



**Sources of competitive advantages of local firms in
relation to global firms in emerging economies:
A South African investment banking sector perspective**

**Maneesh Kumar Singh
Student Number: 11357020**

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ABSTRACT

The competition between local and global investment banks in South Africa has increased with the global players increasing focus on emerging markets. If the assumption that global investment banks have better skills and technology is true, the increased focus should create a change in market share dynamics and skew it towards the global investment banks.

This research split up global and local investment bank into separate groups and attempted to understand the sources of competitive advantages of each and the nature of their interaction in four main service categories, advisory, financing, markets and private equity.

The results showed that there is limited inter-group competition. The main competition in the South African investment banking industry is intra-group. The only disruptive change in market share could be brought about by a subsidiary of a global investment bank because they share competitive and disadvantages of both groups. Most global investment banks in South Africa have branch operations and there are very few subsidiaries.

KEYWORDS

Competitive advantage, global investment bank, local investment bank, market share, performance

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. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Student Name : **Maneesh Kumar Singh**

Signature : _____

Date : 07 November 2012

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Introduction to the research problem

Research Title

Sources of competitive advantages of local firms in relation to global firms in emerging economies: A South African investment banking sector perspective

Background

The double dip caused by the global economic crisis and the Eurozone Crisis has left the top investment banks in North America and Europe with limited avenues and means to look for local growth. They have started looking towards emerging markets to weather this storm and survive the lean recovery period their economies are going through. Their top four choices have been the BRIC nations that have observed reasonable growth despite these adverse circumstances.

The acronym BRIC has been formally changed to BRICS with the inclusion of South Africa through an invitation by the BRIC nations to join the group (SouthAfrica.Info, 2011). Membership to this elite club coupled with a reasonable growth and political stability over this lean period has provided South Africa a lot of global attention. This focus has not eluded the eyes of global investment banks which is evident from their entry and ramping-up of operations in South Africa (SouthAfrica.Info, 2012). Second, this attention from the global investment banks has also been facilitated by South Africa's number one global rating in terms of capital market surveillance over the last three years in the backdrop of several markets being fraught with allegations of corruption. Last, South African capital market has a higher level of maturity as compared to most emerging markets, as articulated by the Governor of the South African Reserve Bank, Mboweni (2006 p.2) "South Africa is in the fortunate position, compared to many other emerging markets, in that all three components (long-term bank loans, equities and bonds) of its capital market are well developed".

Currently, there are 19 large global investment banks and numerous other mid-sized and small which have a local presence in South Africa and are members of the Johannesburg Stock Exchange (JSE, 2012). Similarly, there are 21 large local investment banks and numerous other mid-sized and small are members of the JSE (JSE, 2012). Most of these investment banks operate in all markets (Equity, Derivatives, Commodity, Forex and Interest Rate) of the JSE and compete for business from both local and international clients (fund managers, corporates and man on the street).

Research Problem

Both local and global firms are competing with each other for the same business and they have all survived till now. As the competition keeps growing with the advent of new global firms and the ramp-up of operations by the existing ones (SouthAfrica.Info, 2012), there will be some firms which will survive and others will dwindle away. This research will attempt to understand to key sources of competitive advantages of the global and local investment banks operating in South Africa. The focus though will be on looking at 2 categories separately – global investment banks and local investment banks to understand which category has sustainable competitive advantage over the other and has higher chances of surviving in the long haul.

Scope

The term liability of foreignness (hereafter LOF) was suggested to imply that multinational enterprises (hereafter MNE) trying to setup businesses abroad will have to bear additional cost burden due to unfamiliarity of the environment as compared to their local counterparts and will therefore be less competitive (Zaheer, 1995). Several other studies have confirmed this logic especially in the financial services sector (Zaheer & Masokowski, 1997; Miller & Parkhe, 2002; Otten & Bams, 2007). Based on this theory, it can be concluded that the local investment

banks in South Africa have a competitive advantage just by virtue of them being local, in the short term.

Can the strategic disadvantage created by the LOF be ever overcome? There are 2 high level levers which could be used to control LOF. First, the degree of influence of the LOF will depend on the firm's ability to adapt and organise/re-organise in favour of building competitive advantages around all three legs of the strategy tripod (1) industry-based Competition, (2) firm-specific resources and capabilities and (3) institutional condition and transitions (Peng, Wang, & Jiang, 2008). Second, the impact of LOF does get influenced by the firm's approach towards 4 moderating variables (1) duration of operation, (2) cultural distance, (3) entry mode and (4) organizational structure (Nachum, 2003). Therefore, it can be concluded that the competitive advantage for local firms created purely by virtue of LOF might not be sustainable in the long run based on the approach used by the MNE's.

