) describes competitive strategy as the firm's pursuit of a favourable competitive position within its industry, the fundamental playground within which competition occurs. Compounded by the fact that responses taken by firms are heavily influenced by the peculiarities of the industry within which it participates, this research will limit its scope to organisations participating within the banking industry in South Africa. This initiative will limit any variability observed as a consequence of differences between industries, and allow for conclusions to be drawn rather on differences observed as consequences of the firms' positioning within these industries. Firms that will be of specific interest, include the banks comprising the "big four" within South Africa, including, Standard Bank, Nedbank, FirstRand, and Absa.

In order to eliminate, as far as possible, the influence of extraneous variables, the research will undertake to further narrow the scope by focusing on one particular international entrant in the industry's recent past, namely the entrance of Barclays Bank in 2005. Barclays Bank entered the South African market



through the acquisition of a majority stake in Absa Bank, one of the "big four" banks in the South African market.

Through the careful analysis of the strategies undertaken and the processes pursued by the incumbent operations in response to this particular event, the research will attempt to identify and understand the motives for the strategic responses employed, the perceptions influencing their choices, as well as the impact of the strategy design process.

2. Chapter 2: Literature Review

2.1 Introduction

The literature review to follow, covers three key bodies of knowledge that have been identified as the central focus of this research. The research will seek to investigate how a firm's perceptions of its relative strengths and weaknesses within its competitive environment and its strategic formulation process have an influence on the strategic response that it chooses to pursue when faced with the threat of a foreign entrant in its local market.

The review of previous literature relevant to this research will begin with an overview of the strategy formulation process and its impact on the response that firms undertake to follow. The review then leads into a discussion of the influence of a firm's perceptions of its internal and external environment and its impact on the strategic responses that they choose to pursue. The final component of the literature review performs an examination of responses undertaken in previous literature and provides an indication of what the research is likely to discover.

2.2 The Strategy Formulation Process

The research will embark on an investigation of the impact that the strategy formulation process has on the strategic response that an organisation undertakes to follow. Previous research describes a myriad of factors that impact the chosen strategy through the formulation process. As such, the process by which strategy is formulated is critical to the future of the enterprise

as it moulds the strategic thinking and the manner in which the future of the organisation is secured. The formulation process should ideally provide a mechanism for the distribution of ideas and the co-ordination of efforts among parties in the company (MacMillan and Tampoe, 2000).

Theoretically a strategy formulation process that is undertaken effectively should result in more successful strategies and better performing firms (MacMillan and Tampoe, 2000). As such, organisations are finding it increasingly important to think about the process by which they formulate their future strategies. Through the improvement of these processes, firms are undertaking to increase their chances at unleashing a store of creative thinking and enhancing their position in the competitive environment (Depperu and Gnan, 2006; Macmillan and Tampoe, 2000).

Across organisations and academic literature, a multitude of strategic processes have arisen that could respectively be described as ranging between formal, informal, complex, simple, analytical, visionary, and entrepreneurial, to mention but a few (Mintzberg and Lampel, 1999; Hart and Banbury, 1994; Hart, 1992).

2.2.1 Approaches to Strategy Formulation

Two of the broader schools of thought that are frequently positioned across academic writings as opposing methods by which organisations undertake the pursuit of strategy formulation are the emergent and the deliberate approaches (Mintzberg, 1988; Harrington et al, 2004; Downs et al, 2003). The deliberate approaches to strategy formulation are typically undertaken through a normative

approach to theory creation, while the emergent schools of thought are more typically formulated through a descriptive or empirical theory creation process.

Deliberate approaches

The foundation of the school of strategic thinking is captured in the thinking of the deliberate and rational approaches to strategy formulation (Hart, 1992). Deliberate strategies are defined as outcomes that are realised from strategies that were formulated through the process of a comprehensive, ordered analysis, that are undertaken in advance by a purposeful organisation (Mintzberg, 1988; Porter 1980). Hart (1992, p. 328) describes the rational process as one where a decision maker: “(a) considers all available alternatives, (b) identifies and evaluates all of the consequences which would follow from the adoption of each alternative, and (c) selects the alternative that would be preferable in terms of the most valuable ends.” Organisations pursuing strategy in this form, typically do so through a formal strategy planning system that allows them to pursue a methodical analysis of the environment, an assessment of corresponding internal strengths and weaknesses, the creation of specific goals and a mechanism to achieve them and the careful consideration of available alternatives (Downs et al, 2003; Hart, 1992; Porter, 1980).

Proponents of the rational approach to strategy formulation view the business environment as one which is largely objectifiable and open to the tools of scientific analysis and scrutiny (Parnell, 2003). With the environment viewed through these lenses, the deliberate approach lends itself to the methodology

employed by the traditional view of strategic management, advocating strategy formulation as best undertaken through an analytical approach driven by formal structure and planning systems, including deep and systematic analysis of the environment, the internal organisation and its competitors (Parnell, 2003).

Emergent Strategies

The second broad school of thinking contrasts from the deliberate approach in that it views the external environment through the lenses of an artist and is characterised by unpredictability, uncertainty, change and chaos (Parnell, 2003; Downs et al, 2003). This approach to strategy lends itself to strategy formulation that is undertaken through trial and error, experimentation and discussion where the environment is subjected to constant analysis and the simultaneous implementation of its strategy (Downs et al, 2003). Earlier writings refer to this approach to strategy as “incrementalism” or part of the process of “muddling through” that some organisations tend toward (Lindblom, 1959).

Contentions from this school of thought reflect the idea of strategy as formulated from within a collection of strategic sub-systems that utilise interactive learning, experimentation, and innovation to create and implement strategy in an iterative process (Harrington et al, 2004). The strategic process is thus seen as progressing through a learning and manoeuvring process that provides managers with the capability to make decisions as and when required, consistent with accessible information, and allowing them to adapt and respond

to the challenges of a dynamic environment (Harrington et al, 2004; Downs et al, 2003). This approach is typified by an evolving pattern of strategic behaviour that occurs in the absence of previous intention (Harrington et al, 2004).

The emergent approach to strategy formulation contends that it is best suited to adapt to the uncertainty and complexity that is evident in the external environment as it does not seek to impose structure and rigidity on an entity that is infinitely more complex than itself, but rather attempts to align itself through a mechanism that allows strategy to form in parallel (Mintzberg, 1988). In so doing, the practice of strategy formulation and strategy implementation are not undertaken as separate initiatives that are divorced from one another, but are rather performed simultaneously, fostering feedback and organisational learning (Mintzberg, 1988).

A Continuum

The two approaches above argue the merits of strategy formulation as a rational and deliberate process versus the approach characterised in a more incremental and unstructured process to managing companies. Previous research on the merits of each has provided conflicting evidence on the success of its implementation (Boyd, 1991; Brews and Hunt, 1999).

Mintzberg and McHugh (1985) depicted the two disparate processes as best described as the opposing ends of a continuum with a multiple of options existing between them. Harrington et al (2004) also argue that the norm to separate strategy formulation into deliberate and emergent categories is better

treated along a continuum, thus allowing for the idea that both approaches can be present in an organisation. Through the manipulation of strategy in this manner, managers might best influence the direction of the strategy formulation process to align with the events in the external environment with the most appropriate approach (Mintzberg, 1988).

Mintzberg (1988) advocates the use of both approaches to strategy formulation as complementary tools providing a harmonious mix between organisational control and learning. Management might best capture these benefits through controlling the process of strategy formulation (Mintzberg, 1988). In this manner, it is able to capture the benefits of both schools, through defining broad organisational guidelines (deliberate approach) and allowing freedom to individuals to pursue these (emergent approach).

2.2.2 Strategy Formulation and Firm Performance

The emergent and the deliberate approaches to strategy, although broad and encapsulating, do not capture the complete range of alternatives to strategy formulation that have been described by many authors (Mintzberg and Lampell, 1999).

Hart (1992) collated the varying descriptions of strategy formulation and captured them in an integrative framework that could be used as a categorisation tool to measure against firm performance. Hart's (1992) typology included five categories of strategy process style: Strategy driven by a leader or small coalition; strategy driven by a mission and vision of the future; strategy



driven by formal structure and planning systems; strategy driven by internal processes and mutual adjustment; and finally, strategy driven by organisational actors' initiatives.

Subsequent research (Hart and Banbury, 1994) found that the strategy making processes outlined above are significant predictors of firm performance. In particular, it was found that firms that were able to utilise several methods of strategy formulating processes tended to outperform firms that displayed a lower capability to shift from one to the other. As such, the strategy formulation process that any organisation pursues needs to be tailored to the current needs of the organisation and its position in the competitive environment (MacMillan and Tampoe, 2000).

Depending on the current status of the organisation, and its internal operations, management needs to be aware of the process by which it undertakes decisions; this process might be facilitative of, or inhibiting of the generation of appropriate alternatives (MacMillan and Tampoe, 2000). Reflecting on this process allow a firm to make the necessary turnarounds should it become aware that its processes are restricting the outcomes. Depperu and Gnan (2006) propose that the external environment's demand trends should be carefully evaluated in order to align the most appropriate strategy formulation process. Since strategy is context specific, Depperu and Gnan (2006) contend that companies should be flexible enough to shift from one method of strategy formulation to another in order to cope with the different competitive contexts.

Mintzberg and Lampell (1999) describe the strategy formulation process pursued by firms as an evolution, with firm's unpredictably creating new strategies in response to the competitive environment.

2.2.3 Role Players in the Strategy Formulation Process

Executives and organisational members are both posited to assume a wide range of roles and influential positions in an organisation's strategy formulation process (Shrivastava and Nichman, 1989). The role of each one will be briefly described below.

The CEO and Senior Management

The discretion of the CEO can vary widely from exerting a great deal of influential control to applying very little pressure over the organisation (Hambrick and Finkelstein, 1987). Hart (1992) describes these roles as ranging between the "command" position, where strategy is formulated at the top and announced to the rest of the organisation, to the "organic" role, where strategy emerges from below and approved or endorsed at the top.

Chandler (1962) holds that the chief executive officer and the 'corporate office' set corporate strategy and delegate detailed matters to the managers of specific business sub units. This organisational structure sees strategy as formulated at the head of the organisation with the business unit managers performing an implementation role rather than a formulation role. Kalman and Cyert (2001) describe the goals of large corporations as frequently determined by a coalition which is driven by the CEO and the chairman of the board. The coalition

typically comprises a select group of important vice presidents and heads of business units, the CEO, and the Chairman

Kinnunen (1976) contends that the Chief Executive Officer plays the primary role of ratifying strategic investment proposals that emerge from the business units under his control. As such the role of the CEO in the strategy formulation process is generally that of approving strategic investment proposals that originate from assessments of need and opportunity arising from the business units that he manages rather than the outright formulation of strategic direction (Kinnunen, 1976).

Business Unit Managers and Organisational Members

The argument in favour of middle management, suggests that the primary formulators of company strategy are those executives heading the autonomous operating units of which the organisation comprises (Kinnunen, 1976). These operating units develop strategy for their businesses and define the strategy of the corporation as a resulting sum of the strategies of the operating units that comprise it. The clear articulation of strategy from the chief operating officer in large divisionalised corporations is seldom a characteristic of the formulation process. In the absence of this clear articulation, business unit heads tend toward a strategic choice that best suits the unit that they command.

Bower (1970) contended that middle managers are integrally involved in an organisation's strategy formation process through its upward influence on senior management. This upward influence is described to have an impact on senior



management's perceptions of its organisational circumstances. The process begins with frontline employees identifying potential opportunity for the firms as a result of their specific knowledge about the company's market, obtained through their direct contact with customers and coal-face activities. These proposals are presented to middle management who selectively support a chosen few and provide *impetus* for them by staking their reputations on a successful outcome. Lacking the required knowledge about the market, senior managers rely on the judgement of middle management and endorse their recommendations. Bower (1970) posits this process as the core mechanism responsible for setting the strategic trajectory of the organisation through the passing of frontline knowledge via a bottom-up, resource allocation process.

Watson and Wooldridge (2005) advocate the virtues of "upward influence", and the power of the business unit manager in influencing company strategy. "Upward influence" assumes that company strategy is heavily influenced by a combination of strategy formulation in bottom up processes as well as top down processes.

Various authors have also contributed to the school of thought relating to the upward influence in an organisation (Burgelman, 1983; Floyd & Wooldridge, 1992). Watson and Wooldridge (2005) contributed to this school of thought by expanding on two areas that demonstrate control on upward influence on the CEO. Through their research Watson and Wooldridge (2005) confirmed that upward influence on the CEO and the executive teams is positively associated



with the size of the business unit relative to the corporation exerting the influence. Watson and Wooldridge (2005) and Ocasio (1997) also found that the nature of the reporting relationship between the executives managing the business unit and the CEO also had a positive relationship on the strategy formulation process.

2.2.4 Interdisciplinary Thinking

The debate between a top down approach and a bottom up approach also brings into contention the manner in which the various role players in an organisation should be involved in the strategy formulation process (Parnell, 2003).

Cross-functional teaming across the organization provides an opportunity for managers to engage strategy formulation through a multiple of views and constructs (Badal, 2005). This line of strategy formulation aligns itself with a bottom up formulation process assuming that non-management employees should be involved, to some degree, in the process of strategy formulation. This promotes the formulation of strategy through interdisciplinary thinking of a diverse range of individuals from varying professional backgrounds and combines fields of interest that are usually mutually exclusive, leading to the creation of solutions that are as multifaceted as the environment within which the firm operates (Badal, 2005).

2.2.5 The Competitive Context

Effective strategic thinking takes account of the firm's relationship both with the external environment and its own capabilities and resources (MacMillan and Tampoe, 2000). The relationship that a firm has with its external environment can play an important role in determining the type of formulation process that a firm might choose to undertake (Bourgeois and Eisenhardt, 1988).

Depperu and Gnan (2006) contend that strategy formulation can be divided into three main schools of thought:

- Those who place an emphasis on the unique features of the environment and its impact on the way that strategy is formed.
- Those emphasising the perceptions of management, specifically with regard to the context and the role that they play in strategy formulation.
- Those who emphasise an analysis of the relationships that exist between the firm and its environment.

The research undertaken by Depperu and Gnan (2006) confirms the importance of the competitive environment and its role in shaping the way strategy is formulated. The authors contend that the competitive environment dictates the emergence of two extreme types of behaviour. Industry players looking to compete in a difficult environmental context are likely to undertake a strategy formulation process that is constituted heavily by strategic plans and complex analysis (likened to a deliberate approach). In contrast, companies in the

pursuit of opportunity exploitation do not engage in complex strategic plans but use simple techniques like a SWOT analysis. The latter are characterised as having a limited need for rationalisation and tend to be better positioned in their competitive environment leading to a heavier reliance on entrepreneurial hunches and past experience when choosing a strategy for implementation – likened to an emergent approach (Depperu and Gnan, 2006).

2.2.6 Evaluation of Strategic Alternatives

The strategy formulation process eventually culminates in management's evaluation of the strategic alternatives that it must choose to follow. Research has shown that management undertakes evaluation techniques to initiate a move toward the implementation of a course of action (Nutt, 1998). The nature of the strategic decision-making process has been demonstrated to impact the viability of the choice made (Dean and Scharfman, 1996). Dean and Scharfman (1996, p389) demonstrated that “managers are able to influence the success of strategic decisions undertaken, and hence the fortunes of the organisation through the processes they undertake to make these key decisions”.

Pfeffer (1992) contends that the process of evaluation in organisations is largely undertaken for two primary reasons, namely, political and pragmatic. The former relates to the provision of the means for the justification of actions to other organisational participants and the latter speaks to the intention to seek out the most appropriate path of action.

The strategy formulation process, eventually culminates in the evaluation of the potential alternatives that the organisation might choose to pursue. Previous research has alluded to judgemental, bargaining and analysis techniques as the primary vehicles through which managers affect their decisions (Mintzberg et al, 1976). Judgement relies on evaluation based on personal intuition; bargaining is affected through consensus reached by a number of individuals; and analysis involves factual evaluations.

In more recent research, Nutt (1998) has redefined the evaluation alternatives to include analytical, bargaining, subjective and judgemental tactics.

Analytical Evaluations

When information is seen to be combined in new ways, to create new information through the employment of analytical tools and a computational approach to draw inferences from it, the technique is referred to as *analytical*. The approach frequently includes assessments of data from past records, pilot studies, or simulations (Nutt, 1998).

Analytical techniques could also be incorporated in the decision making process through a scenario planning methodology (Wright, 2002). Wright (2002) contends that scenarios could contribute to the process through testing the viability of a current proposed alternative against the plausible future pictures depicted in the scenario. Through scenario planning, a current, contemplated or range of alternatives could be evaluated for robustness against a series of constructed scenarios.

Effective decisions have been found to be positively related to the level of procedural rationality employed in the decision-making process (Dean and Scharfman, 1996). Decision processes that are pursued with a high level of focus on analysis and data exploration are also shown to exhibit higher levels of decision effectiveness (Dean and Scharfman, 1996).

On the whole, analytical techniques are widely used and display the highest degree of outcome success (Nutt, 1998).

Simon (1957) describes rational decision-making to be limited by his theory of “bounded rationality”. In this theory he contends that rational decision-making is limited by the tendency of management to “satisfice” or settle on an outcome that is “good enough” rather than maximising as the “economic man” might by pursuing the best alternative. Through this behaviour, decisions are made without examining all potential alternatives, and the interrelationships among them (Brown, 2004).

Subjective

Subjective evaluations are taken when decisions are based on the interpretations of data that is collected from the views of others or archival data (Nutt, 1998). Evaluations of this nature frequently take a subjective value-based judgement on either selective objective data, information sourced from emotionally charged sponsors, or expert opinion accounts of previous experience.

Wright (2002) contends that decisions undertaken on this basis are flawed, as the psychology of individuals dictates that decision makers tend to test their beliefs in a manner that does not maximise their chances of falsification. Individuals look to confirm their beliefs rather than disconfirm them in the information that they acquire, leading to erroneous decisions that are not representative of the facts.

Bargaining

Evaluations undertaken through the consensus of a team of individuals is termed *bargaining* (Nutt, 1998). Bargaining commences through a process of negotiation and outcome resolution between members, typically culminating in a vote, rank or prioritisation of alternatives.

Dean and Scharfman (1996) propose that the levels of political behaviour evident in a decision impact the effectiveness of the chosen path. Effective decisions have been found to be negatively related to political activities (Dean and Scharfman, 1996). Decisions that are blurred by a network of conflicting personal goals, poor communication, and power struggles are shown to exhibit lower levels of effectiveness (Dean and Scharfman, 1996). Wright (2002) further contends that processes undertaken through a bargaining process are also subject to the potential influence of *groupthink*. *Groupthink* is defined as the tendency of a team of like-minded individuals to concur on a decision as a result of political undertones and social pressures at play, rather than congruent agreement across all the participating members (Wright, 2002). In high



consequence situations, dissenting views are less likely to be raised out of a fear of being scorned by the leader or other members of the group. Through the process of groupthink, potential alternatives that could otherwise prove critical to the direction that a group's decision is moving, are suppressed in favour of a the direction that tends to be reflected in the position held by the majority (Wright, 2002).

Judgement

Finally, judgemental tactics are taken by decision makers that intuitively affect an evaluation without any attempt to collect any performance data of any nature (Nutt, 1998). Decisions are typically defended by reference to past experience, "gut-feel" or knowledge of the situation at hand. Simon (1957) described this behaviour as that exhibited by the "administrative man" who is able to make a decision with reasonably simple rules of thumb so as to avoid engaging in an excessive analysis that might require demanding thought and involvement.

Eisenhardt (1989a) contends that decisions which are supplemented with intuition are able to adapt more speedily and appropriately to changing environmental conditions. Intuition is increasingly viewed as a viable alternative in today's business environment because so few decisions enjoy the benefit of having access to information that is timely, complete and accurate (Elbanna, 2006).

2.2.7 Conclusion

This overview provides a solid foundation to investigate how South African banks' strategy formulation processes impact the strategic response that they choose to undertake. The research will explore the extent to which South African firms are also influenced by the organisation's approach to strategy formulation and the range of processes that characterise it.

2.3 *Inward and Outward Perceptions*

The next significant body of literature relevant to the research deals with the organisation's perceptions of the competitive environment within which it operates and its relative strength within this environment.

An incumbent's perception of the external environment and its internal resources plays a significant role in influencing the path that it chooses to follow in its response to the entrance of foreign competitors (Gruca and Sudharsan, 1995), both in terms of its decision-making patterns, as well as its chosen outcome. Paine & Anderson (1977) determined an important inter-relationship as existing between the internal characteristics governing the organisation and the salient elements perceived in the external environment. The perceptions placed by management on both the internal and external environments influences the decision patterns and that they choose to use with strategy formulation. Managers perceiving a high degree of certainty in the environment pursue strategy formulation through a different pattern than the manager's perceiving a low degree of uncertainty in the environment.

Macdonald and Neupert (2005) declare that the key to a successful battle lies not only in understanding the competition, but also the environment in which one competes. The ancient military strategist, Sun Tzu further advocated that the understanding of the environment plays an integral role in the path to victory (Galvin, 2003).

Three core bodies of research expand on the firm's perception of its competitive environment and its internal resources below.

2.3.1 Competitive Assets

Dawar and Frost (1999) promote the contemplation of two key questions in the consideration of the competitive environment within which a firm operates when faced with the entry of multinational competition: Firstly, how strong are the pressures to globalise in the industry? Secondly, how internationally transferable are the company's competitive assets? These questions will lead to a greater understanding of the requirements for competitive advantage, post entry, in the firm's industry and also the strength required of any international rival entrants. The assertion is that different industries exist between two polar pressures exerted by the environment (Dawar and Frost, 1999). Firms are coerced either to meet particular demands of local customers or to conform according to a global set of rules governing worldwide competition. An understanding of where a particular firm lies between these two forces will provide insight into their strengths and weaknesses relative to international entrants.

Once firms have a firm grasp of their industry, Dawar and Frost (1999) contend that they need to evaluate their competitive assets. This mode of reflection is similar to that advocated in the resource-based view of the firm that contends that unique assets, controlled and owned by the firm, will provide competitive advantage in the long term (Amit and Schoemaker, 1993). Competitive assets that provide for advantage within local perimeters might lend themselves to a defensive strategy on local turf, whereas assets that could hold appeal beyond local borders might serve as a platform from which expansion into global markets may be launched (Dawar and Frost, 1999).

2.3.2 Four Factors

Gruca and Sudharsan (1995) contend that four factors relating to the competitive environment dictate the actions of the entrant and the consequences for the incumbent. The four factors include cost conditions, demand conditions, history and legal climate.

Cost conditions relate primarily to perceptions of fixed entry costs, economies of scale, experience curve effects and economies of scope. Gruca and Sudharsan (1995) postulate that an incumbent should be more proactive in the face of a competitor that can benefit from perceived scope economies. Competitors of this nature currently compete in adjacent markets and are able to enter more quickly than other competitors that do not benefit from the same base of skills and resources from which to draw immediately (Lambkin, 1988).

Demand conditions are described to include factors like market size, growth rate, elasticity of total demand, presence of switching costs, stage of the product life cycle, drivers of brand choice, and degree of segmentation (Gruca and Sudharsan, 1995). Incumbents perceive a stronger hold on markets that it has acquired skills specific to the application of its product or service, as consumers are less likely to risk the switching costs associated with the trial of alternative offerings from competitors (Gruca and Sudharsan, 1995).

Gruca and Sudharsan (1995) hold that a firm's perception of its competitive environment is also influenced by historical dimensions that could be reflected in relationships firms have established along its value chain. Strong relationships would put the firm at an advantage as the development of interfirm adaptation would make head way in keeping its product or service ahead of the competitors through a collaborative effort (Hallen et al, 1991).

Finally, the perceived legal environment can play a role in either promoting or inhibiting the intended responses of the incumbent and the actions of the competitor (Gruca and Sudharsan, 1995).

2.3.3 Terrain

Returning to MacDonald and Neupert's (2005) analysis of Sun Tzu's philosophy and its application to marketing strategy, the authors advocate that firms should pay careful attention to the environment in which they operate before formulating a strategic response to the actions of a competitor. Incumbents could perceive the environment in many different ways. Sun Tzu (Galvin, 2003)

describes the terrain (competitive environment) that competitors engage in as accessible, entangling, indecisive, constricting, precipitous, or distant. The terrain should be closely analysed to ensure that the most appropriate response is taken, in line with the demands imposed by it. *Accessible terrains* are environments that are easily infiltrated by all players; *Entangling terrains* are simple to access, but difficult to withdraw from; *Indecisive environments* are disadvantageous for all competitors; *Constricted terrains* are sympathetic to the first mover that is cognisant of his situation; *Precipitous environments* are desirable terrains that will attract competition; and finally, *Distant terrains* are environments that are far removed from competitor forces (Galvin, 2003).