This research will attempt to uncover if the sources of competitive advantages of local and global firms are sustainable and will there be only one category (global or local) which will survive in the long run. Additionally, it will also explore the strategies for global and local firms could use to affect a market disruption and build a sustainable competitive advantage.

LITERATURE REVIEW

Strategic groups: Global investment banks and local investment banks

For analytical convenience, global investment banks and local investment banks have been treated as two separate groups. All aspects of performance and strategies have been studied as a strategic group and a competitive advantage possessed by a majority of the members in a group is treated as a group characteristic. This assumption is valid based on Reger & Huff's (1993, p.1) definition of a strategic group "as a group of firms within the same industry making similar decisions in key areas". Two Strategic groups could be formed within the same industry and analysis could be performed on both (McGee & Thomas, 1986). The key conditions being faced by firms of each strategic group should be the same (Reger & Huff, 1993), which is consistent with our classification. For instance, all global firms will be faced with LOF and all the local firms will have home-based advantages (hereafter HBA). Differences in intra-group characteristic like reputation (Ferguson, Deephouse, & Ferguson, 2000) are allowed based on the concepts and taxonomy of hybrid strategic groups (DeSarbo & Grewal, 2007).

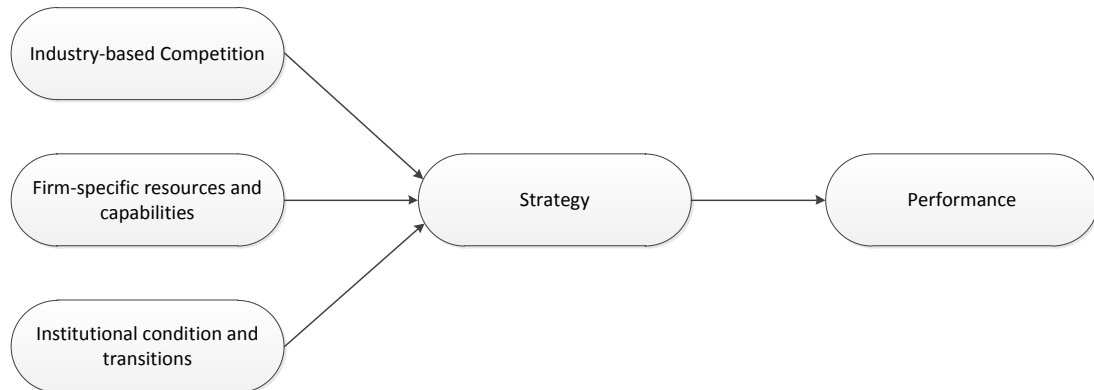
Therefore, it can be concluded that the classification of global investment banks and local investment banks into two separate strategic groups for the purpose of analysis of competitive advantages and performance is a valid classification.

Overall strategy framework

This research has tried to uncover the rationale behind the difference and similarity of performance between the two strategic groups, GIB and LIB. As it has been explained by Peng, Wang, & Jiang (2008) that for achieving a complete understanding of a firm's strategy, especially in emerging markets (like South Africa), it is important to look at all three legs of the strategy tripod. Overall competition in the South African investment banking sector and the market power of firms was gauged through the industry-based view (Porter M. E., 1980). The internal resources and capabilities of firms was assessed through the resource-

based view (Barney, 1991). The formal and informal institutions in South Africa and their influence on the strategic decisions and competitiveness of GIB and LIB strategic groups was measured using the institution-based view (Peng, Sun, Pinkham, & Chen, 2009).

Figure 1: Three legs of the Strategy Tripod



Source: Peng, Wang, & Jiang (2008, p.4).

Figure 1 shows how the 3 views come together to form a comprehensive tool to access firm competitiveness and in turn its performance. Assessment of all three views will help us overcome the criticism that industry-based view and resource-based view have been receiving, as tools to measure firm's competitive advantage in emerging markets (Peng, Sun, Pinkham, & Chen, 2009).

The details on the parameters being used to assess competitiveness along each of the three dimensions has been mentioned in the next three sections.

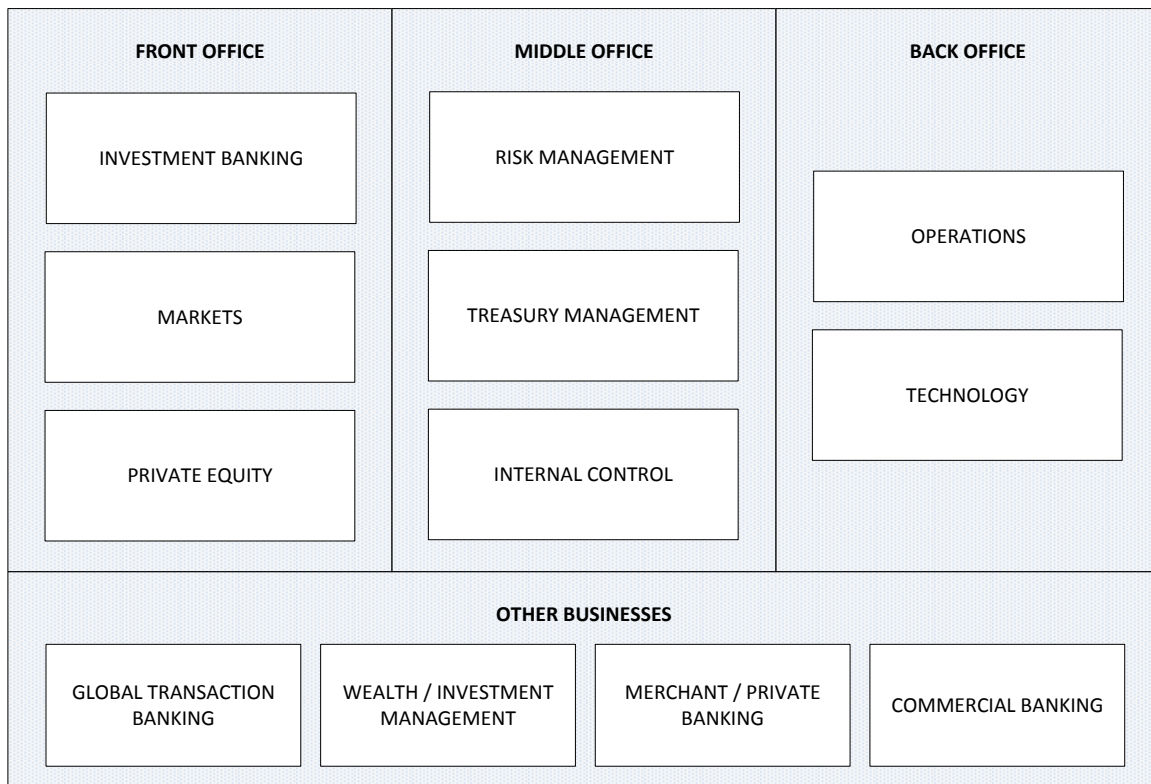
Industry-based view (IO-based view)

It was alleged by Porter (1980) that market forces determine the profitability of a firm. This research will attempt to analyse the industry structure within which the

South African GIBs and LIBs operate. All dimensions of the porters 5 forces model will be analysed in detail (Porter, 2008).

- i. Barriers to entry (Porter, 2008)
- ii. Availability of substitute products and services(Porter, 2008)
- iii. Bargaining power of suppliers (Porter, 2008)
- iv. Bargaining power of customers (Porter, 2008)
- v. Rivalry amongst existing competitors (Porter, 2008)

The above framework was used to define the South Africa investment banking industry structure. This analysis was used to understand the competitive advantages individual firms (both GIBs and LIBs) have to be able to exercise market power. The generic business architecture for a South African investment bank has been depicted in the figure below.



Special emphasis was given to the possible disruptive technologies on the horizon for this industry, which might change the structure. Key amongst these is colocation, high frequency trading, smart order routing, global trading network, remote membership and sponsored access. The speed of adoption of these might become the difference between success and failure in the years to come.

This analysis will provide us with a detailed understanding of the external forces which define the strategy and performance of firms.