Porter (1985) also stresses the importance of the competitive environment and describes competitive strategy as the firms' continuing search for a favourable competitive position in the environment within which it operates. This environment hosts the fundamental playground, the platform, upon which competition occurs. A firm's competitive strategy seeks to construct a profitable and sustainable position against the forces that determine industry competition.

2.3.4 Conclusion

The incumbent organisation's perceptions of the competitive environment, its perceptions of its own competitive assets and the interrelationships between them play an influential role in determining the direction that a strategic response may seek to undertake. A deeper exploration into these perceptions, specifically as employed by organisations facing international competitors in

South Africa is likely to surface a range of additional perceptions that have yet to be accounted for.

2.4 Strategic Responses

Research has shown that local companies forced to deal with the entrance of multinational competitors have more options and advantages than may initially appear to be the case (Dawar and Frost, 1999). Dawar and Frost (1999) hold that management often feels coerced to capitulate to one of three options when faced with these circumstances: turning to government for support; subordinating the organisation to the multinational; or conceding and selling the business outright.

Some alternative responses obtained from previous writings on the matter are offered below.

2.4.1 Entry Deterrence

New entrants to an existing industry depress profits through the increased supply of the industry offering (Gruca and Sudharsan, 1995). An important part of the process an incumbent firm undertakes in defending its share of the market and profits, is its response in anticipation of an international firm's intention to enter (Gruca and Sudharsan, 1995). Its actions in deterring entry play an important role in its response to international competition. Some deterrence strategies are successful, and the potential entrant is deflected, while at other times the strategy is ineffective and the incumbent is forced to wage battle on its home turf.



Greenwald and Kahn (2005) argue that the best source of defensive strategy that firms are able to pursue, are through the assembly of competitive advantages that translate into barriers to entry for firms contemplating entry into these markets. The authors contend that these barriers are most effectively constructed through the pursuit of three key factors, namely customer captivity, proprietary technology, and economies of scale. Local firms are able to place themselves at an advantage through regionally determined fixed costs (e.g. advertising and distribution) that new entrants will have to match.

2.4.2 Defending, Contending, Extending or Dodging

Returning to Dawar and Frost's (1999) proposal, stating that if firms take cognisance of the pressures in their industry to globalise, and deliberate over the transferability of their competitive assets, a portfolio of alternative strategies opens up to them and incumbents are able to respond by positioning their companies in a variety of different ways. These two parameters should guide strategic thinking and shape their competitive response. Dawar and Frost (1999) propose that a company operating with weak pressures to globalise, and assets that are not transferable, should "defend" its market against multinational attack. This broad response would suggest a series of actions that are implemented with the intention of retaining market share in the domestic environment where the firm is accustomed to operating. If globalisation pressures are weak but the company assets are transferable, the company could consider "extending" its success to other prospective markets (Dawar and



Frost, 1999). This might involve an attack on limited markets beyond domestic borders which are similar in nature to the home turf.

Should globalisation forces experienced in the industry be strong, the firm faces bigger obstacles or opportunities, depending on the transferability of its assets (Dawar and Frost, 1999). Should assets be transferable (under strong pressure to globalise), the company may compete, or “contend” face-to-face with the new entrant. This could involve a series of actions implemented with the intention of competing with the multinational competitor on a global basis. If its assets work only in the local market, the firm’s continued longevity will be sustained only through “dodging” its rivals by capturing specific links in the value chain where its competencies are still valuable (Dawar and Frost, 1999). Day (1997) holds that firms subjected to extreme market pressures might find a viable strategy in market niches, rather than succumbing completely to the forces of the competition. Although this might necessitate a restraint on aspirations and a scale down on operations, market niches may be forged in spaces where the competitor’s reach leads to underperformance for some consumers and over performance for others (Day, 1997).

Ghemawat (2005) expands on the concept relating to a company’s intention to “contend” by proposing a regional strategy for global expansion. Regional strategies stand to raise a company’s relative competitive performance by capturing the benefits shared in regional trade rather than international trade. Ghemawat (2005) purports that the identification and direction of operations

through regional blocks, offers firms an enabler and entrance to cross-border integration. Regions represent the entrance, through which firms are able to build up global powerhouse positions.

Charitou and Markides (2003) in their analysis of company's strategic responses to disruptive strategic innovation propose that a company's first potential response to be deliberated over, would be to focus on, and invest in the traditional business. In deepening their capabilities, the response is based on making the traditional method of competing even more attractive and competitive (Charitou and Markides, 2003). Ohmae (1978) purports that firms should focus on developing market share based on product features which are unique to the complete offering. Once the key success factors have been identified, it is vital that the firm concentrate on them rather than spreading resources thinly across other functional areas or product market segments. These strengths should be exploited through drawing attention to the area in which they hold a relative advantage over competitor offerings (Ohmae, 1978).

2.4.3 Manipulating Elements of the Marketing Mix

Gruca and Sudharsan (1995) contend that a firm will react to the entry of a competitor, based on the perceived threat of the entry, through a Functional Level, Business Unit Level, or Corporate Level of defence. The level at which a firm will respond is largely dependant on the type of organization and the perceived state of the competitive environment, which also determines whether

a response will be effected through a single or multiple element of the marketing mix.

Strategies could be affected through a combination of elements in the marketing mix (Gruca and Sudharsan, 1995). A strategy undertaken utilising a single element of the marketing mix, might employ a pricing strategy seeking to defend against competitors through market share gained by low pricing. Eliashberg and Jeuland (1986) contend that a pricing strategy that encourages enough buyers to switch away from entrant products, in favour of the incumbent, could leave insufficient demand to cover the cost of entrance. Another alternative would be for the incumbent to focus on advertising spend (Gruca and Sudharsan, 1995). This could be instituted to outmanoeuvre new entrants through the formation of a strong base of customer loyalty and the increase of capital requirements for defence.

A marketing mix strategy in contrast, would employ an integrated approach to product differentiation (Gruca and Sudharsan, 1995). This is based on the premise that market share and customer loyalty can be protected through a combination of high advertising, control of distribution networks, after-sale service, and patented products.

Product line strategies could be employed by organisations looking to take the approach of building switching costs that become apparent when customers initiate changes to competitor products (Gruca and Sudharsan, 1995). This has substantial impact when customers acquire skills which are specific to a firm as

they are less likely to risk the cost inherent in a move to a competitor product (Stigler and Becker, 1977).

Business Unit Level Strategies could involve responses directed at the organisation's distribution strategy (Gruca and Sudharsan, 1995). Through the tight control of distribution channels, an important cost advantage might be obtained which could be leveraged off to the advantage of the incumbent (Salop and Scheffman, 1983). Gruca and Sudharsan (1995) indicate that forward integration, or strong links between the components of the distribution channel are responses that create substantial barriers to entry and difficulties for new entrants.

Finally, Gruca and Sudharsan (1995) propose that incumbent firms could respond through Corporate Level Strategies by establishing a foothold in the attacker's home market or through the combined defence of stakeholder relationships. Provided the firm's product offerings are related, an attack on the competitor's home base might serve to reduce profits that would provide a valuable means of funding the expansion. Day (1997) takes stakeholder relationships a step further and offers a strategy based on the joining of alliances and the pooling of resources with other companies. This strategy would serve to provide access to expensive capabilities and assets that could be shared among existing players.

2.4.4 Aggressive Amalgamators

A more aggressive approach is taken by firms dubbed “aggressive amalgamators” by Day (1997). These firms take a proactive approach to their markets in the face of globalisation and the influx of international competitors. Aggressive amalgamators base their approach on the acquisition of smaller rivals, the curtailing of operating expenses and an investment in new technologies enhancing minimum efficient scales.

Another alternative that could be pursued as a strategic response, could be to capitulate in the face of pending failure and sell the company to a prospective bidder (Day, 1997).

2.4.5 Conclusion

The nature of the strategic responses implemented in previous studies has shown to be wide and varied, ranging from an offensive approach to a defensive, and even capitulating alternative. These responses are influenced by a number of factors culminating in the chosen direction.

2.5 *Outcome of the Literature Review*

The review of the prior literature relating to the manner in which firms choose to compete when facing the entrance of international competitors has shown that there are numerous responses that an organisation might choose to undertake. These responses range from a decision that might take the current South African operation into international markets, to a decision that undertakes to maintain current operations with little regard of the uninvited participant.

Previous research proposes these responses to be partly as a consequence of a combination of elements related to an organisation's chosen strategy, including the strategy formulation and decision-making process within it and the manner in which the decision-makers perceive the competitive environment and the organisation's internal affairs.

The strategy formulation process that firms choose to engage, seems to differ across organisations and is heavily influenced by a number of factors, including the role players exerting an influence in the organisation and the culture of the firm that has given rise to its strategy formation practices. The culmination of the response through the strategic decision-making process is also thought to play a role in determining the response that a firm might choose to pursue. The evaluation of the strategic alternatives has been shown to be influenced by various factors, including political undertones, groupthink and over-confident leadership. A closer investigation of these processes will offer insight into the dynamics that determine why particular strategic responses were undertaken in the banking industry.

The manner in which a firm perceives its position in the competitive environment and its capabilities, relative to the new entrant, also determines the level at which it will choose to react. The manner in which firms perceive the threat plays a determining role in the type of strategy they undertake to implement. These perceptions might include a rational reflection of the external environment or they might be skewed by false experiences. A deeper



exploration into the perceptions of the firms competing in the banking industry will offer insight into their perceptions and its subsequent impact on the strategy formulation process.

3. Chapter 3: Research Questions

This research will undertake to explore the strategic responses that South African banks have undertaken in their reaction to the entrance of Barclays to the South African market and the manner by which these responses came to fruition.

In order for the research to be undertaken as an exploration with a meaningful direction, an extensive review of literature relevant to the topic was conducted. As the analogy of Christopher Columbus approaching the Queen for resources to fund his journey explains, he had at least a handful of well thought out ideas (although sometimes mistaken) prior to setting off on his exploration of America (Yin, 2003). As did Mr Columbus, so has this journey embarked with a review of current literature relevant to the study. The analysis of the literature revealed several themes that were identified as potentially influencing the strategic process and response that firms choose to undertake. This research will focus on three of these themes that were identified, with an in-depth exploratory focus on the extent and detail of their influence.

The first theme identified, relates to the manner in which firms perceive their competitive environments within which they operate and shape their future based on the information at their disposal. The second theme speaks to the influence of the strategy formulation and strategic decision-making process and the extent to which the firm's response is shaped by the processes that it has

at its disposal. The final theme speaks to a culmination of the two preceding themes and the firm's choice of response based on its capabilities and interaction with the external environment.

As such, the research will specifically seek to explore answers to the following three research questions within the context of each organisation studied:

Research Question 1

- What perceptions influence the strategic responses that incumbent banks choose when competing against international players?

Research Question 2

- What is the strategy formulation process undertaken in the development of the response within different banks?

Research Question 3

- What were the strategic responses employed by the different incumbent banks in reaction to the international competitor?

4. Chapter 4: Research Methodology

4.1 Methodology

The research design process created a blueprint for the research and guided the process in terms of the methodology employed, the data relevant to the exploration, the data collection method and the process of analysis (Yin, 2003).

An early stage of the research process was to identify an industry and a selection of organisations within it that would be earmarked as the subjects of the investigation. A cursory scan of the South African environment over the period, post sanctions to date was undertaken in search of an industry that had been subject to the entrance of a significant foreign competitor that would likely have elicited a response from the incumbent firms competing within it at the time. Although a number of examples presented themselves as viable alternatives, the most notable entrance was that of Barclays Bank that announced its presence with a substantial investment in ABSA, as described in the 2005 Financial Report, “The largest foreign direct investment in South African history” (2005, p. 33), on the 13 June 2005. As such, this major event in South Africa’s democratised history was chosen as the basis for investigating the strategic responses that were formulated by the South African operations that happened to be competing in the industry at the time.

This research was undertaken to gain a deeper understanding of the strategic options chosen as the appropriate course of action by South African banks

acting in response to the entrance of a substantial international competitor in the South African banking environment. The investigation set out with the intention of gaining a deeper understanding of the process by which the strategic responses were formulated and the factors that impacted on the decision outcome. Since these factors are partly accountable to a number of variables, including the manner in which they are related to the subjective perceptions and the network of individuals residing within an organisation, an in-depth study was favoured, in an attempt to gain insights into the issues pertaining to the problem. In pursuit of an insightful interpretation of the contributing issues, a deep understanding over a small sample of subjects was chosen rather than a shallow interpretation over a wide range of participants, as advocated in a quantitative, survey-based research process (Leedy and Ormrod, 2001).

The case study methodology was employed to bring both depth and insight to the problems through recounting the tales of incumbent operations that were subject to the experience of competing against Barclays. Eisenhardt (1989b, p534) describes a case study as a “research strategy which focuses on understanding the dynamics present within single settings.” This intimate connection with empirical reality allows for the creation of a grounded and relevant theory (Glaser and Strauss, 1967). The highly focused nature of the methodology also allowed for a careful analysis of the order of events (Zikmund, 2003); provided insight to the dynamics of the strategy formulation process and

the nuances inherent in each organisation; and the relationships that exist between the functions and individuals.

The rationale and direction of the research was guided largely by the three research questions that were informed by the extensive literature review described earlier.

4.2 Population and Sampling

Once the case study had been chosen as the appropriate vehicle for the research, the second phase was to determine which organisations would be appropriate representatives for investigation.

A multiple case study design was chosen as the evidence and conclusions drawn from multiple cases are viewed to be more compelling and robust than those drawn from a single study (Yin, 2003). Analytic conclusions that arise from more than one case are seen to be more convincing than those emerging from a single case. A second reason related to the fact that the positioning of each of the firms within the industry is likely to be different. Common conclusions drawn from these contexts, even though the circumstances of the cases might vary, provided more external generalisability as compared to a single case study (Yin, 2003). In addition, multiple case studies allowed for an analysis of variability in response due to the different positioning of the firms in the industry. The variability of observations as a result of industry differences was accounted for by keeping the industry that the organisations operated within constant.



Yin (2003) describes the selection of cases to be chosen as a laboratory investigator might select the topic of a new experiment rather than viewing them as “sampling units”. In so doing, the logic sought is one of replication, where the approach to each case is undertaken with the same process so that findings might be considered reliable. Case study methodology differs from survey research in that the latter relies on statistical generalisation whereas the former relies on analytical generalisation (Yin, 2003). Analytical generalisation attempts to generalise a particular set of findings to a broader construct of theory.

Three cases were explored. Each one represented by a member of the “big 4” banks in South Africa competing against Barclays. The three banks included Standard Bank, Nedbank and the FirstRand Group. The three banks were identified as exemplars, each operating on a relatively similar basis, with the majority of their focus being regionally bound in South Africa. These organisations were seen to provide the best opportunity for a “literal replication” where similar patterns in response to Barclays might best be observed. Based on the level of certainty to be achieved from studying all of the large South African banking institutions and the fact that sampling logic does not apply, three case studies were regarded to be sufficient to provide sufficient insight into the research questions.

4.3 Unit of Analysis

Yin (2003) describes the appropriate identification of the unit of analysis as key to the research process as it dictates the research design and data collection methods to be employed.

Since the strategy formulation process was a key component of the research, it was necessary to gain insights from a broad selection of participants that were involved in the process of defining the strategic response employed by the organisation. The organisations also comprised multiple organisational levels including among others, functional levels, business-unit levels, and corporate-levels. These organisational clusters comprised of multiple participants that influencing the overall strategy, including members of the executive team, members of the business unit executive, divisional executives and members of teams responsible for analysis and strategy formulation within the banks.

The cases gave attention to two primary units of analysis. The first unit of analysis is defined as the strategy formulation process that the incumbent organisations have undertaken in view of the increased competition that they have recently been subjected to, manifested in terms of the Barclays entrance. The second unit of analysis is defined as the strategic responses that the incumbent banks have chosen to pursue as an outcome of the strategic formulation process engaged.

The banks were characterised by one strategic process which was responsible for the formulation of the overall strategic response. Attention was also given to

variables that were identified as having an influence on the primary units of analysis. This included the strategy formulation behaviours of the individuals residing within the organisations that were responsible for creating the strategy, as well as the perceptions harboured by these individuals that would have had an influence on the outcome chosen. Attention was also given to the mechanisms employed by the decision-makers that enabled an evaluation of the alternatives at hand and an agreement to pursue a particular avenue of action.

Individuals included in the research were required to have operational responsibility over the period 2004 – 2006, during which time the strategy formulation processes in response to Barclays would have been undertaken.

4.4 Discussion Guide Design

In depth, face-to-face interviews constituted the primary method of data collection for the research. The most important tool utilised to guide this process was the Discussion Guide, attached in the Appendix.

The Discussion Guide was created to probe four distinct areas in the face-to-face interviews conducted with key individuals in each organisation. Since the research was exploratory in nature, all of the questions were open-ended leaving opportunity for a deep exploration of the key issues.



The first component positioned the interview and probed for information that would be utilised in understanding the context of both the individual being interviewed and the bank.

The second component of the Discussion Guide explored the individual and the organisation's perceptions of the competitive environment (Gruca and Sudharsan, 1995; Macdonald and Neupert, 2005); the organisation's competitive assets (Dawar and Frost, 1999); and the entrance of Barclays Bank.

The third section sought to gain an understanding of the competitive response that the organisation implemented in reaction to the Barclays entrance. Charitou and Markides (2003), Greenwald and Kahn (2005), Ghemawat (2005), and Dawar and Frost (1999) all propose a range of potential responses that an organisation might pursue, from deepening its existing capabilities to extending its operations offshore. This component of the interview utilised these cues as a platform from which to explore the actions implemented by the incumbent South African banks.

The fourth division of the Discussion Guide explored the strategy formulation process responsible for developing the strategic response. Mintzberg and Lampel (1999), Hart and Banbury (1994), and Hart (1992) all describe a number of different processes by which firms formulate their strategies for the future. This section probed for an understanding of the participants involved, the analysis used, and the interactions across the group. It also sought to gain an

understanding of the organisation's overall philosophy to the formulation of strategy within its operations. As described by Hart (1992) and Mintzberg and Lampel (1999), there are two broad frameworks by which strategy is formulated in organisations, namely a deliberate, rational approach, or an emergent design process.

The final part investigated the decision-making process employed by the firm. Deeper insight into this process sought to build on previous work done by Nutt (1998), Pfeffer (1992) and Mintzberg et al (1976) among others, to gain some insight into the evaluation and decision-making processes engaged by big South African banking organisations.

The Discussion Guide was also discussed in detail with the research supervisor prior to application to ensure that it sufficiently covered the landscape of the process that it intended to explore.

4.5 Data Collection

Data collection was undertaken over a period of two months, during which time twenty-three senior representatives from incumbent South African banking organisations were contacted. These contacts, in the main, constituted of in-depth, face-to-face interviews that typically lasted an hour in duration.

The process initiated with an identification of key individuals within each organisation that might be able to provide an in-depth point of view, based on their personal experience of the bank's response and strategy formulation



process over the 2004-2006 period. The individuals identified as key candidates included a representation from senior management that would be able to share experiences from a decision-makers' point of view. Individuals involved in the teams responsible for the development of the organisation's strategy were also identified as key informants of the organisation's processes undertaken.

Each key individual contacted was also then canvassed for additional names that would add supplementary insight through their direct involvement in the process. Each additional individual interviewed expressed their experience from another perspective that either supplemented previous data gathered or validated perceptions that were expressed by a selection of the other individuals spoken with. A large component of the individuals interviewed, were contacted as a result of a referral by another party in the organisation. In this manner, a broad representation of the overall organisation was obtained and interviews were conducted across divisions and functional areas within the banks.

Most interviews conducted were approximately one hour in duration, face-to-face, and typically conducted at the interviewee's place of work. The list of individuals interviewed is attached in the appendix.

The discussion document was used as a guide to ensure that the central themes were covered in each interview performed. Handwritten notes were taken as a record of the experiences shared by the participants. Within six hours of each interview, the researcher dictated a full length, detailed transcript

of the interview from memory and hand-written notes. These dictations were transcribed into a document as a detailed record of each interview conducted.

A second source of data, collected throughout the process, included company documentation that interviewees were willing to share, company annual reports, press releases, and industry reports. This data was collected in an attempt to maintain a high level of construct validity. Information collected from individuals was also tested in subsequent interviews as the process progressed to establish a solid chain of evidence. Wherever possible, multiple sources of evidence were collected to corroborate the opinions expressed by the interviewees.

4.6 Analysis

Patton (2002) described qualitative analysis as modern day alchemy. Instead of trying to transform base metals into gold, modern-day alchemists try and transform raw data into knowledge. Since the challenge in qualitative analysis lies in trying to make sense of voluminous amounts of data, the researcher plays a critical part in the process of reducing the volume, identifying patterns in the data, and constructing a framework that can be sensibly communicated to others (Patton, 2002). Importantly, there are no absolute rules but the process was rather guided by the judgement and creativity of the researcher.

Eisenhardt (1989b) describes the most fundamental building block of case study analysis to be the within-case analysis. This component of the process was undertaken with the intention of making sense of the vast volumes of data



collected during the data collection phase and was the first component of the researcher's journey of taking hundreds of pages of field notes, and interview transcripts and whittling them down to a selection of calculated, final conclusions.

The process of within-case analysis began by creating detailed write-ups for each of the organisations researched. The write-ups were created with the intention of offering a descriptive series of events incorporating the views of the actors involved in the processes at the time (Eisenhardt, 1989b). These detailed write-ups initiated the generation of insight and were facilitative in reducing the enormous volumes of data into a coherent framework and narrative of the events undertaken in each organisation.

The within-case analysis culminated in three narratives, one for each respective bank studied. These narratives offer a detailed description of the events undertaken by each organisation, as described by its participants, in the development of its strategic response to the Barclays entrance in 2005. As indicated by Eisenhardt (1989b), the creation of the narratives allowed the researcher to grow intimately familiar with each individual case as an independent entity and permitted the unique patterns of each one to emerge before attempting to find general patterns applicable across the range. The rich familiarity obtained from the within-case analysis also accelerated the cross-case examination which followed.



Following the process described above, began the process of pattern matching, time series analysis, and explanation building for each independent case researched (Yin, 2003). This process initiated with the identification of the core patterns emerging within each case (Yin, 2003). These patterns were grouped through an explanation building analysis that combined learnings from past literature reviewed and the observed emerging patterns into three broad areas, namely the organisation's strategy formulation process, its perceptions of the competitive environment and its strategic response implemented.

Within the three broad areas defined, a combination of emerging patterns, time series analysis and explanation building analysis (Yin, 2003) was utilised to build a description of the events that took place, as well as a general explanation for the behaviour occurring within the case. The perceptions harboured by the organisations, as well as its strategic responses implemented that were reflected in the cases were specifically analysed through a combination of identified emerging patterns and an explanation building analysis. The strategy formulation process reflected in the cases was analysed through a time series analysis, where a chronology of events was mapped (Yin, 2003), as well as an explanation building analysis, with the intention of building a general theory applicable to each case.

Following the within-case analysis, a cross-case search for patterns occurring across the cases was performed. Eisenhardt (1989b) contends that people are principally poor processors of information and exhibit a tendency toward

information-processing biases. In order that this inclination was avoided, the information was subjected to many different methods of viewing it. The cases were subjected to analysis through various categories, defined by the researcher or the research questions in an attempt to locate patterns in the narratives. Another method utilised was to pair the cases up against one another in order that the similarities and dissimilarities could be listed, forcing a detailed reflection of the nuances existing within each story. This method of forced comparison was undertaken to break out of one frame of thinking to create new categories and a more sophisticated understanding (Eisenhardt, 1989b).

The analysis was ultimately undertaken with the intention of identifying the set of parameters which were seen to impact each individual case. These parameters were then analysed across the cases to investigate the difference of their impact in each organisation.

The final component of the analysis allowed the researcher to identify the core elements evident in each of the cases investigated and compare these in light of the review of the previous literature.

4.7 Limitations

Some limitations of the research have been identified and outlined below:

- The qualitative and exploratory nature of the research determines that the findings are representative of the parties and divisions interviewed and are not representative of the organisation as a whole; neither do they hold



broad application to industries outside of the banking industry or organisations studied.

- The research only managed evidence applicable to literal replication logic and not theoretical replication logic (Yin, 2003), which would otherwise have further bolstered conclusions relating to how organisation's competing against multinational entrants might be different from companies competing against local players.
- The research focused on one foreign competitor that might not be representative of all international players that enter the South African market through different means. Barclays entered the market through the acquisition of a major local operation rather than entering on a small scale and attempting to grow organically. As such, findings may not be applicable to the full range of means by which multinational organisations might choose to enter the market. Similarly, banks choosing to respond, may do so in a different way, based on the method of entry.
- Although key individuals, a small sample of representatives were interviewed from the overall organisation. Considering the size of each organisation, these views represent only a fragment of the overall bank and are not necessarily representative of everyone within it. They are also not an exhaustive list of the strategy formulation processes nor the strategic responses that banks and the divisions within them employed over the period.

5. Chapter 5: Results

5.1 Introduction

The results section includes a report of three cases describing three organisations' strategic responses and the processes by which these strategies were formulated in reaction to the entrance of Barclays to the South African banking market in 2005. The first case provides insight into Nedbank's story, the second describes the activities undertaken by Standard Bank, and the final case covers FirstRand Bank's processes over the period.

5.2 Nedbank

5.2.1 Background

Nedbank had historically been a niche player, a strong Corporate and Investment bank, enjoying great successes up until the early part of the 21st century. 2004 represented a significant year in the organisation's history, incorporating the introduction of a totally new executive and a complete review of the organisation's strategy after enduring a series of events in the early years of the millennium that threw it into near financial ruin. The bank had implemented a sequence of strategies during the 1990's that were largely responsible for taking Nedbank through a crisis that necessitated a complete turnaround and a R2 billion cash injection from its Old Mutual parent.

The 1990's saw Nedbank shifting its focus to a strategy with a heavy emphasis on technology (GIBS, 1995). It acquired equity stakes in technology companies, including a large stake in Dimension Data, to position it on the



leading edge of new technology developments. Nedbank anticipated a convergence of technology and banking away from bricks and mortar operations toward an increased utilisation of online applications. It further pursued this by shedding itself of a large portion of its distribution footprint with the intention of focusing intently on its most profitable clients. Another factor contributing to its financial predicament was Nedbank's intention to retain a substantial portion of R9 billion worth of capital offshore, in dollar denominated investments, with the view that the weak Rand would persist into the foreseeable future.

The combined losses suffered by Nedbank in 2002 and 2003 with the burst of the IT bubble and the plummet in Dimension Data shares, as well as exchange rate losses suffered as a result of the steady strengthening of the Rand, triggered the crisis that characterised the period.

These difficulties were also experienced in conjunction with a recent merger between the Nedcor Group and BOE, initiated in July 2002. The associated retrenchments and instability characterising the merger, compounded by the bank's financial difficulties at the time nurtured an atmosphere that depressed staff morale. This required an additional people focus for the subsequent turnaround under the leadership of the new Chief Executive Officer.

The new CEO began his tenure in 2003 by initiating a plan to try and get the basics of the Nedbank operation right. As described by a member of the Group Strategy team, "His intention was to first get the house in order in South Africa.

He focused on selling the non-core components of the business. The key drivers were to fix the local organisation and to refocus the group as a customer-centric organisation. 2005 brought with it the year of Nedbank's focus on improving its client service and co-ordinating the activities of staff issues."

5.2.2 Strategy Formulation Process

Group

Nedbank's strategic response to the Barclays entrance to the South African market was formulated largely as a component of its overall corporate strategy planning process that is undertaken as an annual activity within the organisation. This process encapsulated the bulk of activities relating to the organisation's response to the Barclays entrance, although individual tactical responses were also assembled by individual business units that were undertaken as part of their continuous interaction with the external environment. These tactical responses formed part of the business unit's process of strategy development that is iterative in nature and heavily influenced by its constant interaction with the external environment.

The formal strategic planning process, undertaken as an annual activity, is typically initiated by the executive team which is responsible for beginning the cycle of defining the strategy for the year ahead (as part of a three year plan). The role players in the initial phases of this process include the Nedbank executive team members and the Nedbank strategy teams.



The Group strategy team and the executive, together create the strategic framework for the overall group. Each cluster (see Figure 24 for Nedbank Organisational Structure) also has a strategy team that is responsible for the co-creation and coordination of the strategy for that division. In the main, the clusters are primarily responsible for developing their own strategies and business plans, which are done in a coordinated effort with the business unit heads and the strategy teams that comprise it.

The overall strategy planning process is described as a “top down, bottom up approach”, as strategic themes (created by Group executive) are pushed into the clusters, creating a strategic framework within which the business units are expected to operate. Business units are chiefly responsible for creating their own strategy which is then fed back up to the executive for sign-off. This process ensures that the entire organisation is aligned toward a common direction defined by the executive team.

Before the overall process is initiated, the strategy champions from each of the organisational clusters research a number of events for input into the executive meeting. Tools utilised to scan the external environment as part of this analysis included the PESTEL analysis, providing a careful evaluation of the Political, Economic, Social, Technology, Environment and Legal attributes of the landscape. Key industry players were also surveyed on their opinions that the industry might follow. The outcomes of this analysis in 2004 and 2005 included: the risk of foreign competitors; legislation impacting on the bank; and

disintermediation along the value chain. All of the important factors were debated and synthesised to define what was termed, “future shaping forces”.

Barclays was analysed as part of a generic strategic theme labelled “international bank’s consolidation” in 2004. A member of the executive team recalled the bank’s activities, “The issues around foreign banks entering the South African market and purchasing domestic banks have been part of our thought processes for a number of years. The Absa / Barclays deal wasn’t a surprise to us as there had been rumours in the market for a long time”. In 2005, subsequent to Barclays’ acquisition of Absa, the scope of the analysis became more focused on the specific impact of the Barclays entrance in the South African market.

As described by a strategy team member, the analysis performed leads the team into the next component of the process and assists them to define what is described as a picture of the “ideal future”; an illustration of what Nedbank would want the future to look like. Contrasting the “ideal future” from the current reality identifies a gap, with which “change thrusts” are identified to move the organisation to its ideal reality while taking the external reality into account. The identification of the “strategic change thrust” areas allow the team to devise a business plan to achieve the “ideal future”. The business plan stretches over a three year period, with the first year translated into a budget for that period.

The “future shaping forces” are then distributed through to the business units where each has an opportunity to identify those that pose a concern for them



and are then expected to determine an appropriate course of action. In 2005, the business units identified which of the “future shaping forces” they were to be most affected by and passed their strategies and business plans in response backward through the cluster, to the executive. A member of the executive team recalled the activities in 2005. “We pushed into the teams what we wanted them to focus on ... We positioned with them that they needed to specify what the Barclays transaction meant for their businesses and what their response was going to be to that assessment ... We chose to do it more within our businesses rather than putting together a cluster task team. Each business unit would have had a responsibility for its own space.”

The “Top 500” is an initiative utilised to cascade the strategy down the organisation and retrieve feedback on the proposed strategy being handed down from the group level. In mid-June 2005, a large team gathered for the “Top 500”, a strategic planning session that involved participants from across the organisation. The team comprised the CEO, the three heads of Corporate, Capital and Retail, the heads of each of the “mono-lines” (business units reporting into clusters) within the clusters and their management teams. The total number of participants amounted to approximately five hundred people who participated overall.

The role of the CEO through this process was described by a participant as follows: “As chairman of the group exco, the role of the CEO would have been in the setting of the vision and the overall strategy for the group. We [the

executive team] would come out with an idea of saying what we think the big themes for the year are. The CEO owns all of these themes, which are signed off by the exco. His job is also to sign off all of the strategic plans for the business units and ensures that they align with the group's strategic plan ... The key job of the chief executive is to own the strategy of the organisation.”

Retail

The formulation process in 2005 took place in two events over two levels. The first stage was undertaken by the Group executive team who defined the “future shaping forces”, the “ideal future” and the “change thrusts” and filtered these through to the clusters and business units for feedback and amendment through the “Top 500” meeting.

The second phase then took place at a cluster level, where the heads of the Retail cluster initially undertook an identification of the top themes for the retail business before introducing these to the balance of the business units within the cluster for a strategy planning session. Once these were identified, the Retail cluster, comprised of its Top 100 leaders, participated in a two-day strategy workshop. In this workshop the key focus areas were constructed and careful attention was given to ensure that it was aligned to the Group goals, expressed through the “Top 500” meeting.

This team comprised of the heads and teams of the nine business units (mono-line) within the Retail cluster, amounting to approximately 110 people in total. Each business unit then created its own strategy and ensured that it aligned to



the requirements defined by the Group strategy. Each mono-line business unit was responsible for defining the central elements of its own strategy through this component of the process. During this series of events, the issue of the Absa / Barclay merger was dealt with.

An internal prioritisation process within the Retail executive prioritised conflicting or misaligned goals. This process constituted ten members that assembled together with the Retail Executive to tease out the goal formulation process based on the merits of each contribution and the value that it would provide. In this manner, decisions were undertaken based on criteria that were perceived as important by each individual in the process.

The Retail Strategy Team played a key role throughout the process. In preparation the team produced vast quantities of market analysis that covered a wide spectrum of internal and external factors. From this analysis, a massive document positioning Nedbank and its current performance in the industry was produced. This created a platform from which the Retail discussions were able to take place.

After the Top 100 had made their decision relating to their objectives, they were fed back into Retail Exco and Group, and then communicated in detail to each of the mono-lines.

Capital

Nedbank Capital did also not undertake a separate process in response to the Barclays acquisition choosing rather to formulate their response as part of the organisation's overall strategic planning process. The business unit and the Strategy and Transformation division that was responsible for the coordination of the cluster's strategy, undertook a similar process to that pursued by the Retail cluster. The head of the Strategy Unit at the time recalled, "The acquisition wasn't identified as an immediate threat that required urgent attention ... it would be a gradual process that would happen over a period of time ... the analysis and formulation process slotted into Nedbank's annual planning process and the environmental scanning component of it."

Through the 2005 strategic planning process, Nedbank Capital submitted its proposals in response to the "future shaping forces" that were distributed through to the business. As with the other clusters in Nedbank, and part of the overall analysis of the "future shaping forces", each business unit within Capital produced an analysis of the Barclays entry to determine the impact that it would have on their business. "Some business units within Capital expressed concern, whilst others were unaffected due to the structure or position of their businesses," recalled a member of the Capital team. Each one defined a business plan detailing their intentions for the future and submitted this back through the Capital cluster to the executive.

5.2.3 Perceptions and Analysis Group

The notions harboured by the organisation at the time perceived the Barclays acquisition as both a threat which could significantly alter the competitive landscape as well as a non-event that would have a minor impact on the bank's operations going into the future.

At a group level, discussions among the team members described the Barclays entrance as a threat to the organisation through the acquisition, aimed at accelerating the ABSA strategy. An executive's concerns indicated that, "The perceptions of Nedbank related primarily to the fact that over time Absa would become a stronger player in the South African market, particularly in the wholesale side of the business ... our view was that what Barclays would be doing would be to significantly leverage up what was the existing Absa Capital to create a more substantial player." In the conversations, Barclays was seen as an extremely large, capable bank, aligning with another extremely large and capable bank. Other international banks that had been seen to enter the market had come and gone without much disturbance. They had typically entered with the targeting of niche areas, and a quick exit strategy. All of the other international players have been perceived very differently to the Barclays acquisition. A Strategy Champion explained, "The entrance of Barclays was perceived as a threat. Their alignment with Absa gave them access to a host of opportunities that it didn't previously have. The statement that Barclays made in purchasing one of the big four banks, was that they are here to stay, and they



are here to make it work.” This sentiment was also contrasted with another view expressed by a selection of the individuals involved in formulating the Group Strategy, “We’ve also been competing against international competitors for over ten years ... our feeling was really that it was really just another player.”

In terms of the synergies considered, Barclays was perceived to be exceptionally strong in Capital where Absa was previously weak; Barclays provided a substantial presence across Africa; they provided international knowledge accessible across the globe; access to technology and technical expertise and a host of intellectual capital; and Absa provided the benefit to Barclays of a vast distribution footprint.

Analysis

The sources of advantage that a bank like Barclays was perceived to bring to an operation like Absa related to, “The people and the skills that they would bring with them; the systems that they would have access to; and the infrastructure and supporting structures they would have developed”, as described by the Group Strategy Champion. The Capital strategy team argued, “Systems were presumed to be superior relative to Nedbank as the Green Bank only has limited experience in operating its systems in its own environment; while a bank like Barclays is expected to have acquired experience across multiple markets that it might leverage off to find the best fit for South Africa.” Barclays was perceived to be able to draw on its past experiences to the best of various different applications that they have implemented over the years.

Supporting systems and technologies were thus presumed to substantially enhance the Absa operation.

Specific analyses conducted by the Group Strategy Team identified key aspects relating to systems (Figure 1).

Figure 1: Nedbank Group Analyses

<p><u>IT and operations:</u></p> <ul style="list-style-type: none">○ Leverage Barclays' IT capabilities.○ Enhance procurement organisation and practice.

Source: Nedbank Group Strategy Division

Barclays was also seen to provide Absa with the ability to leverage off substantial capital resources and gain access to cheaper funds as well as utilising the opportunity of centralising many of the major support functions across the globe like HR and call centres, which would enable them to reduce their cost to income ratio and allow them to compete more efficiently.

Barclays overall, as described in a Nedbank Group Circular, was seen as an “Excellent partner as it is a leading international financial services institution, has Aa1/ AA / AA+ credit ratings, a large capital base, preferential capital markets access, a comprehensive world-class range of services, products and capabilities, corporate and merchant banking expertise and a significant sub-Saharan African franchise.”

The research conducted by the Group Strategy Team indicated that that the planned estimated synergies would amount to approximately R1.4bn and the cumulative 3 year cost of implementation R1.8bn, as conservative estimates. Analyses indicated that should the synergy realisation phasing numbers be accurate, the industry could expect the “new” ABSA to be operating optimally by 2008/ 2009 (Figure 2).

Figure 2: Nedbank Group Anticipated Synergies

Synergy realisation and investment spend							
	Rand Bn	2005E	2006E	2007E	2008E	2009E	2010E
Synergy realisation	1,400	0%	10%	20%	50%	100%	100%
Investment required (costs)	1,800	10%	30%	50%	10%		

Source: Nedbank Group Strategy Division

Notions also abounded though, that down-played the significance of the Barclays entrance. From a group perspective, when the environmental scanning was performed, the Barclays entrance was perceived as only one of many other more pressing internal and external forces that were perceived to have a more significant impact on the bank’s operations. A member of the strategy formulation team explained, “It’s hard for a company [Nedbank] to worry about competition when they’re in a turnaround. In 2005, when Barclays entered the market, for Nedbank it was a case of, ‘Join the club ... we’re already so far behind.’ The last thing that we were concerned about was competing with Barclays. We were too busy fixing our internal operations.”

These perceptions were supplemented by another sentiment indicating that the Barclays entrance wouldn’t have an immediate effect that might, “suddenly soak

up a significant percentage of the market share”. It was perceived rather as a gradual process that would happen over a period of time and thus prioritised lower down the list. In addition, the process by which Barclays would need to get its internal affairs in order was perceived to take in the region of three years and as such, was understood to be weighted in favour of the existing banks.

Although the Barclays entrance was viewed as a threat from the Nedbank side, some also identified advantages for Nedbank that the merger brought with it. Contentions indicated that a host of internal cultural issues were likely to be unleashed within the organisation, which would provide a window of opportunity within which Nedbank would have an opportunity to gain. Said a member of the executive team, “In the short term we saw opportunity ... any change in the environment creates opportunity for the existing players. We saw it as an opportunity to go out and build market share while they were settling down their structures.”

The new Nedbank structure was also perceived to have put Nedbank in good stead. Nedbank’s structure was perceived to be well aligned to offer superior client service. The poor client service reflected in the recent past was thought to be attributable, mostly to the BOE merger.

Retail

Perceptions emanating from the Retail Strategy team and the Retail executive of the business, expressed concerns about Absa’s substantial distribution. Distribution was viewed as the single most important criteria for advantage in



the retail space although Absa was already viewed as the best in this regard, so the levels of competition would effectively be undisturbed. A concern was expressed that Absa was seen to be continuing to invest heavily in its substantial footprint.

Conversations at the time spoke of Nedbank as having a serious gap in terms of its footprint in South Africa. This was discussed as evident not only in terms of branch representation, but also ATM numbers. Nedbank was said to have a poor ATM footprint, something that hasn't been given attention in approximately ten years. The problem was described by a member of the Retail Strategy Team as, "Absa, on the other hand, because of its financial strength and post the Barclays merger has continued to pursue growth in this regard. Nedbank has reduced to less than a third of the size of the Absa footprint. It has subsequently embarked on a R1 billion project to increase the spread of its distribution across the country." Nedbank's footprint was seen to have insufficient capacity to compete effectively against Absa in this regard.

Further discussions among the team members, indicated that the other areas in which Barclays might be able to improve of the Absa retail structure, would be in the processes, models and backend processing that drive the operation. In this regard, it was felt that Barclays would presumably be capable of adding significant incremental value.

"Nedbank's weaknesses emanated largely from its poor financial returns over the 2003-2005 period. This is largely as a result of the restructuring and the

BOE merger, which has required an extensive inward focus for a long period of time. This merger is seen to have had a severely negative impact on staff morale and the operations subsequent performance,” described a member of the Retail Strategy team. Specific analyses undertaken relating to concerns about Absa’s enhanced positioning are reflected in Figure 3.

Figure 3: Nedbank Retail Banking Analysis

<p><u>Retail banking</u>: A focus on retail cross-selling, credit cards and international product distribution</p> <ul style="list-style-type: none">○ On the ABSA card side, the division has already been more aggressive in gaining new cardholders, mostly by extending its marketing campaign beyond ABSA customers. "We're prepared to take more risk where it drives value overall for our shareholders. It's about customer management".○ Leverage Barclays' retail customer relationship management and product packaging capabilities.○ Apply Barclays' customer value management approach to credit cards and consumer finance. <p>Introducing its wealth products to ABSA Private Bank. One of these is the global access account, where an ABSA account holder who moves overseas can easily open an account at Barclays.</p>
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Source: Nedbank Group Strategy Division

Capital

In the Nedbank Capital space, discussions among the strategy team identified a handful of themes that were perceived as a threat to the existing Capital operation. The team posited that the existing Absa Capital operation would transform itself from a weak player in the South African investment banking market to an active competitor with a substantial supporter. An executive recalled his thoughts, “Overall I think that we would expect to see a slight optimisation and a tweaking of processes on the retail side of the business whereas in the wholesale side I think we would expect to see a step change, a

drastically different competitor in the market to what we were used to competing against.”

Recognising that the Absa Capital operation would transform into a more competitive offering, the Nedbank Capital Executive split their discussions into three central themes. The first theme related to the fact that Absa Capital would be able to grow without necessarily taking market share away from the existing players, through new offerings and innovative products. A Capital Strategy champion described the investment banking market as different from the likes of the Retail side that dictated that, “An additional account won for Bank A means one less for Bank B. Barclays was viewed to provide skills that would allow Absa Capital to make money off the market through new products and offerings.” In this manner, they were viewed to be able to grow rapidly, without necessarily taking any market share from Nedbank Capital. Absa Capital was viewed to pursue a strong growth through new products and new markets.

Secondly, Barclays was discussed as having the capacity to leverage off of its extensive global presence. With its presence in South Africa and other parts of the world, the issue was seen to be similar to the distribution issue faced in Retail, in that an expansive world-wide presence could present itself as an extremely compelling proposal to organisations operating internationally. An executive explained, “In the investment banking environment we also saw that the key thing that the alliance gives them, is a much deeper distribution network into international markets. Any big deals done in South Africa that would



require any international syndication, would probably be better placed with Barclays international as they would have better mechanisms for getting that paper placed in either the European or UK markets.”

The third issue raised by the team, related to the innovation inherent in investment banking. The fact that Capital markets in the developed world were so ahead of the South African markets was considered to provide an advantage for Absa Capital with its Barclays integration. New, innovative products, were viewed to originate predominately in these developed markets, one in which Barclays was an active player. Barclays’ resources were anticipated to have substantial international experience and a breadth of knowledge that South African operations would be lacking.

The sentiment expressed by the team described the competition as, “Banks grow through three important criteria, ideas, people, and the balance sheet. Absa / Barclays, has a blank cheque book that it is able to put behind its operations. Absa Capital is becoming extremely strong in all three.”

Discussions among the team members were staged over an extended period of time without any notable urgency. The Barclays entrance was considered unlikely to have an immediate impact on the business. The sentiment among the team members considered Barclays as the entrance of “just another competitor”. It was generally agreed that the business was competing regularly against world-class international players. Each time a tender was undertaken, the Nedbank Capital team competed against the likes of JP Morgan, Deutsche,

and Goldman Sachs. The entrance of one more international players was considered to add little additional discomfort to an already competitive market. As far as the team was concerned, they still recognised RMB as the biggest player in the market.

The analyses undertaken are reflected in Figure 4.

Figure 4: Nedbank Capital Analyses

<p><u>Investment and corporate banking</u>: Biggest upside from current position</p> <ul style="list-style-type: none">○ Exploit Barclays' upgraded and broadened suite of risk management and financing products.○ Enhanced access to major corporate clients.○ Access to international origination and distribution.○ Significantly enhanced trading capabilities based on stronger client flows. <p>Roll-out of a leading edge transactional banking system.</p>
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Source: Nedbank Group Strategy Division

Corporate

Discussions in the Corporate space expressed concerns around components that Absa / Barclays might be able to implement incrementally better, rather than significantly better. The biggest concern related to the loss of market share with corporates who were also internationalised. Companies like SAB, operating across the globe were anticipated to find the proposal of seamless international banking attractive. This was again considered a distribution issue from an international perspective. It was viewed as a difficult advantage to replicate. Corporate's analyses and perceptions are reflected in Figure 5.

Figure 5: Nedbank Corporate Analyses

<p><u>Business banking</u>: The major focus area (absolute determination to dominate this market)</p> <ul style="list-style-type: none">○ Market segmentation and product penetration expertise.○ Implement Barclays' "value-aligned performance management" methodology. The goal is to "create value for the customer", but a relationship manager has to know which customer to spend more time on, depending on the value they add to the bank. <p>Leverage Barclays' world-class credit assessment and relationship management approach</p>

Source: Nedbank Group Strategy Division

5.2.4 Response

Group

Several of the individuals responsible for coordinating the group strategy described the 2005 period as, "characterised by a heavy internal focus with the bank looking inward at its own operations, in order to turn the bank around." "As such, very little was undertaken by way of a specific response from an overall Group perspective as a result of the Barclays entrance." "Nedbank was focusing on keeping its people and stabilising the business. The acquisition wasn't identified as a severe entrance that required immediate attention, outside of its current problems."

Some group wide responses were pursued though, as a part result of the Absa / Barclays analyses undertaken as part of the overall planning and environmental scanning process. Over the period, Nedbank initiated a much closer working relationship with its international Old Mutual partner. Through this close relationship Nedbank sought to expand synergies between the businesses internally, including the use of Old Mutual's distribution footprint, the opportunity



to offer employees global experience, and leveraging off of the extensive balance sheet.

The Group had also chosen to place an increasing emphasis on the Retail component of the business. With Absa being particularly strong in the arena, and chasing market share, this increased in importance. The intention was described as, “Previously the split between corporate and retail was about 80:20. We’re now looking to increase the retail component more aggressively. We’re not looking to decrease the corporate component, only grow the retail.” Nedbank was seen to have a substantial gap in terms of its footprint in South Africa. It has subsequently embarked on a R1 billion project to increase the spread of its distribution across the country

Capital

One of Nedbank Capital’s chief concerns related to its ability to retain its key staff within the division. A member of the executive team explained Nedbank’s concern, “The key strategic issues where we saw ourselves at risk, related to people. Traditionally, Nedbank had had a strong wholesale franchise while Absa had a weak one. We were anticipating that Barclays would want to enter SA to build a wholesale franchise and would do this by purchasing people in the market. Our response to this was to ensure that all the appropriate human resource agenda were in place to make it difficult for them to come into the market and poach our staff. This included a review of leadership, the

environment, training as well as ensuring that they had the appropriate remuneration packages.”

From a Group perspective, Nedbank also performed various analyses with the intention of seeing whether it should be aligning itself with another international bank.

Nedbank Capital also sought out an international partner in direct response to the Barclays / Absa acquisition. It performed an extensive due diligence on various candidates and settled on an alliance with ABM Ambro.