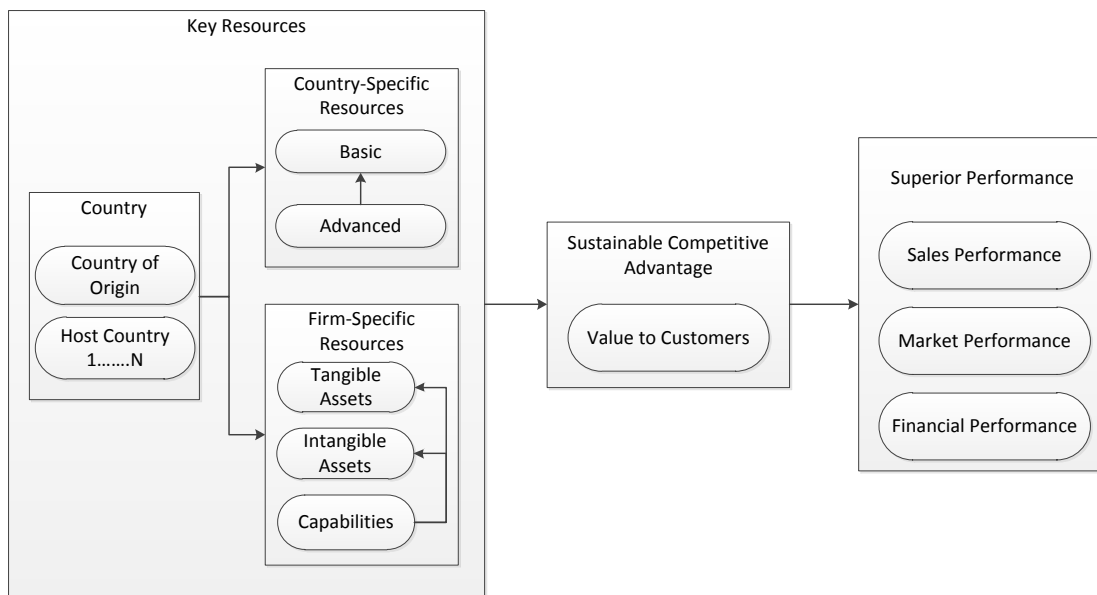
Firm-specific resources and capabilities

The resource-based theory was first proposed by Wernerfelt (1984) who stated that competitive advantages soon lose value if they do not possess the sustainability characteristics. This theory has been able to replace all its predecessors to become the dominant theory for strategic management practices (Lockett, Thompson, & Morgenstern, 2009). A lot of work around strategic management practices has been done on the resource-based view of a firm and researchers have been building on this theory either through their own research or through proposals for future research (Newbert, 2007; Barney, Ketchen & Wright, 2011).

According to the resource-based view, resources of firm have been the cornerstone of competitive advantage. These resources can be of 5 types, financial, human resource, technical, tangible assets and intangible assets (Wernerfelt, 1984). The key sources of sustainable competitive advantages of a firm could be identified by the heterogeneity and immobility of these resources. Barney (1991) further developed this theory to explain that the best way to analyse a firm's sustainable competitive advantage was to use the VRIO framework. Based in this framework, a resource is a source of sustainable competitive advantage for a firm if and only if it possesses value for the firm and/or creates value for the

customer. It should also be rare and therefore should not be a resource that a majority of its competitors also have. It should be imperfectly imitable so that fast followers do not have an opportunity to duplicate it. The firm should be organized to be able to exploit this advantageous position. This research will use the resource-based theory to identify the sources of sustainable competitive advantage of the LIBs and GIBs.

Figure 2: Key resources that provide sustainable competitive advantages



Source: Fahy (2002, p.63).

The problem with using the RBV-framework alone is that it treats GIBs in the same way as LIBs and does not take into account the resources of the global firm and the advantages afforded by the new location. Figure 2 shows the relationship between the resources, competitive advantage and performance using the resource-based view for a firm in the global environment (Fahy, 2002). These resources have been classified as firm-specific resources and country-specific resources and they lead to firm-specific advantages (FSA) and country-specific advantages (CSA) respectively. Once they have been identified accurately, they

can be analysed in the same way as other competitive advantages are tested for sustainability.

Institution-based view

Peng (2008) has defined institutions as “humanly devised constraints that structure human interactions”. These constraints are both formal and informal, and provide stability and meaning to social behaviour by setting up regulative, normative and cognitive structures.