5.3 Standard Bank

5.3.1 Background

Standard Bank has been operating as a mainstay of the South African banking industry for over a century (See Figure 25 in Appendix for Group Organisational Structure). As described by staff within the organisation, it has grown in tandem with South Africa, progressing steadily over the past 120 years. Throughout this period it has brought stable returns to shareholders and has grown as a trusted South African brand, revered amongst local residents.

A key incident in Standard Bank’s recent past was the failed attempt take-over bid by the Nedcor Group in 1999. The organisation’s successful evasion of Nedcor’s hostile acquisition presented a substantial milestone in Standard Bank’s history. Although Standard Bank had continued to be a solid and reputable organisation through the nineties, it got “fat, lazy, and arrogant” as described by one of Group’s directors at the time. The Nedcor bid forced

Standard Bank out of its arrogant mode of operating, making it aware that it was not immune to attack nor was it the bastion of the South African market that it perceived itself to be. The failed attempt emphasised that it needed to slim down on its operations, improve its efficiencies and offer a better return to shareholders.

The time was also characterised by a dramatic change in leadership, as Jaco Maree replaced Mike Vosloo. The new Chief Executive initiated his seat in office with the task of fending off the Nedbank attack. This event gave the bank a reason to rally together in a fight to save its heritage.

5.3.2 Retail

In 2005, two Business Units within the division were responsible for analysing and formulating a specific strategy for Standard Bank Retail in response to the Barclays entrance, namely Customer Strategy and Decision Support. These processes were undertaken as a supplement to the strategy formulation processes that were happening as a part of each business unit's continual engagement with the external environment.

Decision Support operated as an internal consultancy within the business unit. This unit had the responsibility for taking a long term view on the external environment and factors that would impact on the organisation. An executive member recalled, "They would also look at things such as the optimal head count for the bank ... all very strategic and longer term projects."



Customer Strategy, also referred to as Segment, in contrast was responsible for things like customer insights; the development of the customer value proposition; the direct impact and responses to be pursued by branches across the country; and frequently studied features having a direct impact on the division's profit and loss account. In an attempt to clarify, a team member explained, "An example of a segment response would be the development of an easy-aid for the sales force to give them a quick answer to disturbances in the market. The Customer Strategy area would be doing something similar to Decision Support but looking through the eyes of the specific offerings. The one was answering Retail questions that some may have had of the bank's long-term prospects whereas the other was looking after the day-to-day questions and working closely with product." The division performed all of its analyses in collaboration with subject-matter experts from the product houses and a spread of different resources across the division.

In terms of the Barclays entrance, the two teams performed complimentary roles although duplication between the activities did occur. A Senior Manager described the process, "There would have been an answer in terms of what Barclays' view of the long term market was ... which would have been an answer that Decision Support would have put together. Then there would be another response that would determine what we (Standard Bank) should be doing now, that would have been formulated by the Segment team."

Customer Strategy – Strategy Formulation

The Customer Strategy Team acted quickly upon the instruction of the Retail executive team early in 2005, when the announcement was made that Barclays would be entering the South African market through the acquisition of a majority stake in ABSA. A member of the team described the process, “We put a team together to undertake some analysis and formulate a response. A committee was created, that included representation from the segments and the products. It was a combined forum that collected all the feedback for a uniform response for Retail. It was comprised of two different working teams, one for Business Banking and one for Personal Banking. It was really a product-customer forum that had a combination of people from product and segment that looked at customer composition and customer value. Our philosophy was that working as a group provides interaction that develops a more robust response.”

Standard Bank utilised this task team to deal with the tactical responses that the Bank would undertake through its business units. It comprised of individuals from Segment and people from Product that together looked at the market and analysed how impacts in the external market might affect the bank. All of the Product owners and the Segment Heads would together come up with a combined response defined by the Steercom.

As part of the methodology employed in the analysis in early 2005, the team analysed cases and studied the Barclays model in acquisitions that it had made in Spain. The team looked closely at what Barclays did and the specific market

segments they decided to tackle. The contention was that having a look at where Barclays had previously performed similar transactions would provide the Retail Bank with a reserve of learnings from which to draw for their activities in the future.

All analyses generated by the team were then passed through to the Product Segment Steercom for comment and decision regarding responses for both the Retail Division as a whole, as well as each specific business unit. The Steercom comprised representation from all the product heads, including the likes of Vehicle and Asset Finance, Card, and Home Loans. The segment strategy also went to the Product Segment Council which the CEO of the Retail Division sat on. The Segment Manager further elaborated, “From there it went through to the Group Executive Team. I’d say that the CEO of the group guided the organisation through the questions that he asked. At the end of the day he did not get operationally involved in the Retail side of the business leaving that rather, to the CEO’s of the respective Divisions – but he did have sight of the activities.”

Customer Strategy – Perceptions and Analysis

A member of Segment recalled the perceptions of the Absa acquisition, “Barclays was perceived to be an expert in corporate and business banking ... from a Segment perspective. They were also perceived to have a slick CRM capability, whereas Standard Bank didn’t even have a single view of the client. It was also feared that Barclays was more customer-centric.”



The Customer Strategy Team analysed the competitive threat by considering, “It was then a case of asking what segment is Barclays going to want to play in? Is it going to be the mass segment or middle segment? Or perhaps the upper segments, like the private banking space? Absa historically, had had a small share in business banking. Absa Capital and Absa Corporate were significantly smaller than SCMB and RMB. If Barclays was looking to add value, they would need to go for a retail bank and extract value from the areas in which they have the strongest capability, namely corporate and investment banking.” Absa had historically been perceived as an extremely strong competitor, even without Barclays in the Retail environment.

It was considered highly unlikely that Barclays would enter the South African market with the intention of competing on price. A manager at the time substantiated, “A price war was very unlikely. If they had undertaken to compete on that basis, they would have been losing instead of gaining value. Lowering the prices would have reduced value in the overall market. Case studies of their operations in other markets told us that Barclays was very unlikely to undercut price levels, as they had not previously competed on this basis in other similar acquisitions in the past.”

There was also a view that the Barclays acquisition might provide a window of opportunity within which Standard Bank could gain market share from the Absa operation. It was considered that while Barclays and Absa were bedding down their culture and aligning the operations, which was envisaged to take anywhere

between eighteen months and three years, Standard Bank would have the upper-hand in winning market share.

Decision Support – Strategy Formulation Process

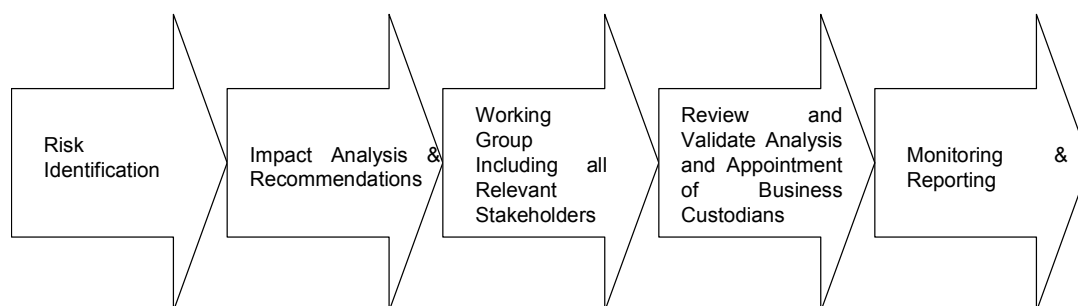
In describing Decision Support's involvement with regard to the Barclays entrance in 2005, a member of the Decision Support team recalled, "One of the risks that we would have looked at would have been competitor activity, traditionally and non-traditionally, locally and abroad. The bank is generally arrogant as to the risk that resides outside of their focus on internal operations. That's our responsibility; we identify what happens outside and feed it back into the organisation. That's where we identified the Barclays entrance, while things were still in talks ... December 2004."

It was felt that the Decision Support team's involvement needed to be employed because the Barclays entrance was perceived to have a significant enough impact on Standard Bank that it would cut across the majority of areas within the division and as such required a consolidated approach to the response. A team member explained, "It needed to be captured in a cross-functional response because it represented a strategic risk to the entire group."

The analysis that was undertaken in early 2005 was conducted by members of Decision Support as well as a selection of non-standing members that contributed to the analysis by way of subject-matter expertise. The team's analyses and output were then presented to the Retail executive, as a standing agenda item in their EXCO meetings. The Retail Executive was responsible for

making the ultimate decision based on any recommendations that were made to them (Strategic Risk Management Process outlined in Figure 6).

Figure 6: Strategic Risk Management Process



Source: Standard Bank Decision Support

The EXCO meetings were utilised as the platform for decision-making on all issues that would have an impact on the Retail Division of the business. The presenter of the Barclays analysis described the process, “A lot of the onus is on the presenter of the recommendations to drive towards a decision. The chairman takes overall responsibility for the decision and on this occasion drove it through the collective assessment of the discussion that happened around the boardroom table. It was a conversation that was summarised by the chairman, minuted and turned into a decision. The mandate of the EXCO team is a council to drive the CEO. This EXCO advises the CEO who is responsible for the final decision. The team members were there to give advice and drive the meeting and decision to the organisation’s greater success.”

Input into the analysis was taken from various sources. Inputs that were taken from internal sources in particular, included meetings held with Segment Heads



and managers to identify segment strengths and weaknesses; discuss potential counter measures; as well as confirm the main business impact drivers. The Market Insight Division provided the team with market research relating to industry market shares and conversion trends. Finance provided data in terms of key financial data (e.g. attrition rates) as well as providing a platform to “stress-test” the financial impact assumptions. The Economics Division provided data regarding FDI flows and exchange rate trends. Finally, analysts’ reports and other written material on the proposed deal were sourced from Investor Relations. External sources included input from analyst reports, the BarclayCard Managing Director, as well as the press.

Decision Support – Perceptions and Analyses

Barclays was considered to be a strong player that could enter the South African market with a host of offerings that could pose a threat to the existing Retail business. A number of possible strengths were identified by the team across its operations (Figure 7), particularly in its product offering and relationship management capabilities:

Figure 7: Possible Barclays Actions

Increase current share of wallet

- Barclays will focus on retention and increasing the “share of wallet” of the current ABSA high value customer base, which will complicate new business acquisition and pressure steep cross-sell targets (customer value management)

Target profitable “under-served” clients

- Barclays traditionally uses BarclayCard and loan products to target Agent Bank customers that are being “under-served”
- Barclays could in the medium to longer term use its data-mining prowess to target “under-served” clients through word of mouth and superior service levels (e.g. hassle-free credit)

Innovative Product offerings

- The Openplan product range is usually rolled-out as a standard across its International operations
- Some degree of cannibalisation (margin compression) is accepted as a cost against the background of additional revenue gain

Relationship Management

- Barclays has developed a robust CRM model, which it has been refining over the past few years. It sees service excellence as an opportunity, not a cost

International (cross-border) offerings

- Barclays International Bank with a footprint in more than 60 countries
- Barclays may use its “International Brand” to market cross-border solutions, targeting import and export business

Business Banking focus

- Barclays could leverage off the reputation of Barclays Capital to give selective Business Banking clients a Corporate-type service, through a revised segmentation approach
- One of the leading Business Banking players in the UK with Business Banking contribution of more than 48% of total Retail Banking revenue

Source: ABSA-Barclays consolidation v Wealth 1 (Decision Support)

The Decision Support Team perceived the Barclays threat to impact on the Retail Division in three main areas, as described by one of the members involved in the analysis, “We saw the impact happening most in the retention of clients, the acquisition of new clients, and the migration or the cross-sell of clients. The new entrant was perceived to arrive with high capabilities and new products that were seen to impact these three areas of our business.” The analysis indicated that the Retail division could lose revenues through a consolidation that could increase the current rate of attrition as under-serviced clients move their primary accounts to a “transformed” Absa operation. It could also suffer an opportunity cost as acquisition targets might not be fully achieved as the new competitor achieves a higher level of customer satisfaction; and migration targets are not fully realized as specific strategies from the

transformed competitor impact on the Retail operation's ability to increase its share of the customer's wallet.

These potential losses were quantified in monetary terms to provide an overall evaluation of the area in which the operation was likely to suffer the most significant impact. These numbers indicated that overall, the segments that were envisaged to take the biggest impact would be in the Business Bank and Affinity Segments within the Retail Division, particularly in the issue identified as "increased customer attrition". The numbers sought to assist decision-making, as explained by a manager, "They gave the EXCO an overall figure in their minds of how much financial damage could be incurred if there was a complete absence of any counter-measure. The overall total created a burning platform that would shock them into doing something because of the sheer size of the number."

Retail Response

The analysis that was performed by the two divisions within Retail culminated in a meeting with the Retail Executive in the first quarter of 2005. This process was utilised as a platform to provide the business units with data and recommendations that they could take back into their autonomous business units and implement at their own discretion. Each business unit used this information in terms of their own environments. Responses were formulated at the business unit level which was then ratified by the Retail CEO. A Director elaborated, "Strategy is not created at the top and pressed down onto the

balance of the organisation. Standard Bank operates with a decentralised strategy formulation process”

The strategic responses recommended to the Retail Executive were stacked up into three broad categories (Figure 8), namely a defensive response, an offensive response, or a response undertaken with the intention of changing the rules.

Figure 8: Potential Risk Mitigation Strategies

Option A: <i>Prepare a Defense</i>	Option B: <i>Prepare an Offense</i>	Option C: <i>Change the Rules</i>
Focus on Retention	Push “Proudly South African” theme	Lobby Government regarding the unintended consequences of the deal
<p><u>Possible Strategies:</u></p> <ul style="list-style-type: none"> • Fast-track Retail Bank’s customer centric strategy • Prioritise retention-critical service initiatives • Identify and close service and product gaps 	<p><u>Possible Strategies:</u></p> <ul style="list-style-type: none"> • Identify ABSA segments (and or sub-segments) that could be averse to change • Develop new innovative and competitive products • Launch a “Proudly SA Campaign” 	<p><u>Possible Strategies:</u></p> <ul style="list-style-type: none"> • Do not pursue this option due to Standard Bank’s stated openness for a foreign bid and own Internationalisation strategy • Would only serve to send out the wrong message i.e. Standard bank feels threatened • However, Executives should issue an appropriate response in the event of post-merger commentary (Public Relations)
Appropriateness:	Appropriateness:	Appropriateness:

Source: ABSA-Barclays consolidation v Wealth 1

These responses were then further reduced to six key recommendations made to the executive for consideration: “Fast-Track Retail Bank’s Customer Centric Strategy; identify and prioritise retention-critical initiatives (current and new) from a service delivery perspective; conduct a detailed analysis on the Barclays product range; identify potential markets (e.g. youth) per segment that could be averse to the ABSA/Barclays consolidation; use targeted marketing campaigns

to push ‘Proudly South African’ theme; and finally, prepare an appropriate response”.

The outcome of the executive meeting and evaluation process that was undertaken, cemented the Retail Bank’s intention to focus on the first alternative that would seek to “Fast-Track Retail Bank’s Customer Centric Strategy”. This specifically included a renewed focus on the division’s strategic objectives and an emphasis on the execution of particular projects identified as critical for competing in the new environment. The key undertaking in this regard was to for Standard Bank to “stick to its knitting” and align appropriate responses that stack up to the strategy rather than create new alternatives that move away from it.

The sentiment expressed by senior management also indicated that as a result, Standard Bank galvanised a lot of its bigger decisions over the period. The period was characterised by the CEO fast-tracking many of the big projects in discussions for future dates. As recalled by a Director, “We saw a more aggressive implementation of the strategy that had already been defined by the team.” Included in these activities was the roll-out of the new branches, a R1 billion investment. The bank also saw a R1.5 billion investment in its SAP infrastructure. Over the same period management structures were also cut back to streamline the organisation. A team member recalled, “Although the drive to cut the cost-to-income ratio wasn’t necessarily in direct response to the

Barclays acquisition, it would have heightened the pace at which it was implemented.”

Another direct response initiated by Retail was to undertake a retention campaign to keep the top clients within the bank. This campaign committed to a retention programme relating to 1,500 specific clients. It was argued that for Barclays to extract value from the South African markets, it would be impossible for them to come in and turn the retail market around in six months. The easiest way for them to try and extract quick value would be to poach the top clients in the market.

Other responses that were pursued included a joint venture with MTN and Edcon. Although not direct responses, they were described as, “Responses that would have been a partial reaction to the Barclays entrance. Since Standard Bank had lost Barclays Card, it needed a new partner and access to a new segment of the market, which these operations were able to provide.” The entrance of Barclays also disrupted the Barclay card relationship that Standard Bank had with Barclays. The joint venture between the two organisations was dismantled.

Finally, the Barclays analysis allowed the Decision Support team to motivate the requirement for a strategic intelligence component in the division. The team expanded, “What we need is somebody that isn’t tactically focused ... that’s a big draw back of the way the business operates. We need dedicated resources for assessing the environment from a global context.” A capability in this regard

was positioned to enable the division to compare its results against its peers in the industry; assisting decision-makers within the business units with their strategy planning; giving a better understanding of the competitive threats; and improving the quality of ongoing strategy formulation.

5.3.3 Corporate and Investment Banking (CIB)

Strategy Formulation Process

CIB identified the threat of foreign competitors flooding into the South African Market approximately fifteen years previously around the period of the democratisation of the country in 1994. This was identified as the first time that the foreign banks started coming into South Africa and initiated CIB's analysis of its competitive strategy among these new entrants.

The methodology employed at the time sought to analyse markets that had already been subject to an experience that was parallel to the South African context. The CEO recalled, "We had a close look at the bank's position and thought that South Africa was very closely approximated to the Australian experience. We analysed the industry and events that occurred among the participants when Australia opened its markets. The route they followed was very similar to that of South Africa. We spent much time reflecting on Standard Bank's core competitive strengths and considered how these could best be leveraged when South Africa opened up."

Accordingly, it was considered that South Africa would likely see an increase in the presence of foreign entries as sanctions were dropped and it become an



active player in the global economy. This occurred in parallel with activities that saw companies that were previously locked into South Africa selling off their non-core assets and growing their core businesses globally. South Africa was also perceived to be a gateway to the rest of Africa.

In 2005, with the entrance of Barclays, the business took the potential threat that it posed very seriously and set in motion a series of discussions and analyses to ensure that CIB was prepared to compete appropriately.

The strategy formulation process was described as one that is created through the activities of a number of autonomous business units that reside within the structure. The CEO explained, “CIB functions with a very decentralised approach. We had many discussions about our response to the Barclays entrance. It should be kept in mind though, that the formulation of strategy only amounts to about 3% of your success ... the execution of the strategy is what really counts.” The business units operated as independent businesses, each responsible for devising its own strategy. The divisions within CIB were structured independently with each retaining its own support functions, including HR, Finance, and Training. The overall activities were coordinated through a process of interactive involvement with the businesses to develop a coordinated effort that the business unit as a whole would strive toward. As such, all of the divisions engaged in an analysis of the Barclays entrance, which was then brought together at an EXCO level for agreement and implementation. From



there, it was passed on to the Group executive and presented to the board. Again, it was then CIB's responsibility to execute.

The CEO described strategy as being a learning process that is incorporated in the organisation's everyday activities, rather than the formulation of a set of goals that are reflected on only in an annual planning process. He explained, "We are not big believers in strategy as such. If for example, you were to take the six top banks in the UK and plot their strategies next to one another, the correlation between the strategies would be a 95% fit. The real difference is in the execution. Organisations that spend most of their time formulating the strategy are missing the plot. It's what you do to make it works that counts."

In general, the strategy planning process is depicted as facilitated through a flow of information between the CEO and the business units. The CEO does not dictate strategy but would feed information and strategic insights into the business units through a dual carriage flow of information. Through this mechanism of information sharing, the strategy is passed into a pool of collective knowledge and is created without the intervention of a formal, central strategy unit.

In 2005, the formal discussions and strategy planning sessions were utilised as a rally cry within the organisation, to band the members together in unison against the Barclays entrance. The CEO portrayed CIB as having a strong team spirit that was not unlike that experienced in a sporting environment. The Barclays entrance gave the team an opportunity to rally together and develop a



plan to beat the new competitor. All responses that were pursued were thoroughly analysed before implementation. The CEO explained, “We are an investment banking organisation and always err on the side of analysis. We always try and understand what we see in the market. It’s not worth working on an intuition or a hunch where it is quite evident that everybody has left this opportunity behind. There is very often a reason for that ... Analysis is critical.”

Perceptions and Analyses

As a player residing within the top five players in the world, with the capacity to change the competitive landscape, Barclays Capital was seen to be a formidable competitor in CIB’s space. It was also perceived to be particularly strong in the corporate and structured finance side of the business although its strength lay primarily in investment banking. Absa Capital was historically viewed as a weak competitor which would change as a result of the Barclays entrance.

Barclays was considered to be a different competitor, relative to the other foreign banks that had entered the South African market. As indicated by the CEO, “The thing that really stood out about Barclays as opposed to the other banks, was the manner in which they entered the market. Other foreign banks have come into the country with very little capital. Few have locked themselves into the economy here. Barclays, on the other hand, came in with a massive investment which gave the Absa / Barclays combination access to significant capital resources.” Barclays would usually have been seen as inferior players



to the other international banks that had already taken up residence in South Africa, but because of the manner in which they entered the market, with their balance sheet behind them, they were perceived as a far more substantial competitor.

Response

The entrance of Barclays initiated a response from the CIB side of business that included a complete restructuring of the corporate area. This restructuring was described to be modelled on international investment banking operations and changed the face of the business to align with its international counterparts.

The CIB operation also responded in three other core areas. In the first focus area, the CEO recalled, “In order to defend our share of the market we did an extensive exercise on all staff within our operation. We calculated the locked in cost of the equity participation of each employee. We ensured that we had undertaken lock-ins, sufficient enough to make certain that our staff stayed with us rather than moving on to a competitor. We did an exercise of the top 250 talent in our organisation and calibrated them against international market standards. We also paid additional lock-ins to people, making it more expensive for them to leave and more expensive for Barclays to buy them out.”

This analysis was conducted by a team driven by the CIB EXCO.

The second component of CIB’s response had to do with CIB’s activities into the rest of Africa. In this element of the response, CIB implemented activities to ensure that it captured the banking business associated with trade flows intra-



Africa and between Africa and other emerging markets. It also focused its efforts on the Government and International Organisation sector and implemented every effort to leverage off the larger group's skills and products in these areas.

The third component of the response related to CIB's international business. CIB was looking to grow internationally and gain additional revenue through diversification. "The international component of the business not only gives you access to substantial skills and expertise, but the market in general has a greater depth and you are able to define your products and solutions better. In South Africa, for example, I believe that we're the only bank active in credit derivatives. This was a skill set which we had taken on from our people abroad. The move into international waters was a big part of our strategy at defending South Africa," explained the CEO. He further elaborated, "Organisations that are not looking to move globally are short sighted. It's not about whether you as an organisation are moving globally, it's rather about what your clients are doing. If you choose to stay a local player, your clients are going to be exposed to global sophistication in any event and become globalised in this way. That's what's happening to your client base."

The overall CIB response to Barclays was considered to be a validation of the division's current strategy. The CEO reflected, "What emerged was seldom a move that was completely unique to things that we would be doing anyway. We would be in a very uncomfortable position if we suddenly found that we had to

be doing a full range of brand new things. The things that we decided to do were rather extensions of the current strategy.”

5.4 FirstRand Bank

5.4.1 Background

As defined by the other three large banks in South Africa, the FirstRand Group is seen to be the industry’s quintessential innovator. This is in large part, accountable to the structure of the organisation and the entrepreneurial flair that characterises it.

The most notable incident in the First National Bank (FNB) and Rand Merchant Bank (RMB) recent history was the merger of the Anglo American and De Beers financial services interests with those of RMB Holdings’ in 1998 to create FirstRand. This was a key incident which defined the group’s direction and culture going forward. RMB Holdings retained management control over FirstRand and injected its entrepreneurial mindset into the heart of the organisation. This entrepreneurial ethos was largely responsible for changing the way in which FNB operated.

The RMB culture introduced a performance oriented mindset to the way in which business was conducted. Businesses were broken down into small teams and measured independently of one another. Each business unit was measured according to its own bottom line. This dramatically changed FNB’s operations teaching it to be more sensitive to bottom line profitability.

FirstRand operates as a collection of independent business units with extremely strong owner-manager cultures (Refer to Figure 26 in the Appendix for the organisational structure). The Group has no centralised support or other centralised function. A group strategist explained, “We are run from the bottom up, even our brands are managed autonomously ... We are a multi-branded company and run each business independently.” In an internal presentation, FirstRand described itself as a “juggerniche”. It purports to have all the benefits of size as well as the nimbleness of niche players. Every piece is a niche component with the benefit of the scale that the overall organisation provides.

FirstRand could be seen as a co-ordinating body and has no top-down strategy that is imposed on the business units. The FirstRand CEO’s function is largely that of stimulating thought rather than dictating strategy. All strategy is derived from the bottom up.

5.4.2 FNB Strategy Formulation Process

The formal analysis undertaken early in 2005 by FNB was lead by a business unit within the organisation known as Segment Growth Strategy. This business unit operated as an internal consultancy and lead the Group’s analysis of the Barclays threat in conjunction with representation from some of the bigger businesses, including the Corporate, Commercial, Retail, and the Channels. The individuals on this committee worked together to formulate a response both for the FNB group as a whole as well as each respective business unit. A



strategy formulated at the group level was thought to add little value, as the strategy was said to be best created by those close to the businesses.

The analysis and data that was generated was collated and reported first to the FNB Executive by April 2005 and then to the FRB Executive shortly thereafter. The role the FRB CEO was seen as one of an initiator and a director, stimulating and guiding the organisation's thinking process. The responsibility of the FNB CEO was slightly closer to the business and he received a detailed report from the committee. The FNB CEO was described as playing an active role and frequently gave feedback on the analysis and direction that the team was undertaking. Ultimately though, the responsibility for the response was described to reside within the decentralised business unit. As explained by the Head of SGS, "FirstRand undertakes strategy with a strong owner-manager culture. Every business has a CEO who has responsibility for the operations and profits within. These businesses are responsible not only for the operations but importantly, the strategy of the division."

The analysis of Barclays was arranged according to the manner in which the organisation segmented its market, namely high-end customers, low-end customers and the middle segment. It was conducted on a grand scale and also on a micro scale, where specific offerings that are made to the consumer were investigated. Barclays for example was described to have very strong mono-line businesses like Barclays Capital and Barclays Card. In both these instances, an analysis with specific deeper probes was conducted.

Commercial Strategy Formulation

The Commercial Banking business unit looked after a segment of the market identified as small and medium enterprises.

The type of analysis that was conducted by the Commercial segment included an in-depth investigation of how the Barclays structure was set up; a look into where they were likely to exert focus and their performance; the specific business units; past successes; and strengths and weaknesses. This input determined an overall threat and opportunity analysis, utilised by the segment as the basis for its response.

Part of the process included the use of a SWOT (strengths, weaknesses, opportunities and threats) analysis that identified nine key threats to the business. These nine key threats determined the responses that were followed.

A detailed analysis of Barclays' previous merger with Zaragozano in Spain also formed part of the process undertaken to gain an understanding of the process that they might attempt to follow again in South Africa.

RMB Strategy Formulation

RMB's business is split up into four major components, Private Equity, Equity Trading, Treasury, and Investment Banking which includes Corporate Finance, Structured Finance and Investment Finance. RMB houses only a very small centralised strategy component. The strategy as a whole is driven from the divisional levels. The investment bank strategist elaborated, "Each business unit comprises of seven or eight sub-units who are each responsible for thinking



about their own strategy and driving their businesses accordingly. The best people and the most qualified people to deal with the strategy are those that are running the business. Each individual within RMB acts like an owner of the business so there is very little delegation from the top.”

This decentralised approach to strategy formulation was reflected in RMB’s response to the entrance of ABSA in 2005. As a member of the team recalled, “Any analysis that happened in response to Barclays didn’t happen at the top, it all would have taken place at the bottom. Each sub unit would have thought individually about how the Barclays entrance would have had an impact on their business and the market in which they operate ... As a result RMB had a collection of different responses across the business.” Considering the rapid rate of change in the environment, RMB sought to retain its responsiveness by formulating the majority of its strategy by those responsible for running the actual business units.

In general, the strategy that is generated at the centre of RMB relates to five core areas. These include: human resource strategies; the ability to react; systems and the operating environment; relationships; and the risk and capital management processes.

The centre manages the process by which people are retained and attracted. Since skill and intellect are thought to be RMB’s most important assets this function is controlled centrally. The Strategist to the CEO explained, “RMB is an extremely well functioning, performance-orientated environment controlled

centrally to attract the best talent and retain RMB's current assets." The second central function relates to RMB's ability to react, a function of the RMB platform. "An important component of this platform is the brand. RMB is viewed as the premier investment banking brand in South Africa and has historically competed extremely successfully against international banks. The brand is inspirational also for the people within the organisation. The management of the brand is controlled centrally," said the RMB Strategist. The third component relates to systems and the operating environment, also centrally controlled whilst the fourth component relates to RMB's relationships with its clients. RMB operates with a central relationship team known as the Business Development Team. The majority of the revenue generated within RMB is received from less than fifty clients. As such, these clients represent a core asset to the organisation and are centrally managed. The final component is the Risk and Capital Management processes. Every transaction undertaken is assessed from the point of view of whether it is going to be generating a fair return on the capital invested.

Corporate Transaction Strategy Formulation

The environment toward the end of 2001-2002 and the beginning of 2003 called for a major re-engineering of the manner in which the Corporate division conducted its business. Analyses performed at the time, indicated that the division needed to change its focus or stand to lose from the cyclical nature of interest income, and the changing competitive environment, part of which included the introduction of foreign competitors. The process undertaken

followed that as defined by Jim Collins' book "From Good to Great". In order for the team to identify its "Big Hairy Audacious Goal" (BHAG), it embarked on three things: Identifying what the business was most passionate about; what could the business be the best at; and what were the economic drivers that it could take advantage of. As recalled by the CEO, "The business saw that it was passionate about being a corporate front-end and creating enduring and rewarding relationships. It saw that it could be the best at Transactional Banking, and pursued a focus on payments and collections through any imaginable means. With regard to the economic drivers, the business saw that it had to move away from its reliance on interest based income to a fee-based source of revenue. The BHAG for the division was defined as a pursuit of Transactional Banking."

The division's major turnaround in strategy took place in 2002 to 2003. During 2003 to 2004, when it was identified that Barclays would be entering the South African market, the newly formulated strategy was in the execution phase of its process.

Toward the end of 2004, and the beginning of 2005, the Segment Growth Strategy Division had initiated a process of analysing the Barclays entrance and the impact it would have on each respective business. Corporate contributed as part of the team in the analysis that was undertaken with a primary responsibility for defining the impact and subsequent response for the Corporate Division. The CEO explained Corporate's involvement at the time,



“Through this task team, the BHAG was once again put to the test. Since it was a recently developed strategy, it was found to be robust and suited to the current environment, even with Barclays entering the market. The entrance of Barclays in fact, strengthened our case for the new strategy.”

When the division decided to change the operating model in 2002-2003, the Corporate executive team engaged in a 3-4 day strategy session that would only be declared complete once the team had decided on the business model for the future. During this process, the leadership from all the business units within the division were present and contributed to the creation of the new strategy. The CEO of Transactional Banking recalled, “Each member in the team is seen to have an equal vote and opinions are voiced freely with regard given to each. The process was fraught with conflict as the move to a focus on Transactional Banking was far removed from the current business focus. Decision-making was undertaken through the presentation of ideas that team members advocated, and an open debate was held. Resolution was obtained once each individual within the executive had bought into a solution that had been convincingly sold by its representation.”

Once this decision had been concluded at the Corporate executive level, it was concluded on paper and presented to the FNB executive team. “Because of the culture that resides within the group, the strategy, although far removed from the current business practice, was not questioned by either the FNB EXCO or the FRB EXCO. Both of these parties endorsed the strategy going forward.

The CEO's of the business encourage independent thinking and an entrepreneurial approach to business decisions," said the Transactional Banking CEO at the time.

5.4.3 Perceptions and Analyses

FNB

The brief from the board and the CEO came from early rumours in the market toward the end of 2004. The FRB CEO initiated the process of analysis in the FirstRand Group. An FNB Strategist recalled, "His brief dictated that we find out what the merger was about, how it was to be a threat to FNB and what we were to do about it. The Barclays entrance was of a significant enough impact to elicit this type of response from the CEO. A handful of other smaller deals had passed by without a similar sort of analysis being performed ... we took it seriously."

The Barclays / Absa acquisition was perceived by members of the strategy team to provide Absa with strengths that they previously didn't have. A member of the strategy team elaborated, "Barclays came into South Africa with what one would think are a few advantages that it has as a result of the environment within which it competes in the UK. The UK is characterised by an extremely low interest environment which is an environment that is quite new to South African banks. Banks in the UK have been competing under these circumstances for years and have been able to optimise their businesses to adapt appropriately. These changes are still a challenge to us."



The team's feelings at the time expressed a sentiment that in the future they would see Absa's cost-to-income ratio dropping and their credit management skills increasing. With the backing of the scale and capital provided by Barclays, Absa was predicted to be able to improve their business significantly. Said a senior manager, "We are certainly left with a more formidable competitor on our doorstep."

On the Retail side of the operation, Barclays was perceived to be weak overall. Absa had strengths in this business which extended into small to medium enterprises as the behaviour of these organisations was not dissimilar to that of the retail market. The Head of SGS explained, "Absa was perceived to be stronger in the lower segments of the market while Barclays was perceived to add strength in the higher segments of the market where Absa was weak, particularly in medium-sized and large corporates, as well as Wealth offerings to the top of the retail market. They had a perfectly complimentary match of capabilities."

In the main, the Barclays' strengths were seen to reside largely in the middle and back-office operations, particularly in areas like Card. The ability for Barclays to enhance the operational ends of these businesses provided advantage that could be leveraged into Absa, rather than implementing changes on the customer-facing end. As such, the focus of the analysis was not limited to a study of the market offering, as the value of the Barclays' contribution frequently lay with changes in the back-end.

Some of the particular aspects that were analysed on the Retail side of the business included Barclays' growth and means of competing in the UK market; the market share figures of the existing players in the South African market; and the cost-to-income ratios, which were perceived to be an indication of the management capability. Other investigations included a focus on Barclays' means of customer segmentation and intended focus within these definitions. Barclays was viewed to have a strong value-based management tool that aligned with a value-based performance model in the Business Banking segment. It was also thought that Barclays would look to integrate its electronic platform between Absa and Barclays with the rest of the organisation.

Commercial

The Commercial segment of FNB contended that Barclays posed a threat in terms of their systems and technology capability. The systems that Barclays had supporting specialised products for the market, in particular, were perceived to be superior to any of the South African operations, requiring substantial development on the part of FNB. Their system strengths also extended into their electronic banking offering as they were perceived to have functionality currently unmatched in SA.

Offshore Wealth Management and Trade Management were recognised as being under threat as Barclays would have an advantage in capturing customers with an increasing propensity to trade offshore.



Some discussions at the time identified opportunity in the merger. A few members involved, identified segments in the market that might feel alienated by the transaction, although these opportunities were seen as overly optimistic by most.

One particular example of a deeper analysis conducted in the Commercial response was that analysing Barclays' credit scoring that they had for small businesses. They were perceived to hold a superior ability to automate their credit scoring. The Commercial strategist recalled, "By doing this they're able to reduce their costs and increase the quality of the book. Absa was particularly weak in this area whereas FNB could be described as mid-table. This was on our horizon for improvement in any event ... the fact that Barclays came into our market just put a high priority on it pushing it forward in the queue. The urgency came about as it would pose a big threat on the high quality end of our book. A strong capability in this side of the business would allow Absa to price their good customers better and the bad customers higher thereby retaining the good and defending against the bad."

RMB

RMB's investment banking focus comprises three autonomous revenue-generating disciplines. They are Client Transactions, Investment Business, and Trading. The two latter disciplines are described as activities that the organisation engages with no competitive threat in the transaction. These two lines of business, accounting for 60% of RMB's revenues, are not subject to the

competitive forces as are the Client Transactional components. The revenues generated are rather a function of other factors such as risk or market efficiencies and competition, as a result, is low. Accordingly, these two businesses were unaffected by the Barclays entrance, with only the Client Transactions component vulnerable to being affected.

The five centrally co-ordinated functions were considered to exhibit little necessity for response from a competitive point of view with the entrance of Barclays. Barclays for example, although considered likely to introduce better systems into Absa didn't coerce the central strategy unit into reviewing its operating systems and changing its platforms. As described by the RMB strategist, "The brand, for example, is known to be robust and has required little intervention in the face of international competitors. The manner in which we approached our response was not very different from the way in which we deal with all the other banks present in the market."

The difference between Barclays and the entrance of other foreign banks already in South Africa, as seen by RMB, related to the fact that it had brought its balance sheet with it. Previous entrants have initiated operations with an advisory team only. As a result, RMB perceived that the fact that Barclays had brought its balance sheet with it as implicit that they might be able to source funding cheaper off shore. Although this was identified as a possibility, it wasn't perceived to provide Absa with a distinct advantage as the competition for advisory skills was thought to be particularly rife.

Absa was seen to have made historic inroads into the retail market but never into the wholesale segment of the business. It had also never had a strong advisory unit and was consistently viewed as the weakest investment banking competitor. In this regard, Barclays Capital, as a substantial international player was viewed to have the potential to leverage its capabilities into Absa and potentially grow its penetration within the South African market.

Another thing considered about the merger, favouring Barclays, was that their enhanced access to international distribution capabilities might be seen to be an attractive advantage, especially to large corporate clients.

As far as system improvements were concerned, although Barclays would likely provide an enhanced IT platform to Absa, RMB contended that it relied primarily on people working together in teams – systems were viewed as a “tool, not a strategic enabler”. The introduction of systems might enhance value in a Retail environment, but it was not perceived to be a value contributor in the Investment Banking space.

A concern was expressed regarding the retention of human resources within RMB as it was perceived that Barclays might build its capacity by looking to poach existing bankers within the market rather than importing its own. Although this was a concern, an element of confidence was expressed in the RMB culture. RMB’s culture was seen as a core strength and its key source of competitive advantage. People were considered to be fulfilled within the organisation with little incentive to move elsewhere.



Corporate

On the competitive front, Corporate perceived itself to participate in an economy that was remotely situated on the tip of Africa from a global perspective. It perceived South Africa as largely isolated from the rest of the first world. Since it thought of itself as one of four regional players, it was always wary of the introduction of foreign competitors. As such, it had been conscious of Barclays' activities in Africa for an extended period of time. As recalled by the CEO, "The questions over the period related more to *how* Barclays would enter the South African market rather than speculation about whether they might. When the Barclays acquisition was announced, it was not a big shock nor was it perceived as a big threat to the division."

Barclays, in the main, was perceived to be a big competitor, but nothing significantly different to the current competitors. The general sentiment expressed by the executive in Corporate was that the division might need to "raise its game" and ensure that it continue operating in its current path of success.

One particular threat that was expressed Division, was the threat that Barclays would "poach" the division's key clients. It was perceived to do this not necessarily through a value-added service offering, but rather through leveraging off its substantial capital resources. An illustration was sited, "If we look at our Edcon account, for example, when Edcon was bought out, there were a couple of horses running the race to buy it. One of those horses was

backed by FNB and the other horse was backed by Absa / Barclays. As it turned out Edcon went with Absa / Barclays, largely because of its extensive access to funding. The big threat for us was that Barclays would put Edcon under pressure to move all of its business over to Absa because it was Edcon's biggest financial backer. This would have a significant impact on our business, as transactional banking is a volume game. The removal of key accounts like that, would put pressure on our margins and impact the competitive price that we are able to put out into the market."

A big part of the analysis that the Corporate Division generated in response to the threat outlined above, was to understand how "sticky" the FNB product and systems were to its big clients. It also investigated how these products might best be enhanced to ensure the retention of its key customers. Part of this process allocated substantial resources at ensuring that these accounts remained with the division.

5.4.4 Response

RMB

RMB's sentiment to the merger was reflected as, "The entrance of Barclays was not something that we lost sleep over. RMB had already been dealing with international competitors for close on fifteen years." This was further described by a senior manager as, "RMB does not devote time to competitors in the market. We were not overly anxious about the entrance of Barclays in the market. We were focused on our positioning for the road ahead."

One response that did occur though came about as a reaction to Absa's enhanced access to international distribution capabilities. RMB responded by aligning itself in a joint venture with Morgan Stanley. Through this joint venture RMB positioned itself to be capable of distributing debt internationally. The joint venture was seen to provide access to international markets and easier access to international distribution.

FNB and Commercial

FNB's response was to prioritise and speed up certain issues that would come to play in the competitive environment. The Head of SGS explained, "The responses that have been undertaken by the FirstRand Group have not deviated from the strategy of the group. The most notable link is that the Barclays entrance has focused the business more clearly and channelled its efforts towards things that it is good at."

FNB described the three years that Barclays has taken to bed down its operations and align the merger as providing FNB and the Commercial Division with an opportunity to refocus its operations in line with the new competition. A senior manager recalled, "That three-year period helped us understand the interest side of our business. It wasn't something that wasn't on the radar; the urgency of dealing with it was perhaps shifted forward ... It gave us an opportunity to do our homework better with the threat of having to compete against somebody who is already good at it."



Corporate Division

The Corporate Division's primary response to the external environment, of which the Barclays entrance was perceived to be a part, was to move the Division's reliance on interest income (accountable for 70% of the total volumes) to a focus on fee income. The Division also set out to tailor Transactional Banking for major corporate clients. In delivering Transactional Banking solutions, the business sought to dramatically alter the source of revenue streams flowing into the division. As recalled by the CEO, "A large part of this focus was to move away from a corporate team that focused on 'everything for everyone' to a niche offering that would add value to client requirements." The customer facing component of the business changed to focus specifically on one of six industry segments rather than a collection of each. Each Relationship Manager had responsibility for a particular industry. This would allow for a focus on the specific transactional requirements of the industry and value-add through an intimate knowledge of the industry. Virtual teams across the entire organisation were implemented to support this structure.

6. Chapter 6: Discussion of Results

6.1 Introduction

All three of the banking institutions investigated in this study, although having emerged from the same environment and having being subject to the same industry conditions, operate with three unique stories which the cases show to impact on their responses to the Barclays entrance.

In the section to follow, the bank cases have been carefully analysed through the identification of patterns evident in each, and the mapping of a chronology of events through a time series analysis (Yin, 2003). These processes assist to provide a description of the common and unique parameters that were utilised in an explanation building analysis to identify potential explanations for the behaviours observed.

Each case is analysed individually and then comparisons are made before integrating the findings with previous literature relating to the research.

6.2 Research Question 1 – Incumbent Perceptions

6.2.1 Introduction

The core perceptions expressed in each case have been captured as parameters illustrating both the differences and the similarities across the organisations. The analysis highlights the key perceptions harboured by the organisation that are partly responsible for the behaviour exhibited by the banks in response to the Barclays entrance.

The perceptions expressed in the cases, clustered as Threats and Weaknesses highlight the areas in which the firms exhibited an expressed concern about the added competitive advantage of Barclays, as well as areas in which it expressed vulnerability in its own organisation or future market share gains, relative to the competitor. Perceptions encapsulated as Opportunities and Strengths represent areas in which the organisations perceived potential benefit or a relative strength in the changing environment going forward.

6.2.2 Nedbank

Nedbank has recently surfaced through a period characterised by substantial internal reflection and focus. Having undertaken a lengthy merger with BOE and still struggling to rectify strategic decisions that had previously lead the organisation astray, resulted in a Nedbank with a heavy inward focus intent on pulling itself back on the path to profitability and success. This sentiment is captured in a statement by one of the strategy team's senior managers, "It should be noted though that during 2005, Nedbank's main priority was to fix itself. Its focus was very much an internal one and it had to first get its own house in order before it could focus externally."

The principal parameters relating to Nedbank's perceptions relative to the Barclays entrance are captured in Figures 9 and 10.

Threats and Weaknesses

An explanation building analysis was utilised to obtain the parameters relating to Nedbank's perceived threats and weaknesses as expressed in the case

relative to Barclays. The parameters relating to Nedbank's perceptions can be shown to be grouped into six principle concerns (Figure 9).

Figure 9: Nedbank's Perceived Threats and Weaknesses

Superior distribution
Intellectual capital
Substantial capital resources
Technology Advancements
Enhanced operational efficiencies
Innovation

Nedbank's first concern (Figure 9) related to the perceived advantage that Barclays had in terms of its access to global distribution. Due to its presence in financial hubs across the world, Barclays was viewed to have an enhanced international distribution capability that could be considered highly attractive to multinational companies as well as wealthy individuals. Both of these represented profitable target markets for Nedbank and subsequently key areas of focus that were vulnerable to a superior capability.

Barclays was further perceived to benefit from experienced international human resources (Figure 9), knowledge from which it is able to distribute through the entire organisation. This intellectual capital would represent a platform from which further competitive developments would emerge.

The third area of concern (Figure 9) related to technological advancements that Barclays would bring to the Absa organisation. These technological advancements would enable efficient back-end processing and allow the overall organisation to compete more effectively by lowering its cost bases.

Advancements of this nature were viewed to enable a more competitive organisation through an effective management of its cost drivers.

Cost drivers were considered to play a substantial role not only through the aid of technological advancements, but also through operational efficiencies (Figure 9) that have been modified and perfected from scale learnings obtained across an international network of operations.

The fifth concern (Figure 9) related to Barclays' enhanced access to funding through its superior credit rating in the international markets. As a result of this, Barclays was perceived to have lower cost drivers which would enable it to price more competitively and be more active in gaining market share locally and abroad.

Finally, Barclays was perceived to enter the South African context with an innovative capability (Figure 9) that would drive its competitiveness going forward. In this regard, it was perceived to continually innovate in product and service areas which would result in a consistent push on the boundaries of competition.

Strengths and Opportunities

Utilising the parameters in the case relating to Nedbank's perceived strengths and opportunities relative to the Barclays operation, explanation building analysis (Yin, 2003) was utilised to group the parameters together into six principle strengths in Figure 10.

Figure 10: Nedbank's Perceived Strengths and Opportunities

Short-term opportunity
Preparedness
Corporate and investment banking capability
Sufficient time for reaction
Market aligned organisational structure
Holding company relationship

Firstly, as indicated in Figure 10, Nedbank considered itself prepared for competition with a foreign competitor. It had been tracking the potential for the entrant of a foreign competitor prior to the Barclays entrance in 2004 and considered its organisation to be secure in its strategy going forward.

Secondly, Nedbank saw opportunity in the short term (Figure 10). It considered the fact that Barclays would take some time before it started operating efficiently and would be vulnerable to losing market share during this period.

Nedbank's third perceived strength rested on its corporate and investment banking capability (Figure 10) which it considered an important component of its strategy going forward.

The fourth group of perceptions perceived to be stacked in Nedbank's favour related to the period of time that Nedbank would have at its disposal before Barclays was operating at its full potential (Figure 10). The case indicated that the group felt it impossible for Barclays to enter the market and change the industry overnight thereby giving the incumbent players opportunity to adjust their mode of operating to align with any innovative developments or unfamiliar competitive tactics.

The fifth group of perceptions related to Nedbank's renewed structure since its 2004 turnaround. Its renewed structure was considered to be significantly more customer-centric and suited to the market expectations in South Africa. The previous Nedbank structure was felt to be facilitative in pushing product and making sales, while this one was ideally suited to the service expectations demanded by customers.

The final theme relating to Nedbank's strengths included its relationship with its parent company, Old Mutual. This relationship provided Nedbank not only with access to capital resources, but also international experience and a global distribution network.

6.2.3 Standard Bank

Standard Bank's perceptions have been analysed to illustrate the patterns evident in the case.

Standard Bank's history is also scattered with a series of events that have contributed to the creation of the organisation that it is today. Aside from having an extensive history within South Africa, Standard Bank has also had to defend itself from a hostile takeover bid by the Nedcor Group. This significant event had an impact on the organisation and the case indicates that it has had an effect on the way in which it perceives competitive threats going forward.

Threats and Weaknesses

Utilising the parameters relating to Standard Bank's perceived threats and weaknesses relative to the Barclays operation, explanation building analysis

(Yin, 2003) was utilised to group the parameters together into six principle concerns in Figure 11.

Figure 11: Standard Bank's Perceived Threats and Weaknesses

Substantial capital resources
Superior distribution
Human Capital
Innovation
Customer Relationship Management
Market Insights

Standard Bank's perceptions of the competitive threat posed by Barclays (Figure 11) and its respective vulnerabilities indicated in the case, relates to six central themes.