Institutions influences international business (IB) strategy from mode of entry decision all the way to operational choices. Therefore, institution-based view describes the formal and informal rules of the international business game:

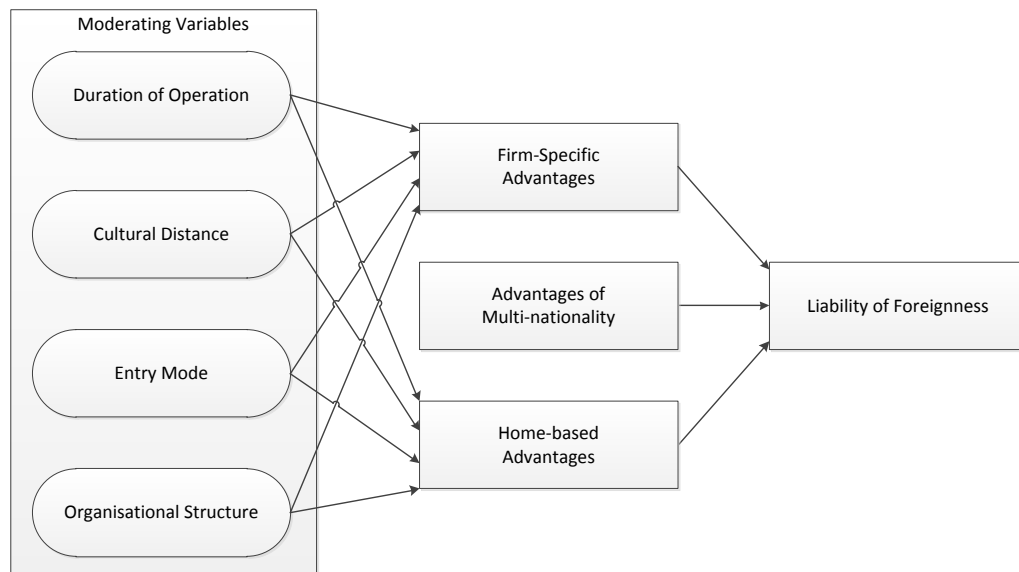
- i. Formal Institutions (Peng, Sun, Pinkham, & Chen, 2009)
 - requirements that treat domestic and foreign firms as equals enhance the potential odds for foreign firms’ success
 - those that discriminate against foreign firms would undermine the chances for foreign entrants
- ii. Informal Institutions (Peng, Sun, Pinkham, & Chen, 2009)
 - cultures, ethics, and norms that play an important part in shaping the success and failure of firms around the globe

Shaner & Maznevski (2011) were able to prove that the performance of a GIB’s country business unit is directly proportional to the level of development of the institutional environment. Therefore, for the purposes of this research, level of development of both the formal and informal institution in South Africa was considered and their impact on the investment banking sector was taken into cognisance for assessing strategic choices of the GIBs.

Liability of foreignness (LOF)

LOF can be defined as the inherent disadvantage that foreign firms experience in host countries because of their non-native status. The LOF theory suggested that MNE's trying to setup businesses abroad will have to bear additional cost burden due to unfamiliarity of the environment as compared to their local counterparts and will therefore be less competitive (Zaheer, 1995). Several other studies have confirmed this logic especially in the financial services sector (Zaheer & Masokowski, 1997; Miller & Parkhe, 2002; Otten & Bams, 2007).

Figure 3: Influence of LOF on competitive advantage



Source: Nachum (2003, p.1194).

Figure 3 provides a framework for measuring the influence of LOF on overall competitiveness of global firms. Based on this theory, foreign firms need to have FSAs to compete in international markets because LOF will provide some competitive advantages to the local firms. There are advantages of multi-nationality that firms operating in multiple geographies under the same governance have (Nachum, 2003). These two together are used by global firms to counter the

disadvantages created by LOF. Although, there are four moderating variables which reduce the impact of LOF, (1) duration of operation, (2) culture distance, (3) entry mode and (4) organisational structure.

For this research, the effect of the moderating variables was measured against the FSAs of GIBs. It was concluded that since all global investment bank have been operating in south Africa for over 10 years, most of them do not suffer from the liability of foreignness.

Sources of competitive advantage

Extensive research has been done to understand the sources of competitive advantage of investment banks in developed economies. Some of the main sources mentioned in several articles were:

- Underwriting expertise (Ljungqvist, Marston, & Wilhelm, 2006)
- Fees and discounts (Chen & Ritter, 2000)
- Pricing accuracy (Corwin, 2003)
- Analyst recommendations (Michaely & Womack, 1999)
- Distributional ability (Ellis, Michaely, & O'Hara, 2011)
- Market making prowess (Ellis, Michaely, & O'Hara, 2000)
- Debt offering capability (Ellis, Michaely, & O'Hara, 2011)
- Overall reputation (Krigman, Shaw, & Womack, 2001)

All these sources were used as a starting point to understand whether these are same in our capital markets.