Firstly, across the divisions, the enhanced access to capital resources that the Barclays operation was perceived to have through its more preferable credit rating and substantial size was seen to offer it an opportunity to be more competitive. Barclays was also viewed as likely to utilise the capital to fund Absa operations that had previously been parked due to a lack of resources. Access to these funds was perceived to make the local Absa operation a more competitive player in the market with the potential of gaining more market share, with a higher appetite for risk.

Secondly, the analysis shows that Barclays was seen to benefit from its global distribution footprint and the world-wide value proposition that this presence provides. This value proposition was seen to be particularly attractive to the upper wealth segments and international corporate companies that are important contributors to the Standard Bank's margins and revenue lines.



Thirdly, Standard Bank perceived Barclays to benefit from the international human capital that it has been able to procure through its presence in financial centres across the world. This intellectual capital was perceived to be a major contributor to its continued success going forward.

In the fourth instance, Standard Bank perceived a threat relating to innovation. Barclays, in this regard was perceived to maintain its competitive edge through the continuous introduction of innovative products, services and operational advancements.

The fifth grouping of perceived threats related to Barclays' superior skills with regard to customer relationship management. Relative to Standard Bank's comments in the case, which indicated that it was still struggling to attain a single view of the client, Barclays was able to extract the maximum share of financial spend from each customer that it interacted with. This capability was perceived to find Standard Bank struggling to capture Barclays' market share, as well as having its own share of customers vulnerable to attack from the competitor organisation.

Finally, Barclays was perceived to hold strengths in its approach to the market and the manner in which it segmented, identified, and serviced customers within it. Barclays was seen to have the capacity to draw on its experience from multiple markets and bring these learnings back to South Africa with the result of offering customers a more relevant value proposition.

Strengths and Opportunities

The Standard Bank case also indicates a perceived opportunity in the events surrounding the Barclays acquisition of Absa. Explanation building analysis of the core parameters shows six core themes in Standard Bank's perceptions in Figure 12 below.

Figure 12: Standard Bank's Perceived Strengths and Opportunities

Short-term opportunity
Preparedness
Corporate and investment banking capability
Brand Strength
Local market knowledge and insights
Human capital

The Standard Bank case illustrates a perception held by the organisation of opportunity in gaining additional market share in the short-term (Figure 12) while the two operations (Absa and Barclays) seek to bed down their internal structures and strategy going forward.

Secondly, Standard Bank's perceptions considered itself as sufficiently prepared to compete with Barclays going forward (Figure 12). It felt that it had anticipated the entrance of a foreign competitor for a number of years and had competed with other world-class players both locally and abroad, for some time.

Standard Bank perceived its opportunity to reside both within its brand strength as well as its local market insights (Figure 12). Having been the number one recognised brand in South Africa for a number of years, Standard Bank was assured of its brand recognition in the market, as well as its customer. Having been a participant in the South African economy since its very beginnings,

Standard Bank viewed its ability to create appropriate and relevant offerings as superior to any international competitor.

Standard Bank also saw that it had an advantage in terms of its intellectual capital (Figure 12) that it had gathered over its history. It viewed this as particularly strong in the corporate and investment banking component of its operation. Its corporate and investment banking was considered a particularly strong facet in both its local and international operations going forward.

6.2.4 FirstRand Bank

The case indicates that FirstRand Bank as an organisation, has also been moulded by aspects of its history that influence the way that it perceives its environment, threats and opportunities going forward.

The incident having had a significant impact on FRB's culture, structure and overall strategy was the merger between Rand Merchant Bank and First National Bank. With RMB having retained management control, the overall organisation was instilled with an entrepreneurial ethos, characteristic of the investment banking culture. As a result, the case shows the organisation's structure as promoting independence, responsibility and accountability which impacts on the manner in which it observes and perceives the external environment.

Threats and Weaknesses

FirstRand Bank's perceptions, have been grouped into seven central themes through pattern matching and explanation building analyses (Yin, 2003).

Figure 13: FirstRand Bank's Perceived Threats and Weaknesses

Substantial capital resources
Human capital
Superior distribution
Enhanced operational efficiencies
Customer relationship management
Technology advancements
Extensive scale

Some of the parameters identified in Figure 13 are reflected in the other two cases, whilst a handful is also unique to FRB.

Figure 13 shows that Barclays was perceived to have a number of capabilities that would allow it to compete from a lower cost base. Barclays was perceived to have operational efficiencies that would bring its costs down significantly, relative to FRB, through both in its ability to make back-end processes more efficient and its ability to centralise all its support functions. Barclays' enhanced access to capital through its superior credit rating, and the enormous scale of its operations was also perceived to allow it to compete from a lower cost base. These capabilities were all perceived to be elegantly harmonised through the effective implementation of its technological advancements.

Figure 13 further illustrates that the foreign entrant was perceived to gain market share through its superior customer relationship management capabilities. This was viewed to be supplemented by its access to international distribution and the overall value proposition that this would hold for clients seeking ease of access through international markets.

The final group of perceptions harboured by the FRB organisation (Figure 13) relates to the intellectual capital that the Barclays operation sought as the driver of all of its activities. This intellectual capital was seen to have competence across various disciplines, particularly corporate and investment banking, which it would inject into the Absa organisation.

Strengths and Opportunities

Explanation building analysis shows FRB's perceptions relating to its strengths and opportunities in Figure 14.

Figure 14: FirstRand Bank's Perceived Strengths and Opportunities

Short-term opportunity
Preparedness
Corporate and investment banking capability
Brand strength
Sufficient time for reaction
Market aligned organisational structure
Local market knowledge and insights
Stable market expectations
Aligned performance culture

Figure 14 shows the South African based FRB group, like the other incumbents, to also perceive a selection of opportunities that the Barclays entrance would bring to the market. FRB considered it likely for the market to remain relatively stable post the entrance of the multinational. It saw the market response to be largely unwavering and demanding a significantly more enhanced customer value proposition to voluntarily break the lock-in costs that the other players had built into their customer relationships.

FRB saw short-term opportunity as the two organisations struggled to bed down their operations (Figure 14). The "juggerniche," as described by Paul Harris,

considered itself prepared to tackle any competitive attempts the Barclays operation might deal it. This confidence, expressed in the case, was backed up by its entrepreneurial culture and the brand strength supporting each of the functions within the bank.

Again, FRB perceived that it had time on its side in order to raise its game (Figure 14) in any areas where it might be lagging, as the two mammoth enterprises attempt to streamline their businesses. The perception of preparedness was described to be further supported by the structure of the organisation that allowed it to be responsive in a manner that is unmatched by any of the other players. The small autonomous divisions each took responsibility for managing their portfolios which ensured that the overall firm stayed ahead of the game by managing its own small area of expertise.

6.2.5 Comparison

Combining and contrasting the core perceptions in a collective picture through a cross case analysis (Yin, 2003), yields results that provide some insight into the similarities and differences existing between the incumbent operations. Since variability due to industry differences had been removed through researching enterprises from the same industry, these differences are expected to be as a result of the organisations' positioning within its own industry.

The similarities and the differences observed provides some insight into how South African organisations perceive the competitive threat from an international entrant.

Figure 15: Case Comparison of Perceived Threats and Weaknesses

Perceived Threats and Weaknesses	Nedbank	Standard Bank	FirstRand Bank	Total
Substantial capital resources	X	X	X	3
Human capital	X	X	X	3
Superior distribution	X	X	X	3
Enhanced operational efficiencies	X		X	2
Customer Relationship Management		X	X	2
Technology Advancements	X		X	2
Innovation	X	X		2
Market Insights	X	X		2
Extensive scale			X	1

The perceptions shared by all three of the organisation's in Figure 15 indicates that the Barclays entrance was perceived as a collective threat in three primary areas, namely its access to substantial capital resources; its human capital capabilities; and its access to global distribution channels.

The perceptions expressed in the cases show a difference based on the market segments that the business units within the banks addressed. Retail divisions within the cases typically expressed concerns relating to advantages to be obtained through cost and operational efficiencies. This differed from the corporate and investment banking divisions that typically perceived a threat in terms of the enhanced customer value proposition that access to a global distribution network would provide.

The differences between the organisations could be construed to be dependent on each organisation's respective positioning within the market, its collection of core competencies, as well as its culture and shared experiences of the individuals within the business.

Figure 16: Case Comparison of Perceived Strengths and Opportunities

Perceived Strengths and Opportunities	Nedbank	Standard Bank	FirstRand Bank	Total
Short-term opportunity	X	X	X	3
Preparedness	X	X	X	3
Strength in Corporate and Investment Banking	X	X	X	3
Brand Strength		X	X	2
Sufficient time for reaction	X		X	2
Market aligned organisational structure	X		X	2
Local market knowledge and insights		X	X	2
Stable market expectations			X	1
Aligned performance culture			X	1
Cohesive HR	X			1
Intellectual capital		X		1
Holding company relationship	X			1

Figure 16 illustrates that all three banks over the short term, perceived opportunity as the Barclays / Absa operation struggled to align the integration of the two businesses. Over this period, the three incumbent banks anticipated hard work in order to gain additional market share in preparation of a properly functioning multinational player.

The incumbent banks also considered themselves to be well prepared for competing against the likes of a Barclay’s multinational (Figure 16). All three had anticipated the arrival of a big player for some time and had prepared themselves in anticipation of this event.

The confidence of the three banks was bolstered by the fact, as indicated in the cases, that Barclays was not the first international competitor in the South African context. These perceptions were especially prevalent in the investment and corporate banking segments that had been actively competing against the likes of City Bank, JP Morgan, Deutsche Bank and a host of other foreign

entrants for extended periods. Although Barclays was described as having entered with an acquisition strategy as opposed to an organic growth strategy, as pursued by the other players, the three still perceived the basis of competition to remain the same.

Figure 16 also exhibits a perception of superior strength in their corporate and investment banking capabilities. All three perceived these areas to be particularly strong and core to their organisations focus going forward. Absa was historically perceived as the weakest player in this segment of the market.

The bulk of the banks' perceptions were not shared collectively across the organisations. Some organisations had their emphasis more heavily weighted on the advantage that Barclays would gain because of its favourable positioning in terms of cost efficiencies, while other organisations show an emphasis on Barclays' advantage to be gained through its aggressive activities that are anticipated to occur in the market.

6.2.6 Implications for the Literature

The incumbent's perceptions of its competitive environment and perceived threats within it are contended to have a significant impact on any response undertaken by the firm. Dawar and Frost (1999) contend that a firm's perceptions of the pressures placed on it to globalise and its perceptions of the transferability of its core capabilities are key indicators dictating its response when faced with the entrant of a multinational player in its local environment.



The incumbent banks' perceptions of the pressures placed on it to globalise were perceived differently across the lower income segments when compared to those with more affluence and the corporate and investment banking side. On the domestic, lower income segments, the cases exhibit little pressure to conform to a global set of rules that might otherwise govern worldwide competition. Instead the firms show a focus on meeting a particular set of demands expressed by a collection of local customers. Corporate and investment banking and affluent market segments, on the other hand, experienced pressures by an increasingly globalised customer, demanding conformity to a global set of rules. Concerns expressed by the divisions exhibited a cognisance of the advantage held by Barclays in terms of its international distribution capability, its access to world-wide markets and products, and its superior strength to be gained from its human capital that would take learnings from its financial markets across the globe. The domestic, retail side of the business perceived a more stable market response and a competitive advantage that was more directly related to a unique set of skills that was tailored to meeting the demands of a local customer, rather than an increasingly global set of expectations.

The second component of perceptions, relating to Dawar and Frost's (1999) evaluation of the firm's competitive assets indicate a heavy emphasis on the incumbent's competitive assets relating to advantage, especially within the local environment. The competitive advantage was perceived to reside in its brand



strength in the market, and its unique means of gaining direct access to the varying segments comprising the overall market. The means of gaining access to the market included its channels of distribution as well as its market insights that would allow it to consistently deliver on its expectations and requirements. These perceptions lent themselves to a defensive response as described by Dawar and Frost (1999).

Most notable are the banks' perceptions relating to Barclays' expected strengths post its merger with the Absa organisation. The perceived strengths are weighted heavily on cost conditions, as described by Gruca and Sudharsan (1995) in their classification of responses by local incumbents to international entrants. The perceptions of cost conditions included expectations of a competitor operating with enhanced operational efficiencies, access to more available and cheaper capital resources and funding and superior technology capability that would drive costs down and enhance productivity. Gruca and Sudharsan (1995) contended that incumbents facing an international competitor that is able to benefit from these perceived scale economies should be more proactive in their strategic response as they are able to enter more quickly and benefit from drawing on the same base of skills and resources almost immediately. Discussions in the incumbent organisations show these advantages as having a long-term impact on the market rather than a short-term effect that would revolutionise the make-up of the market. All of the advantages that were expected to be gained over this period of time were



considered to be incremental advantages that could be learned by the incumbent organisations. As such these benefits were perceived to be beneficial in the long-term and were not facilitative in creating any urgency in the implementation of an immediate response.

Gruca and Sudharsan's (1995) suggestions of the impact of demand conditions on the response undertaken by incumbent operations also had a heavy influence on the behaviour exhibited by the banks researched. Demand conditions, characterised by factors like market size, the presence of switching costs, the drivers of brand choice, and the degree of segmentation (Gruca and Sudharsan, 1995) indicated a belief of a stronghold on market share and the perceived continued stability even after the Barclays entrance. The banks' perceived strength in its position within the industry, and the competitive environment boosted its confidence in the face of the Barclays entrance.

Relative to the other two players in the industry, Standard Bank perceived its core competitive assets to have universal reach, and global significance as evidenced in its aggressive expansion into international emerging markets. This perception gave it confidence to initiate a response described as *contending* by Dawar and Frost (1999). It perceived its capabilities in terms of its skills within emerging markets to hold universal applicability for emerging markets across the world. These capabilities were perceived to provide it with a competitive advantage in parallel environments across the globe.

Conclusion

Overall, the perceptions harboured by the banks included in the research indicate a substantial influence on the response or lack of response undertaken by that organisation. The banks perceiving the threat to be derived primarily from cost conditions (Nedbank and FRB in Figure 15) perceived a more stable environment and a less immediate impact on their continued profitability and growing market share. Standard Bank's heavier emphasis on the perceived threat in terms of demand conditions and the perceived transferability of its competitive assets perceived a more unstable environment and experienced more urgency to respond.

6.3 Research Question 2 – Incumbent Strategic Response Formulation Processes

6.3.1 Introduction

A time series analysis and explanation building analysis (Yin, 2003) was utilised to outline the strategic response formulation processes that each of the organisation's engaged in creating their responses to the Barclays entrance. The processes are discussed in detail below.

6.3.2 Nedbank

Nedbank's strategy formulation process began with the activities of the strategy teams within the respective business units that had a dedicated responsibility for the overall strategy of the organisation. The Nedbank Group strategy team engaged in a formal analysis of the external environment that would initiate the overall strategic planning process for 2005. This analysis comprised of

deliberate analytical assessments of the external environment with the use of formal strategic tools to guide the process.

These activities fed into the Group executive as part of a formal series of events defined in the strategic planning process. The group executive's involvement was to take the initial analysis conducted by the group strategy team and identify the core components that would be carried forward into the business for the period ahead. It was in this part of the overall process that Barclays was identified as a threat to Nedbank going forward. The group executive pushed this item as a strategic focus area into the business clusters reporting into them.

The Nedbank clusters comprised a number of individual mono-line business units grouped together by common segment focus areas (see Figure 24 in Appendix for Nedbank organisational structure). The second component of the strategy formulation process in response to the Barclays entrance took place within these clusters.

The clusters also engaged in a process of environmental scanning. Each one also had a strategy development team with a deliberate responsibility for the formulation of strategy within the overall cluster. These teams engaged in a formal, rational analysis of the Barclays entrance in collaboration with the senior management teams from each of the business units residing within the clusters. This over-arching team developed a framework for the response of the business units within the cluster to the Barclays entrance.



These multiple inputs were then passed on to the next level of the response formulation process. Having received the first instruction from the group executive, the clusters had developed a framework for responding to the Barclays entrance and then pushed this into each of the business units within the cluster for the specific development of a tactical response by the owners of the unit. The business unit executives took these broad frameworks into their areas of responsibility and developed a specific response to the Barclays entrance.

The overall formal strategy formulation process functioned as a supplement to the activities that the business units engaged at all times during the year. As part of their daily operations, the business units performed an informal environmental scanning process and developed tactical responses to competitive activity as an inherent component of their business objectives.

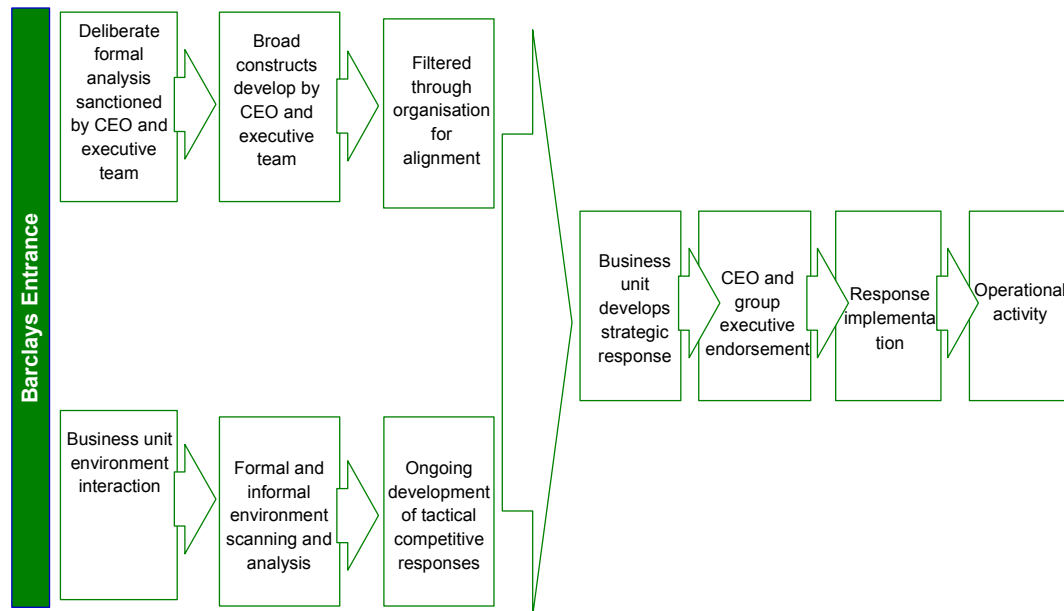
The overall strategy formulation process was described by the members of the organisation as a “top down, bottom up strategy formulation process.” The executive was responsible for pushing strategic focus areas into the business as a whole and the business units were responsible for formulating specific strategic responses that actually drove the direction of the business. These responses undertaken by the business units were passed back up through the cluster to the executive for endorsement. This mechanism ensured that the entire organisation operated in a manner that was aligned with the strategic thought of the CEO and the executive team.

The decision-making process was described to be based on deliberate analysis and political consensus. Decisions within the organisation were undertaken through a strategic conversation where an open debate was held until all parties were in agreement with a particular course of action.

Core Strategy Formulation Principles

The chronology of the Nedbank strategic response formulation process is represented in Figure 17.

Figure 17: Nedbank’s Response Formulation Process to the Barclays Entrance



The Nedbank response to the Barclays entrance was undertaken through two processes. The first line in Figure 17 shows the first as formal and deliberate, while the second was more responsive as characterised by its constant interaction with the environment. The formal, deliberate process was initiated by the Group CEO and executive team and was filtered through the

organisation for business unit alignment. The second process, undertaken concurrently by the business units, as part of their constant engagement with the external environment developed a response specific to that field of expertise. Both of the processes fed into the eventual response that the business unit implemented.

The Nedbank strategy formulation process (Figure 17) shows the CEO and the group executive to be the central drivers behind the creation of the organisation's response. The executive team played an active role in the formal analysis and the definition of broad constructs within which the balance of the group was expected to operate.

Ultimately, the business unit was responsible for developing the response that was to be included as a part of its operations going forward. This response was created, taking into account the framework prescribed by senior management which ensured the overall strategic alignment of the Nedbank group and its business units within. These responses were communicated back up to senior management where they were ratified for implementation.

Influencers

Nedbank's focus at the time was highly attuned to fixing its internal operations. As reflected by one of the managers, "As I see it there are three different responses that could be taken to an event in the market place. One could take a proactive response, a defensive response, or one could choose not to respond at all. I think that Nedbank sits somewhere in between the last two

options as a result of our inward focus at the time.” During the period of the BOE merger and the financial difficulties experienced by the group, its market share and profitability had dropped significantly. Its focus on internal operations was being undertaken with the intention of enabling the group to once again regain its lost market share, return to its previous levels of profitability, and change its focus to a customer-centric mode of operating.

Nedbank’s centralised structure also lent itself to a more structured approach to its strategy formulation process. The combined efforts of the strategy formulation teams supported this process through their analysis and activities within the businesses.

The combined impact of the bank’s internal focus, its organisational structure, and its contention that it had sufficient time in the face of the Barclays entrance, incentivised it to undertake its response as an interdependent process of the organisation’s annual strategy planning function.

6.3.3 Standard Bank

The Standard bank strategic response formulation process, as described in the case is summarised in the following series of events:

The Standard Bank strategy formulation process was initiated by the executive of each of the two core divisions comprising Standard Bank (See Figure 25 for Standard Bank Organisational Structure). On the retail side (Personal and Business Banking) of the business, the retail executive sanctioned a formal



analysis of the Barclays entrance. This analysis was undertaken by two separate teams, one responsible for the formulation of the bank's long-term strategy and the other, the tactical response of the retail banking division.

Both teams engaged in a formal, quantified analysis of the external environment through a cross-functional involvement from multiple participants across the retail bank. The analysis invited contributions from various business units, product houses, and support functions across the division. These deliberations culminated in a selection of strategic options that the division could choose to follow.

Recommendations were made to a cross-functional, decision-making committee as well as the retail executive. The cross-functional committee comprised of representation from various business units across the division and was a core component in the delivery of the recommendations as it represented the platform that distributed the analysis to the business units.

The final development of the response resided within the business units. The business units took the advice from the two strategy formulation teams and, combined with its own direct contact with the competitive environment, decided on an appropriate initiative.

The retail executive also had an important role to play both in the initiation of the analysis as well as deciding on the overall long-term strategic outlook for the division. The group CEO, on the other hand, had little operational involvement

in either of the two divisions within the bank. His role in this process was to guide, advise, and endorse the strategy within the two businesses.

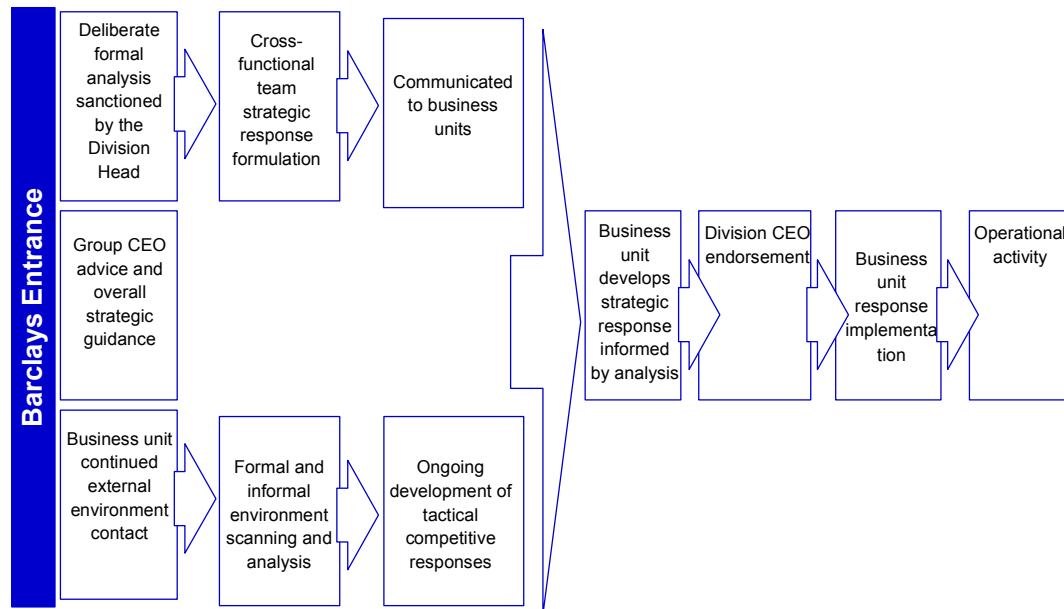
On the corporate and investment banking side of the business the executive team and the CEO were responsible for initiating an engagement with the business units that would seek to define the division's response to the Barclays entrance. This process resulted in a collaborative team effort that proceeded to perform an extensive analysis of the impact of the Barclays' entrance on the corporate and investment banking environment. The team was structured to facilitate learning and information sharing between the business units. The analysis performed by this team enabled the creation of a strategy that would be held as a co-created response by each of the business units. The ultimate response was undertaken at the business unit level in combination with the business unit's unique analysis of its particular field of speciality.