Research Questions

The increased focus of global investment banks that either have branches or subsidiaries in South Africa might lead to the change in market share of the local investment banks. This research was undertaken to understand the nature of competition between global and local investment banks in South Africa. This will be achieved through a detailed understanding of the sources of competitive advantages of both the groups and their ability to resist or enhance the change in market share.

In order to guide the process of analysis, a detailed literature review has been performed. The literature provided a three step process to unlock the core theme being explored. First, to understand the competitiveness of members of a strategy group an understanding of their performance is critical. The performance also provides valuable information about the interaction of the firm with the industry and its peers within the strategy group. Second, understand the sources of competitive advantages of both strategy groups. These sources might be internal (resource-based), or by virtue of being a part of a global firm or enabled by the industry structure (IO based) or created by the laws of the land (institution-based). Third, identify the interaction between them to understand the potential of change the levers of increased focus can bring about.

Using the insights provided by the literature, this research will attempt to answer three main questions,

- **Research Question 1**
Compare and analyse the performance of the GIB and LIB Strategy Groups?
- **Research Question 2**
Identify the main sources of competitive advantages which characterise the LIB Strategy Group?

- **Research Question 3**

Identify the main sources of competitive advantages which characterise the GIB Strategy Group?

RESEARCH METHODOLOGY

Methodology

The research methodology used for this study was qualitative-exploratory. Saunders & Lewis (2012) describes exploratory research as a method which discovers general information about a topic that is not understood clearly by the researcher, in this case – competitive advantages of two strategic groups Global Investment Banks (hereafter GIB) and Local Investment Banks (hereafter LIB) in South Africa. Exploratory research is performed when there is not enough previous understanding of the nature of the research problem (Saunders & Lewis, 2012). Lots of exploratory research has been done to identify competitive advantages of investment banks in the developed economies and future descriptive and causal research on the exact nature of the competition. The researcher has not come across material identifying competitive advantages of investment banks in emerging economies and specifically research on South African Investment Banking Sector. This research might act as the initial exploratory research which assists future qualitative and quantitative research in this area.

Extant literature is available on sustainable competitive advantages of local and global firms in the developed world of hyper-competition using fundamental tools like Firm Specific Advantages / Country Specific Advantages framework (Fahy, 2002), the Liability/Advantages of Foreignness framework (Ellis, Michaely, & O'Hara, 2011), resource based advantages (Barney, Ketchen & Wright, 2011) / industry structure based advantages (Porter, 2008) / institution based advantages (Peng, Wang & Jiang, 2008) and the global strategy (Sumantra, 1987) framework. The competition in the South African Investment banking sector could be analysed using the same tools but the sources and nature of competitive advantages might be completely different. Therefore, this exploratory research has attempted to use the insights provided by these fundamental tools to uncover the competitive advantages of the 2 strategy groups GIBs and LIBS in South Africa.

The multiple case study method has been used as the vehicle for conducting this research. The data collected through the case studies has been analysed to answer the research questions. More than one participant was chosen per strategy group to ensure that opinions expressed by one firm can be confirmed by the second. This research will attempt to articulate the nature of the competition between the two strategy groups through four case studies, using two members each of GIB strategy group and LIB strategy group.

There were three key phases used to achieve the objectives of this research.

Phase 1: Two firms were identified from the LIB strategy group, whose overall performance was among the top 10 best performers in the group. It was also ensured that at least one had the highest performance on investment banking products business and the other had the highest performance in the markets products business. Two firms were identified from the GIB strategy group, whose overall performance was among the top 10 best performers. It was ensured that at least one was a branch of a global investment bank and the other a subsidiary. These firms formed the GIB and LIB Strategy Groups. Performance was measured through annual reports, industry league tables for investment banks for the financial year 2011 and the volume statistics on the JSE.

Phase 2: For all four selected investment banks, in-depth interviews with senior stakeholders who have an understanding of the overall strategy of the firm was conducted. Through the interviews, the sources of competitive advantages and their importance to explain the performance of the firm in the four major business areas of investment banks, (1) Private Equity, (2) Investment Banking, (3) Markets and (4) Other businesses was identified. The business models being used by the GIB and LIB strategy groups currently and the changes it would undergo over the next three to five years were explored.

Phase 3: The sources of competitive advantages identified by the stakeholders of the within the strategy group to identify trends within the group was classified into main categories to identify trends. The trends of the GIBs strategy group were then compared with the trends of the LIBs strategy group. This data was used to explain the nature of the competition between the two groups.