The responses implemented by the business units were endorsed by the CIB executive and eventually the Board and Group CEO.

Core Strategy Formulation Principles

The chronology of the Standard Bank strategic response formulation process is represented in Figure 18.

Figure 18: Standard Bank Response Formulation Process to the Barclays Entrance



As represented by the first line in Figure 18, the formulation of Standard Bank’s response to the Barclays entrance was initiated by the executive of the two major divisions comprising the overall organisation. A deliberate and formal analysis was undertaken by a cross-functional team that benefited from input from various parties across the organisation. The output of this cross-functional team’s analysis was communicated as a recommendation to the various business units across the bank.

The Group CEO (Figure 18) sat a distance away from the operational activities that the divisions were engaged in. His role was largely one of advice and overall strategic guidance for the long-term prospects of the bank.

The business units, as part of the decentralised structure of the overall enterprise were primarily responsible for the development of strategy within their areas of speciality (Line two in Figure 18). Through their constant interaction with the environment and the ongoing development of their tactical competitive responses, they were also engaged in a process of developing their unique response to the Barclays entrance.

Analysis that was undertaken through the centralised function was fed back through to the business units to inform the development of their response. These recommendations were internalised and incorporated as part of the business unit strategy formulation process. The responses that were undertaken were endorsed by the division executive and implemented as part of the ongoing operational activities within the business unit.

Influencers

Standard Bank's explicit response exhibited in its deliberate strategy formulation process and its emphasis on external analysis could be partly attributable to its previous experience with the failed Nedcor takeover bid. The trauma experienced within the bank by an external force could have been facilitative in promoting its expressed external focus on the Barclays entrance.

The formulation of its strategy in response to the Barclays entrance was undertaken through the sanction of a deliberate analysis undertaken by a cross-functional team that advised the organisation's strategy going forward. The business units held ultimate responsibility for the strategy implemented. This

was partly attributable to the bank's decentralised structure, and the empowered position of the business unit's management within. The overall structure resulted in less interference from the executive team and more involvement from business unit managers.

6.3.4 FirstRand Bank

FirstRand Bank's response to the Barclays entrance, as evidenced in the case, was driven primarily through the business units that comprised the overall organisation. These business units, because of the owner-manager culture and decentralised structure, held full responsibility for their total operations.

The business units participated in both a formal and informal analysis of the environment and the Barclays activities within. The response to the perceived threat was developed as a part of the business unit's ongoing creation of its strategic and competitive responses to occurrences in the market.

The Group CEO participated in the formulation of the strategic response through the provision of strategic guidance, advice, and the initiation of a centralised analysis to supplement business unit strategic activities.

The analysis sanctioned by the CEO performed a deliberate, quantified measurement of the Barclays entrance and the impact on the environment and the FirstRand Group. The process was led by an experienced team as well as a cross-functional participation from various divisions within the bank. The outcomes of the cross-functional team's activities were fed back through to the

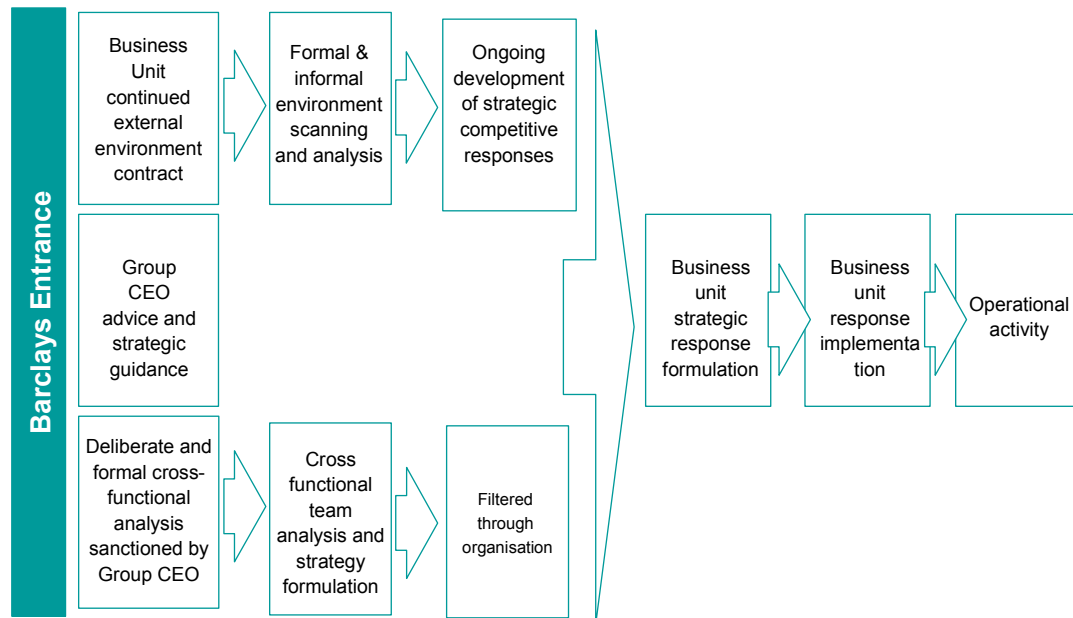
executive teams of the major divisions as well as the management of the business units of which they were comprised.

The two processes, characterised by the activities of the business unit as well as those of the centralised cross-functional team, both fed into the strategy formulation process that the business unit managers engaged. The ultimate responsibility for the response undertaken lay with the management of the business unit. The implementation of these responses was incorporated into the operational activities of the business units and the collective responses of each division combined to form the overall organisation’s response to Barclays.

Core Strategy Formulation Principles

The chronology of the FirstRand Bank strategic response formulation process is represented in Figure 19.

Figure 19: FirstRand Bank’s Response Formulation Process to the Barclays Entrance





The strategy formulation process undertaken by FirstRand Bank has a central process (Line one in Figure 19) and a supplementary process occurring concurrently, supporting it with additional information and competitive insights. Because of FRB's decentralised approach to strategy formulation and its emphasis on owner-manager businesses, the primary responsibility for the response to the Barclays entrance rested firmly in the hands of the autonomous business units. As a part of their continued interaction with the external competitive environment, the business units engaged in a continuous process of evaluating its strategy and adjusting it to suit the environment as appropriate. This process engaged both formal and informal design tools to plot its strategy going forward.

The second component of FRB's strategy formulation process (Line 2 in Figure 19) in response to the Barclays entrance was initiated by the Group CEO. The Barclays entrance was identified as a substantial threat to the overall organisation and the activities of a cross-functional team were sanctioned to supplement the autonomous business unit processes. The activities of this team ensured a deliberate and formal analysis of the competitive environment. The outcomes were filtered through the organisation to business unit level as a supplement to its continuing response formulation process.

Ultimately the business unit was responsible for the strategic response to be implemented for its more narrowly defined scope of responsibility.

Influencers

FirstRand Bank's strategy formulation process in response to the Barclays entrance was also influenced by its collective experiences as an organisation as well as the combined perceptions that it had of the international entrant.

The entrepreneurial culture that had been injected into the overall organisation with the RMB acquisition had a noticeable influence on the strategy formulation process. Due to its emphasis on owner-manager responsibility as well as its decentralised operational structure, the business unit owners were the central driving force behind the formulation of the response for FRB.

6.3.5 Comparisons

As indicated in Figures 17, 18 and 19, each organisation followed a unique approach to the formulation of its response to the Barclays entrance. The process was initiated at different points within the organisation, at different times, and by different parties.

A cross-case analysis (Yin, 2003) performed on the banks shows that similarities among the three organisations are also evident. All three performed a structured analysis of the competitive threat. Each bank further engaged in a formal, rational analysis of the Barclays entrance with the use of recognised analytical tools.

Nedbank's strategy formulation process was characterised as the most structured and ordered process, passing through a series of predefined steps that were undertaken before the implementation of any strategic response.



Although tactical responses were constantly implemented through business unit activities, the major thrust of the analysis and response was conducted through a formal process. Standard Bank's approach was also undertaken through a deliberate process, but with more responsibility residing in the hands of the business units. FirstRand Bank's approach in contrast was the most informal of the three, with each business unit formulating an individual response that was supplemented by advice from a cross-functional strategy development team.

The responsibility of the group executive teams, senior and middle management all differed across the organisations. Nedbank's executive team displayed the most active involvement across the three organisations. The other two organisation's CEO's and executive team members acted more in their capacity as a strategic enabler, an advisor and a guide to the divisions and business units below them. The response from the Nedbank group was initiated by the Group CEO, whereas Standard Bank's were initiated by the Divisional CEO's. FRB's respective responses, on the other hand, were initiated by the business unit managers of each of the businesses comprising the FRB group.

The ultimate responsibility for the formulation and implementation of the strategy lay with the business unit owners in each of the three banks researched. The difference resided in the level of intervention from senior management above. Nedbank's approach to strategy formulation was described as a "top down-bottom up" approach whereas both Standard Bank

and FRB described their processes as decentralised approaches to strategy formulation. Nedbank's senior and middle managers both shared a joint responsibility for the strategy formulation process.

The behaviour of each of the banks indicates that organisations responding to a significant perceived threat in the external environment will turn to a rational, deliberate approach to strategy formulation, regardless of their preference in normal circumstances.

6.3.6 Implications for the Literature

The strategy formulation processes exhibited in the cases researched, indicates a heavy emphasis on a deliberate and rational approach to strategy formulation (Hart, 1992), especially in the face of a significant competitive threat in the external environment. Figures 17, 18 and 19 all depict a formal process within the overall strategy design that contributes to an ordered, rational approach to the formulation of the responses undertaken. This component of the process pursued by all three banks supports Hart's (1992) contentions that a deliberate approach is undertaken in advance by a purposeful organisation. All three cases exhibit this rational behaviour through the analysis that was performed before any responses were implemented. Although the degree at which the overall process was ordered differed between the three cases, each case shows the influence of a rational approach to analysis and the purposeful selection of a desired outcome.



The Nedbank case exhibits the highest levels of allegiance to this design strategy. This is evident through its formalised strategic planning process that each component of the organisation formed a part of, as described by Downs et al (2003). Each component of the process was characterised by an explicit step to be completed that would determine its next course of action.

The emergent approach to strategy formulation as described by the characteristics of unpredictability (Parnell, 2003), trial and error, and an experimental approach (Downs et al, 2003) is also evident in the cases in a component of the strategy formulation process pursued by the banks. Each case exhibits the behaviour described by Harrington et al (2004) as an iterative process. Figures 17, 18 and 19 each contain a component of the overall strategy formulation process that is owned by the business unit responsible for the implementation of the response. These components of the overall strategy formulation process are expressed as areas in which the businesses are highly influenced by its interaction with the external environment. The business unit behaviours in all the cases indicate an iterative process whereby responses are implemented through an interactive relationship with the environment. This component of the overall process, however, is in contradiction with Harrington's et al (2004) claims that they are implemented by an evolving pattern of strategic behaviour that occurs in the absence of previous intention. As illustrated in cases, each business unit's strategy formulation behaviour, although highly attuned to the market through a constant interactive and learning process, is



equipped with a formal process by which the environment is analysed, and evaluated before the implementation of any strategic response.

Again, the three cases differ in the level at which the emergent approach is evidenced in their responses to the Barclays entrance. The FirstRand Bank strategy formulation process is impacted the least by rigid structural impositions (Mintzberg, 1988) than are the other two organisations. Nedbank exhibits the least reliance on the emergent approach to strategy formulation. The case describes the fundamental nature of the response as formulated through its central framework and overtly rational approach to the formulation of strategy within the business. The Standard Bank case describes a collaborative approach where both the emergent and the deliberate schools play an equal role. As indicated in exhibit 18, the business unit's iterative approach to strategy formulation is equally balanced by the core structure, feeding deliberate inputs into the eventual outcome.

This approach to strategy formulation evidenced in all three cases supports the contentions of Mintzberg and McHugh (1985) that propose that the two schools of thought can be seen to reside on opposite ends of a continuum with an organisation choosing to reside somewhere in between the two. Harrington et al (2004) also support this argument by stating that both approaches can be present within an organisation. The cases also support Mintzberg's (1988) argument stating that both the approaches might be present where firms define broad organisational guidelines, characteristic of the deliberate approach, and

allow the pursuit of individual business unit strategies within, characteristic of the emergent approach.

In summary, the research indicates that both the deliberate and the emergent approaches to strategy formulation play an important role in the overall process pursued by the banks. The banks vary in the mix at which the two approaches define their overall process, with Nedbank tending toward a heavier emphasis on the deliberate approach, FNB tending toward a heavier emphasis on the emergent approach, and Standard Bank residing somewhere in the middle.

Most notably, regardless of the organisations' inherent tendency to formulate its strategy with a heavier reliance on either approach, the scale of the perceived threat posed by the Barclays entrance compelled each bank to undertake a formal, rational approach to the design of its strategic response. This would indicate that the more significant the threat imposed by the external environment, the more reliance the organisation places on a rational approach to strategy formulation.

Role Players

Overall, the cases varied with regard to the role and influence of senior and middle management in the overall strategy formulation process. The role of the CEO is shown in all three cases not to be represented by the command position (Hart, 1992) where strategy is formulated at the top of the organisation and announced to the business units below it. The cases illustrate an active involvement by the managers of business sub-units. This is in sharp contrast



with Chandler's (1962) contentions that the chief executive and the corporate office set strategy and delegate detailed matters to the managers of business sub-units below them. Both the Standard Bank case and the RMB case described the CEO involvement as one limited to the offering of advice and strategic guidance to the overall organisation. The Nedbank case illustrates the most active involvement by the CEO in his joint development of the broad constructs within which the balance of the business is expected to operate.

The role of middle and sub-business unit management is evidenced as playing a crucial role in the formulation of strategy in all three cases. The FNB case describes middle management as having direct responsibility for the future of the business for which it is responsible. This contention although not as pronounced in Nedbank and Standard Bank, is reflected in all three cases studied. The FRB case describes the overall organisation strategy as the collective sum of the business units of which it is comprised. The owner-manager culture embraced in the case gives evidence to this responsibility of the middle management segment of the organisational structure. Standard Bank's approach to strategy formulation is described as being decentralised, with business unit managers having complete ownership of the businesses they manage. This is also reflected in the Nedbank case through its approach characterised as a "top down and bottom up" approach to strategy formulation where middle managers define their strategy within a broad framework defined by senior management.

The role of middle management is shown to have a significant upward influence (Watson and Wooldridge, 2005) on the organisation's overall strategic response formulation process. Through this upward influence, middle managers influence the overall corporate strategy through its direct ownership of the business units that it manages.

Interdisciplinary Thinking

The cases describe a heavy reliance on cross-functional involvement in the formulation of its strategic responses. As illustrated in Figures 17, 18 and 19, each bank specifically makes provision for the inclusion of a cross-functional strategy formulation team where various inputs are sourced from diverse business units across the organisation. This approach to strategy formulation supports Badal's (2005) contentions that strategy formulation should be undertaken through an interdisciplinary approach that combines various disciplines and creates a solution that is multi-faceted and cognisant of different dimensions to the solutions.

As illustrated by the cases, the size of the perceived threat could also be a factor dictating the level at which multiple organisational participants are involved. Since the banks perceived the Barclays entrant as a substantial threat, each one sanctioned the involvement of a cross-functional strategy formulation team.

Evaluation of Strategic Alternatives

All three cases indicate a heavy reliance on two specific methods of evaluating strategic alternatives. Nutt (1998) defines evaluation alternatives in four categories including bargaining, analytical, subjective, and judgemental tactics. The banks show evidence relating to two of these evaluation alternatives.

All components of the formal processes pursued by the banks in the cases, culminated in an analytical evaluation characterised by the use of analytical tools and a computational approach that transformed data relating to the environment and the competitor into new information that was relevant to the organisation and used as the basis for its decision (Nutt, 1998). Examples from the cases include Nedbank's use of a SWOT analysis; FRB's detailed analysis of Barclays' activities in other parallel environments; and Standard Bank's formal quantification of the anticipated losses likely to be suffered by the Barclays entrance.

The analytical tactics were used in conjunction with bargaining tactics (Nutt, 1998) to arrive at an outcome. Each case describes the formulation process as culminating in a board discussion where alternatives are debated and agreed upon once consensus is reached. This bargaining process allows for the opinions of each party to be voiced and a collective decision to be made that represents a collaborative effort.

Conclusion

The research indicates that South African banks' strategy formulation process is influenced both by the deliberate, rational approach as well as the emergent approach to strategy formulation. Both of these approaches are utilised in the banks' implementation of its strategic response, although a heavier emphasis is placed on a rational, deliberate approach when the competitive threat is perceived to be a considerable peril to the organisation's ongoing sustainability. Threatening perceptions of this magnitude also initiate the development of strategy through cross-functional efforts, involving the participation of multiple parties across the organisation.

The middle managers in each case exert upward influence on the strategy that is undertaken by the overall organisation. The CEO and executive team influence this strategy through their endorsement of business unit strategies and their contribution through advice and guidance.

Strategic alternatives are evaluated with a combination of an analytical and a bargaining approach that allows for both a rational substantiation of a strategy undertaken as well as a cross-functional contribution to the evaluation process.

6.4 Research Question 3 – Strategic Responses Undertaken

6.4.1 Nedbank

Strategic Responses

As indicated in the case, Nedbank at the time of the Barclays entrance, first announced toward the end of 2004 was still deeply entrenched with an internal focus aimed at turning the bank around to its previous levels of profitability and



market share. As a result of this, the response to Barclays was not a high priority on its agenda of activities to be completed before it was able to return to its previous levels of success in the market. The case shows that although the Barclays entrance was perceived as a threat, more pressing issues were being faced that occupied management's attention at the time of the Barclays entrance.

The Barclays entrance although perceived as a significant threat did little to influence the bank's strategy formulation process that would define its response to the competitive threat. The analysis, decisions and discussions relating to the response formed part of the bank's standard mechanism for determining its three-year goals and allocating financial resources across the divisions. The Barclays threat was treated with a similar urgency as were other environmental concerns.

All of Nedbank's business units were aligned behind a similar process. Even though the competitive environment was experiencing the biggest change in its history, the Nedbank focus was to stabilise its own business and look inward to re-organise and repair its internal operations. A substantial part of the focus was placed on the people within the organisation and the group declared its intention to retain its talent and restructure the organisation to be more customer-centric.

The case shows evidence of Nedbank's recognition of an increasing strength in the Absa retail operation. The Nedbank group in response, expressed an



intention to focus more on the retail side of its business and decided to channel some investment into the development of its retail distribution footprint through both branches and ATM outlets.

On the corporate and investment banking side of the operation, the key focus was on Barclays' global distribution footprint as well as its perceived threat of poaching valuable staff from the organisation. In response, Nedbank implemented an initiative to retain its key personnel within its division, as well as form an alliance with an international partner to give it access to a global distribution network. Its staff retention plan included a review of packages and benefits to ensure that its staff were satisfied and not tempted to move over to the revitalising competitor. The partnership forged with ABM Ambro was undertaken to put it on a par with the Barclays operation in terms of its access to the major financial markets across the globe.

The case also shows Nedbank over this period as having responded by fostering a closer relationship with its Old Mutual parent. This relationship was perceived to give it similar capabilities to what the Barclays mother ship was able to provide to Absa. This relationship was anticipated to allow for a broader distribution network, as well as enhancing the career path of individuals within the bank.

Core Response Principles

Figure 20: Nedbank's Core Responses

Inward focus to stabilise the business
Gain international distribution capability
Retain key staff members
Focus on retail business
Leverage off parent scale
Accelerate current corporate strategy

Nedbank's response to the Barclays entrance is characterised by five central themes in Figure 20. Nedbank's first response was to look inwardly to ensure that it was able to compete with its optimal structure.

Nedbank's second response instituted an initiative to retain key staff within its operations. These were viewed to be particularly vulnerable to the Barclays entrance as it would be looking to soak up the best talent in order to build up its business.

Its third response induced a heavier focus on the retail side of the business in its strategy going forward. This was especially relevant because of Absa's strength in this business as well as the Barclays capital injection that would give it added impetus to grow stronger in this capability.

The fourth theme related to Nedbank's intent to gain an international distribution footprint to allow it to compete effectively against a multinational player. The final theme engaged an attempt at leveraging off the size and scale that its Old Mutual parent provided. This would offer it relative strength in the future competitive environment.

6.4.2 Standard Bank Strategic Responses

The case shows that Standard Bank's response to the Barclays entrance began with the sanctioning of a series of analyses to be undertaken by a cluster of teams across the divisions within the bank.

Standard Bank's response to the Barclays entrance was to alter the standard mechanisms by which strategy was formulated within the organisation by supplementing it with a series of additional analyses. The habitually independent business units that were wholly responsible for the formulation of strategy within their businesses were heavily influenced by a set of strategic recommendations formulated by a centralised, cross-functional strategy formulation team.

The retail side of the organisation implemented a response undertaking to "fast-track the customer-centric retail strategy". This included, through its implementation, the execution of a number of projects residing within its pipeline of projects. The Barclays entrance offered the added impetus required to take these projects out of the pipeline into immediate execution. During this period the case shows responses that included the launch of its renewed branches in its distribution structure. It also sought additional joint ventures to increase its distribution reach through alliances with MTN as well as Edcon. These alliances extended its reach to a broader market through these additional distribution channels.



The retail bank also implemented various initiatives, including a restructuring of its branch network and management infrastructure, to lower its cost-to-income ratio, relative to international standards. To assist it both with its customer interface and its supporting structures, the bank also engaged a substantial investment in a SAP IT architecture to support its activities.

The retail division also responded by implementing a retention campaign for its top customers. The final response implemented by the retail operation included the development of a strategic intelligence team that would have direct responsibility for continuous competitive analysis and environmental scanning looking into the future.

The corporate and investment banking side of the group also altered its strategy formulation process to include the creation of a deliberate, cross-functional response to the Barclays entrance. The output of the team's activities influenced the strategic responses undertaken in the autonomous business units. Responses undertaken by the division included a restructure of its customer interface. In doing so, the division was aligned as a reflection of Barclays and other multinational banking operations.

The corporate and investment banking division also instituted an initiative that would ensure the retention of its key staff. Through this response, a formal analysis was undertaken that calculated each individual's package relative to the market standards. An attractive lock-in strategy was implemented to make remaining with the bank the most beneficial option.

The final response pursued by the corporate and investment banking division was to expand aggressively into both African and international markets. The bank perceived its capabilities and competencies in emerging markets to be a core asset that it could expand into other parallel environments. This constituted a central component of its response to the Barclays entrance.

Core Response Principles

Figure 21: Standard Bank's Core Responses

Active external analysis
Aggressively modify existing channels
Aggressively pursue new channels
Aggressively pursue new markets
Lower the cost of operating
Retain key staff
Retain and grow existing customer base
Accelerate current corporate strategy

The Standard Bank response to the Barclays entrance had an impact across all of its activities within the organisation. As shown in Figure 21, the initial response was to undertake a careful evaluation of the external market. This informed a strategy that would seek growth in the face of the new competitor through the aggressive pursuit of new channels and the modification of existing ones. It also looked within its current customer base and implemented initiatives to retain its market share as well as seeking growth through capturing an additional share from existing customers.

As illustrated in Figure 21, not only did Standard Bank focus on its approach to the current market, it also engaged in a strategy seeking growth in new

markets. These markets were pursued in the greater Africa region as well as locations on other continents across the globe.

The final component of the bank's overall response (Figure 21) included an inward look at reducing its cost bases to allow it to compete more effectively against low cost players. In this respect it sought to lower its cost-to-income ratio as well as implementing staff retention strategies to keep its key personnel and maintain a talent pipeline.

6.4.3 FirstRand Bank Strategic Response

FirstRand Bank's response to the Barclays entrance, exhibited in the case, was to initiate a deliberate analysis of the impact of the entrance on the overall organisation. The group executive delegated responsibility to a cross-functional team that engaged a formal analysis of the foreign entrant. This amendment to the standard strategy formulation process was undertaken as a response to supplement the business unit's analysis of the Barclays entrance.

The response undertaken by FRB also sought to analyse its current customer "stickiness" and its vulnerability in losing this market share to the foreign entrant.

FRB further responded by carving out a niche for itself in specific segments of the market. It actively assessed its business models and approach to the market and amended these to align with growing segments and promising opportunities.

The RMB powerhouse, as the market leader in investment banking in South Africa, implemented its response as an unfailing component of its usual business practice and approach to the market. This was undertaken with an unwavering confidence in its owner-manager culture and its market leadership position. Each business unit implemented its tactical response as part of its continuous interaction with the competitive environment. The Barclays entrance was perceived with little concern and a noticeable dearth of panic was reflected in the limited response implemented outside of normal business activities.

One specific response undertaken was to seek an international partner to give it the benefit of access to a global distribution network. As such an alliance with Morgan Stanley was sought out to provide it with this customer value proposition.

Core Response Principles

Figure 22: FirstRand Bank's Core Responses

Active external analysis
Retain and grow existing customer base
Gain access to international distribution network
Actively grow niche segments of the market
Accelerate current corporate strategy

Figure 22 shows that FirstRand Bank's response was to take an active look at the external environment and the entrance of the new player. The core of the response was independently undertaken by each autonomous business unit operating within the enterprise. These autonomous business units operating with complete ownership allowed for a highly responsive reaction to the Barclays entrance.

Initiatives were also undertaken to protect and retain the FRB existing customer base (Figure 22). The bank also decided to seek out an international alliance that would allow it to gain access to a global distribution network that would match the Barclays global distribution footprint.

Finally, the FirstRand Bank responded through the identification and the pursuit of niche segments in the market. It serviced these segments by adapting its capabilities to align with the precise requirements voiced by the clientele.

6.4.4 Comparison

The comparison of the responses implemented in the three cases is shown in Figure 23.

Figure 23: Incumbent Response Comparison

Responses	Nedbank	Standard Bank	FirstRand Bank	Total
Accelerate current corporate strategy	X	X	X	3
Active external analysis		X	X	2
Retain and grow existing customer base		X	X	2
Gain international distribution capability	X		X	2
Retain key staff members	X	X		2
Inward focus to stabilise the business	X			1
Focus on retail business	X			1
Leverage off parent scale	X			1
Aggressively modify existing channels		X		1
Aggressively pursue new channels		X		1
Aggressively pursue new markets		X		1
Lower the cost of operating		X		1
Actively grow niche segments of the market			X	1

The strategic response shared by all three incumbent organisations is shown in Figure 23 to be limited to the acceleration of the bank’s current corporate strategy. The overall strategy pursued by each of the banks reflects the

organisations' intention to compete in a manner that strengthens its current positioning within the market by adding impetus to components of its existing strategy.

The banks also exhibit differences in terms of the level at which responses are inwardly directed versus externally focused. Nedbank shows a heavier emphasis on responses focused inwardly as opposed to the other two banks that have a higher external bearing. These differences are partly attributable to the organisations' perceptions of the external environment, its strategy formulation process, as well as its learnings shared by members in the organisation.

None of the banks exhibit a response that indicates resignation to the international entrant or an intention to make room for an additional player. All show signs of activities looking to defend and grow existing market share.

6.4.5 Implications for the Literature Barriers to Entry

Gruca and Sudharsan (1995) indicate that an important part of an organisation's strategic response to an international competitor is its activities that are implemented that might otherwise deter entry through the creation of an unattractive environment or costly barriers to entry. Greenwald and Kahn (2005) contend that the most effective defensive strategy that firms are able to pursue is the assembly of competitive advantages that translate into costly barriers to entry for foreign entrants into the market. The cases exhibit activities

undertaken to increase barriers to entry in two distinct environments. Standard Bank and FRB implemented specific initiatives to ensure that it was able to retain its key customers. In increasing the strength of its customer captivity, the banks increased the barriers to entry by increasing the costs that would be necessary to win these customers away. Other similar responses are exhibited in the cases by Standard Bank and Nedbank's efforts to retain their key personnel. A response of this nature would make it more difficult and costly for Barclays to obtain skilled talent by poaching them from the local players. These responses support Greenwald and Kahn's (2005) contentions that incumbent firms implement defensive strategies by raising the barriers to entry for the new player.

Defending and Extending

Dawar and Frost (1999) proposed that incumbent firms will respond to international entrants, depending on their perceptions of the pressures to globalise in the industry, as well as the perceived transferability of their competitive assets across environments. As seen in the cases, the pressures to globalise were perceived differently across the market segments. The wealthier segments, corporates, and investment banking business perceived more pressure from an increasingly globalised customer base. The lower segments and retail markets were perceived to exert very little pressure in terms of global needs and rather expressed requirements in terms of local service requirements and demands. As a result, the response implemented by all three banks in the cases indicates a defensive strategy in the face of the



multinational attack. This response supports Dawar and Frost's (1999) suggestion that a response of this nature would include a series of actions implemented with the intention of *defending* market share in the domestic environment.

The Standard Bank case exhibits a response defined as *contending* in Dawar and Frost's (1999) definition of strategic responses in the face of international entrants. The case describes the corporate and investment banking division's perceptions of its customer's needs as being characterised by an increasingly global set of requirements. It also describes the perceptions of the division's competitive assets to be highly transferable, especially within new and emerging markets. As such, the response undertaken by the Standard Bank division shows a strategy moving into African and other international emerging markets as a response that is prepared to compete head on with multinationals outside of its domestic market.

The responses implemented by each of the banks studied also displays their intention to invest more deeply in their traditional businesses and rather than branching out into new and uncharted territory, they chose to accelerate their current strategic goals. This response confirms Charitou and Markides' (2003) argument that the first potential response to be deliberated over is that of deepening an organisation's current capabilities and making the traditional method of competing even more attractive and competitive. None of the cases exhibit any evidence of the banks setting their current strategies aside in the

pursuit of a new direction that would offer them a radically different mode of competing.

Elements of the Marketing Mix

Responses apparent in the cases, chosen by the banks show a focus on distribution within the organisations. Both Nedbank and Standard Bank implemented an initiative to alter and grow the face of the retail distribution footprint within its domestic market. Standard Bank implemented a R1 billion project to enhance the face of its distribution network while Nedbank allocated the same quantum of funds to increasing the breadth of its reach across the country. These responses support Gruca and Sudharsan's (1995) contentions that incumbent organisations will seek to protect market share and customer loyalty through a combination of initiatives impacting on its marketing mix.

These initiatives to enhance the distribution capability of the organisation were also undertaken at a business unit level (Gruca and Sudharsan, 1995). Both Nedbank and FirstRand Bank implemented responses seeking to gain access to international distribution channels through joint ventures formed with ABM Ambro and Morgan Stanley respectively. Standard Bank sought a similar response in the domestic markets through its joint ventures and alliances formed with MTN and Edcon that provided it with access to a diversified set of distribution channels, allowing broader access to new segments in the market.



Conclusion

In summary, the responses pursued by the organisations in the research were heavily impacted by their perceptions of their internal strengths and weaknesses as well as their perceptions of the local and international competitive environments in which they operate. Responses undertaken by the banks in general sought to defend their local market share and competitive positioning. The strategy pursued in this regard generally sought to raise barriers to entry and the cost of operating for the new entrant as well as investing more heavily in the traditional business and increasing its reach in the market through manipulating elements of the marketing mix.

7. Chapter 7: Conclusion

7.1 Findings

The research was initiated with the aim of exploring how South African incumbent organisations have chosen to compete against multinational entrants in an environment characterised by the increasing pressures exerted by the forces of globalisation. The research also sought to explore how incumbent organisation responses were influenced by their perceptions of the competitive threat as well as its internal processes undertaken in the formulation of its strategy. The three incumbent banks' experiences, comprising the essence of the study, provide some insights into the interrelationships between its perceptions, its strategy formulation process, and its eventual response undertaken.

7.1.1 The Firms' Perceptions and its Strategic Response

The research shows that the three organisations shared a handful of common perceived strengths and opportunities, as well as threats and vulnerabilities for its own operations, relative to the new entrant that had a direct influence on the responses undertaken by the organisations. In the main, the collective views shared by the organisations indicate that their perceived strengths are gathered in pockets of competences providing advantage in specific segments of the market, as well as the level of preparedness with which the banks are equipped. Opportunities that are shared collectively relate only to market share gains that might be collected as the multinational goes about settling its South African

operations. Vulnerabilities shared between the incumbents related to the multinational's perceived strength in terms of its superior access to capital resources, international distribution networks, and human capital.

Differences in perceptions were found to reside between incumbent banking divisions that offer services to different segments of the market. The views relating to the two broad market segments defined as retail and wholesale banking showed a different set of perceptions relating to the impact of globalisation on the customer base. Retail banking perceived a set of service requirements that were characterised by local demands and expectations while wholesale banking perceived customer expectations as increasingly influenced by global trends and demands. These perceptions of the impact of globalisation had an impact on the urgency and magnitude of the response implemented.

Differences in perceptions were also noted of incumbent organisations. Incumbents with perceptions placing a heavier emphasis on competitor advantages to be obtained from cost conditions, like operational efficiencies and cheaper capital resources, exhibited less urgency in responding. Incumbents with a focus on demand conditions, like market share gains and losses, exhibited more urgency in responding.

7.1.2 The Firm's Strategy Formulation Process and its Strategic Response

The strategy formulation processes employed by the incumbent banks are shown to be influenced by a number of variables over the period of the development of its strategic response.



Most notably, the entrance of the multinational initiated the start of a deliberate and formal process dedicated to the development of a competitive response across all the organisations researched. The foreign entrance was viewed to be a substantial threat, sufficient enough to warrant the deliberate analysis of the competitive threat. All the incumbents enlisted the tools of a rational, deliberate approach to strategy formulation. Even incumbents, whose traditional approach to strategy formulation had a heavier emphasis on an emergent design process, supplemented this method with mechanisms characteristic of the deliberate approach. The resulting responses undertaken by the overall organisation were the methodical outputs of a deliberate and purposeful organisation. The research also shows that the two approaches to strategy formulation are utilised interchangeably by the incumbent banks in a collaborative approach to strategy formulation. Each approach has its place in the process and is used as necessary over the design process.

The strategy formulation process employed in the cases is shown to be most heavily influenced by the middle management or business unit managers within the organisations. These individuals exert direct influence on the direction of the organisation through the collective responses implemented by their business units, as well as their upward influence exerted on senior management. Senior executives, in the main, influence the formation of strategy through their endorsement of the decisions undertaken by the owners of the business units below them.

Finally, the organisations display a tendency to develop strategic responses, in reaction to an exceedingly threatening situation through the activities of a cross-functional team, representing the activities of multiple participants from across the organisation.

7.1.3 Incumbent Strategic Responses to International Competition

The research has shown that the incumbent organisations respond in a manner seeking to aggressively defend its share of profits and market in the face of multinational entrants. These responses exhibit confidence in the South African capabilities that are seen to be suitably equipped to compete aggressively, even in the face of an extremely large multinational player.

The responses implemented by the incumbent organisations are shown, most frequently, to be extensions of the firm's current competitive positioning within its market. The responses shared by all three incumbents, exhibits the intention to accelerate the organisation's current strategic intentions, as well as raising the barriers to entry on as many accounts as possible.

The responses to international competition are also determined by the organisational members' shared experiences, culture and the organisation's structure. As such, responses vary in the level at which change is directed toward its activities with its external environment and change directed inwardly, affecting transformation within the internal environment characterising the organisation.

Responses directed externally, are also influenced by the organisation's perceptions of the impact of globalisation on its customer base. In the retail segment for example, where customer requirements are perceived to be based on local criteria, the strategic response incorporated an investment in traditional avenues of competing with the aim of expanding its current domestically inclined capabilities.

7.2 Recommendations for Stakeholders

First and foremost, the research has shown that South African companies do not exhibit behaviour indicative of a strategy showing intentions of capitulating in the face of a large foreign entrant. The responses undertaken reflect the behaviour of a strong, well-equipped, and aggressively competitive participant. The behaviour exhibited by all three incumbents offers positive confirmation that South African banks are competitive on a global scale, against even the biggest and most favourably rated players in the world.

The research also provides some insight into the role that the organisation's perceptions, and mechanisms with which these perceptions are acquired, influence the urgency and magnitude of the response undertaken. Perceptions focusing on locally expressed market needs and competitor advantages emanating from cost advantages, for example, remove a sense of urgency in responding. Perceptions focusing on a global set of market requirements and advantage made in terms of market share gains, creates a sense of urgency in responding and impacts the magnitude of the response undertaken.



Organisations should make a deliberate effort to explore their perceptions of the market and the competitive threat by adjusting the mechanisms by which they come into being. A more holistic picture would provide for a more informed response to multinational threats.

The research has also shown that the two approaches to strategy formulation, namely the deliberate and the emergent approaches, are able to work together in a collaborative effort in the design of its response to international competitor entrants. Organisations could utilise these learnings to harness the best of both approaches. The deliberate approach could provide for a thorough analysis and an organisationally aligned response, while the emergent approach could promote organisational learning and augment responsiveness.

Collaborative efforts to the development of strategy, involving participation from multiple parties from across the organisation, are also shown to be facilitative in the creation of holistic organisational strategic responses, particularly when the overall enterprise is subjected to pressure from a considerable competitive threat in the external environment. These efforts are most comfortably managed through the structured processes encapsulated in the deliberate approaches to strategy formulation.

Finally, the research has shown that organisations needn't embark on the formulation of a response that is far removed from the organization's current strategic trajectory in response to an international entrant. The most impact is

likely to be gained from an investment in the organisation's current positioning, and strengthening its capabilities in this regard.

7.3 Recommendations for Future Research

The research was undertaken as an exploration into the manner in which South African incumbent firms respond when faced with an international entrant in its domestic environment.

Since the research was undertaken with a focus on one industry, future research could seek to explore whether the responses pursued by firms in other industries reflect the outcomes found in the banking industry. A further extension that could be undertaken, even within the banking industry, could be an exploration of the responses undertaken by firms responding to international entrants that have entered the South African context with an organic growth strategy, rather than an acquisition strategy, as reflected in the Barclays' instance.

Further research could also undertake to explore the impact that the strategic decision-making and evaluation process has on the strategic responses undertaken. A detailed exploration could offer insight into the role of the analytical processes engaged and the interrelationship between the bargaining and political mechanisms utilised to effect the eventual decision.

Finally, future research could seek to validate the propositions uncovered in this exploration through a quantified research process that could hold representivity



for the whole organisation as well as the industry within which it competes. Quantitative techniques could validate the findings relating to the organisation's perceptions and strategic formulation process on its response to international competitors. Taking the research this step further would offer broad application for organisations operating within the South African context.

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9. Appendices

9.1 Discussion Guide

9.1.1 Background

- Please provide a brief description of your role within your organisation.
- Please provide a brief overview of the key incidents over the past decade that has contributed to making your organisation the player that it was in 2005.

9.1.2 Perceptions of the Competitive Environment

- When did you first become aware of Barclays' intention to enter the South African market?
- Describe the state of the competitive landscape at the time.
- How would you describe the environment?
- Why do you think Barclays expressed an interest in the South African market?
- Why do you think they expressed an interest in Absa?
- How serious a threat was the Barclays' entrance perceived to be at the time? How did this differ across business units?
- What were your firm's perceived strengths and weaknesses relative to the Barclays operation?
- What advantage would a firm like Barclays have in competing in SA?

- What would your organisation's biggest concerns have related to?

9.1.3 Response & Strategy Formulation

- Was there a response to the Barclays entrance?
 - If not, why?
 - Where there response by individual business units?
 - How was this coordinated?
- Was there a Group response?
 - Was this consistent across the group?
 - Was there a range of alternatives from which to choose?
 - Why did you settle on the response chosen?
- How did other industry players respond?

9.1.4 Strategy Formulation Process

- Describe the strategy formulation process undertaken in response to the to the Barclays entrance.
 - Was it formal and deliberate or emergent and evolving?
- Describe the analysis that was undertaken to provide a basis for evaluation.
 - What tools were used?
- Who were the key players participating in the process and what roles did they take on?
- What role did the CEO and the executive team play?

9.1.5 Strategic Decision Making Process

- Please describe the strategic decision-making process.
- Describe the process undertaken to evaluate the proposed alternatives.
- Were there any conflicting views?
 - How were this dealt with?
- Who was ultimately responsible for the decision making?
- What were the internal forces influencing the decision-making / evaluation process?
- What specific factors was the decision eventually based on?

9.2 List of Interviewees

Nedbank

- Chief Financial Officer
- Head of Strategy and Transformation – Nedbank Capital
- Joint Head – Nedbank Group Strategy
- Manager – Nedbank Group Strategy
- Operations Manager – Nedbank Group Strategy
- Senior Business Analyst – Nedbank Retail Strategy

Standard Bank

- Chief Executive Officer – Corporate and Investment Banking
- Director – Vehicle and Asset Finance (Personal and Business Banking)



-
- Customer Strategy Head – Personal (Personal and Business Banking)
 - Decision Support – Senior Manager (Personal and Business Banking)
 - Segment Head – Personal and Business Banking
 - Senior Manager – Marketing
 - Senior Manager – Private Banking (Personal and Business Banking)

FirstRand Bank

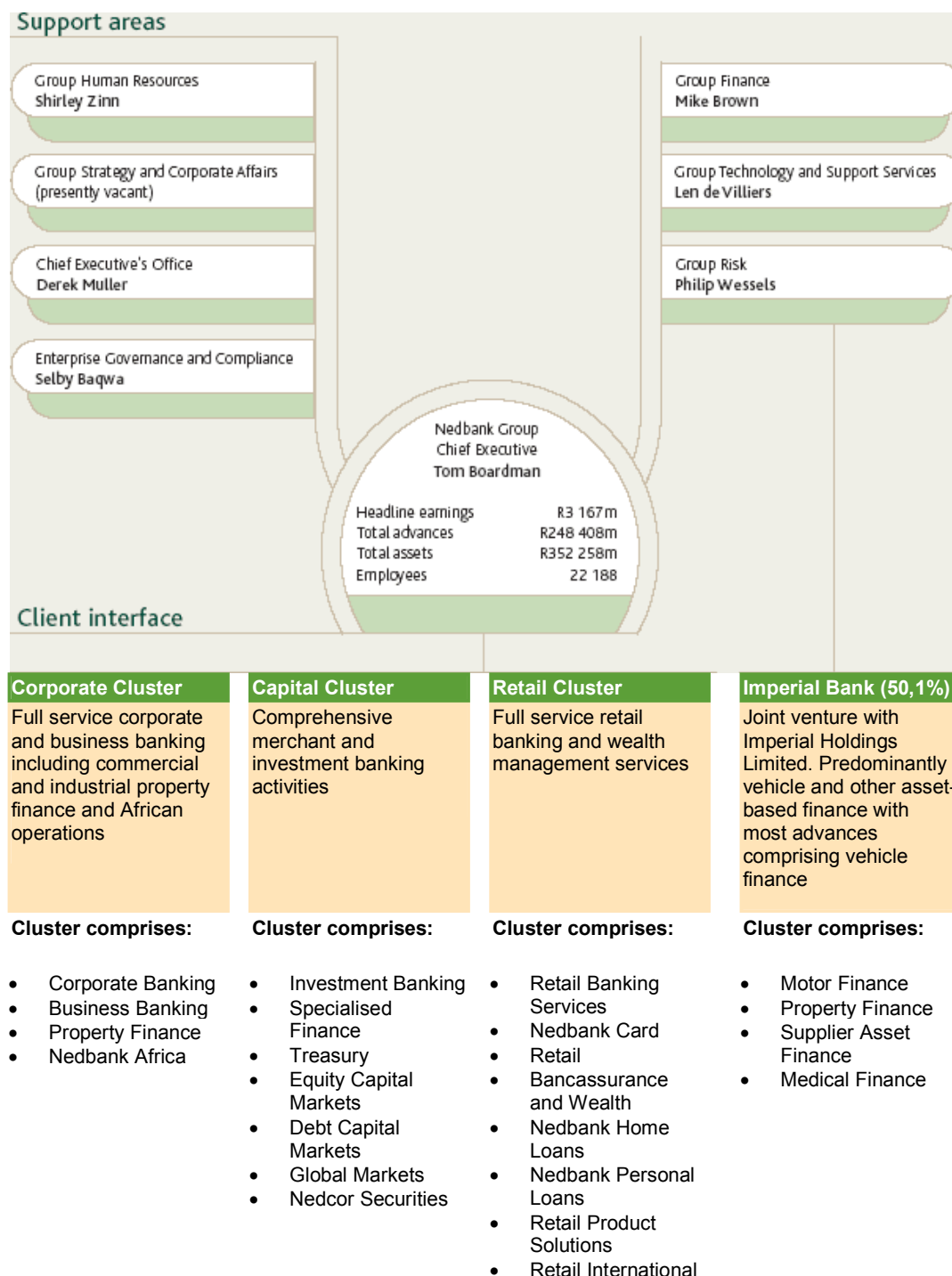
- Competition Executive – FNB
- Strategist to CEO – RMB
- Head, Segment Growth Strategies – FNB
- Chief Executive Officer – Corporate and Transactional Banking (FNB)
- Assistant to CEO – FNB

ABSA

- Strategic Programme Manager – Group Business Change Enablement
- Group Money Laundering Control Officer – Group Compliance
- Head – Group Information
- Senior Manager – Finance

9.3 Nedbank Group Structure

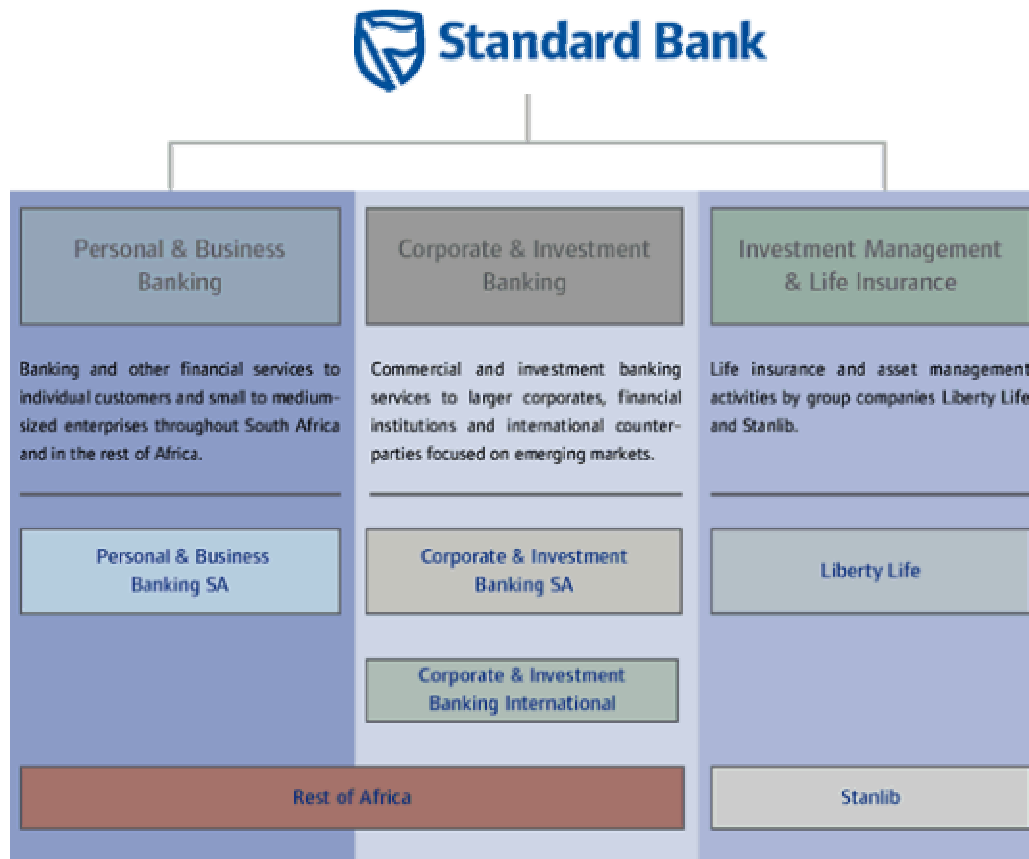
Figure 24: Nedbank Organisation Structure



Source: Nedbank 2005 Annual Report

9.4 Standard Bank Group Structure

Figure 25: Standard Bank Organisation Structure



Source: Standard Bank Annual Report 2005

9.5 FirstRand Group Structure

Figure 26: FirstRand Group Organisation Structure



Source: FirstRand 2005 Annual Report



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