Population and Sampling

The scope of this study is limited to the South African investment banking industry. It was decided that two investment banks each will be selected from two categories, the global investment banks and the local investment banks. In each category the sample had to be selected from the top 10 performers only. This restriction was levied to facilitate the better identification of competitive advantages since the top performer would have more exhaustive set of these characteristics as compared to those with low performance.

Within the local investment bank category, one firm was selected with higher performance in the markets business area and another with higher performance in the advisory and financing business area. This was done to ensure that competitive advantages needed to be effective in of the business each areas were identified. Among the top 10 performers in the global investment bank group, one subsidiary and one branch was selected. This was done to understand the difference in sources of competitive advantages across the categories.

Unit of analysis

Appropriate identification of the unit of analysis has been identified as the key step in the research process as it dictates the research design and data collection (Yin, 2003).

The unit of analysis selected for this research was an investment bank in accordance with the propositions posted in chapter 3. Since the competitive advantages were identified at the local and global investment bank level, this was

the best unit for comparison. Common characteristics of two units have been used to identify trends in the category and then compared with the characteristics of the second category.

Data Gathering

Case study analysis allows the use of multiple sources of information for data gathering (Saunders & Lewis, 2012). This research has acquired data from various sources as long as these could be verified as authentic.

The primary method of data collection use was in-depth interviews with senior stakeholders of each investment bank who had a view of overall strategy of the organization. This process was conducted over two month and 12 interviews over two hours each were conducted.

Secondary data was collected from varies sources like, JSE reports, industry analysis reports, press releases and company annual reports. Most of this information was cross verified during the interviews for authenticity.

Data Analysis

The performance data was gathered through annual reports, industry analyst reports and JSE trade volume files. Performance of the investment banks were explored at the firm level and across four product categories. Comparisons were made between firms using this data at both the levels.

The sources of competitive advantages were identified through data collected through in-depth interviews. Detailed write-ups were made for each of the four investment banks and their sources of competitive advantage. Explanations were sought from the interviewees around their perception of competitive advantages and how their performance could be explained through them.

Research Limitations

Based on the intended scope and design of the research inquiry, this research might have the following limitations

- Qualitative and exploratory approach has been used in this research and opinions have been gathered through case-study analysis. It is possible that the opinions expressed by the individual are not representative of the opinion of the entire firm.
- This research has used only two global investment banks and two local investment banks that are high performers in their respective category. These top performers might not have all the characteristics being explored by the research. A quantitative research with a broader sample set will be able to provide an exhaustive list of characteristics.
- Characteristic (performance, competitive advantages) across very broad categories (product groups) have been identified and analysed to uncover trends. A more granular categorisation might provide a completely different set of characteristics and their interaction with each other might be completely different.

RESULTS

Introduction

This section of the research contains four mini case studies of investment banks in South Africa. Two of these are Local investment banks and two are global investment banks. They have been selected on the basis of their performance in the South African capital markets and the role they play in the South African capital markets. Although, the most important criteria for selecting them for this research was to ensure that there is coverage across all types of investment banks. Here are the main aspects that characterise these banks

- LIB A – Generates higher income from advisory and financing business than markets business
- LIB B – Generates higher income from markets business than advisory and financing business
- GIB A – Is a subsidiary of a global bulge bracket bank
- GIB B – Is a branch of a global bulge bracket bank

This was used as a method of selection to ensure that the research provides a good perspective on the sources of competitive advantages of all types of investment banks operating in South Africa.

Scope

This research tries to understand the performance of the investment banks and explain them through the sources of competitive advantages they have. For measurement of performance, the following four categories have been used, i) private equity, ii) investment banking, iii) markets and iv) others. This approach has been used since most of the investment banks in South Africa publish their performance in these categories. There are several other functions that all investment banks perform. All these functions have been summarised in the others category. The others category might not be the same for all investment banks. Some of the key business functions in the others category are, transactional services,

wealth management, treasury and security services, asset management, prime services *et. al.*

The sources of competitive advantages were selected on the basis of their importance to explaining performance as articulated by the interview participants. All four investment banks have been questioned around the top 9 sources of competitive advantages. There were others risk appetite, cost of funding, regulatory compliance *et. al.* that were not used because they were either considered of low importance or already a part of another category being used.

Local investment bank A – LIB A

Introduction

LIB A is a part of one of the biggest banks in South Africa with coverage across all aspects of the financial services. The key characteristic which differentiates LIB A's parent from all other big banks is its federated business architecture. They practice the owner manager culture and the performance measurement is done independently at each division level. The federated architecture prevents them from achieving economies of scale across support functions but that has not been reason enough to bring about a change.

This freedom has provided LIB A the ability to run the division autonomously and grow like a pure investment bank. They believe that the culture of an investment bank is different from any other form of financial service and LIB A has the right culture due to its separate identity. It is listed on the Johannesburg Stock Exchange (hereafter JSE) as a separate holding company too.

The federated architecture does not end at the investment bank level. There are further sub-division and sub-sub divisions which operate as independent units. This encourages performance at all levels and individuals shoulder responsibility also like entrepreneurs. This culture has been the preferred one ever since its three founders started their small operation and went on to become heads of the new entity.

This culture has also provided LIB A the ability to change and transform quickly. The overall group of LIB A is a mammoth, its loosely coupled architecture works like individual ventures with very limited interdependency. LIB A as well as its group is able to move the pieces around easily without affecting the harmony of the overall organization.

History

LIB A's parent company calls itself the oldest bank in South Africa whose history can be traced back to some regional banks (not of the same name) which existed in the early part of the nineteenth century. However, LIB A was founded in 1977 by three entrepreneurs and grew rapidly over two decades which prompted its listing in 1993. In 1998, the interests of its partners, investors and LIB A were finally merged by listing it on the JSE as a single group. The new group had coverage across all form of financial services, namely, retail, corporate, investment banking and insurance. In 2012, the group has assets of over ZAR 700 billion and is one of the biggest banks in South Africa.

The group has a culture of innovation and it appropriately rewards its employees for their innovative ideas. LIB A's parent company has recently won a global award for being the most innovative bank in the world.

The culture of innovation, the federated architecture and the entrepreneurial mind-set of the group has had a deep impact on LIB A. LIB A has always functioned as a group of businesses rather than a single large business.

In 2005, LIB A formed a joint-venture with a large global investment bank to work as partners in some areas of sales, trading, global and local research. This partnership was later enhanced to cover debt products also.

In 2009, LIB A's parent group formed a strategic partnership with an Asian bank to facilitate cross border trade. On its website, LIB A states that this relationship positions them well for all advisory roles for all inward investments from Asia into Africa (RMB, 2009).

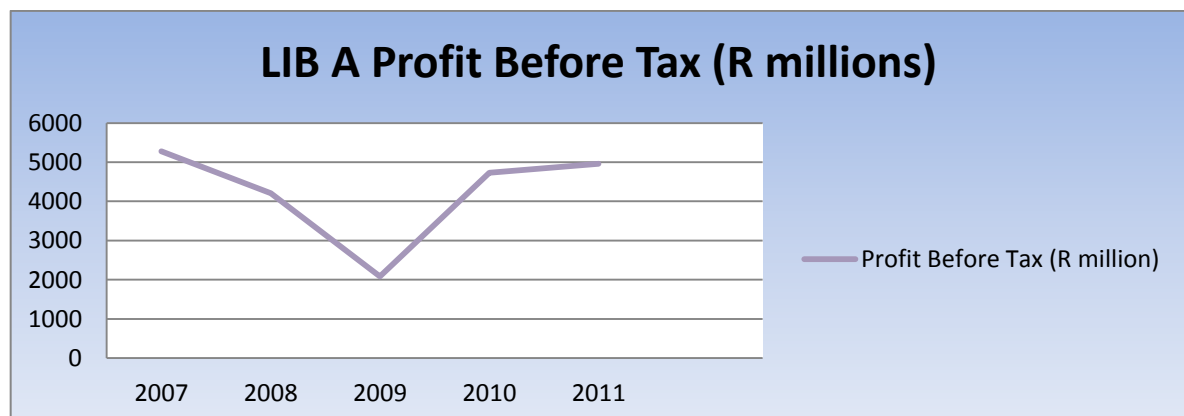
In 2010, LIB A went through a restructuring process where the parts focussed around investment management and administration was unbundled and merged with a different holding company. This was done to ensure that LIB A is focussed purely on investment banking.

In 2012, LIB A stopped proprietary trading to ensure alignment with Basel III requirements. They also combined its various trading desks to create just one dealing with all asset classes.

Performance

With the global and domestic environment still facing challenges in the aftermath of the financial crisis and the risks associated with sovereign debt both in USA and Eurozone continuing, growth has been difficult to achieve. Yet apart from an inevitable dip in 2009, LIB A has managed a consistent strong performance.

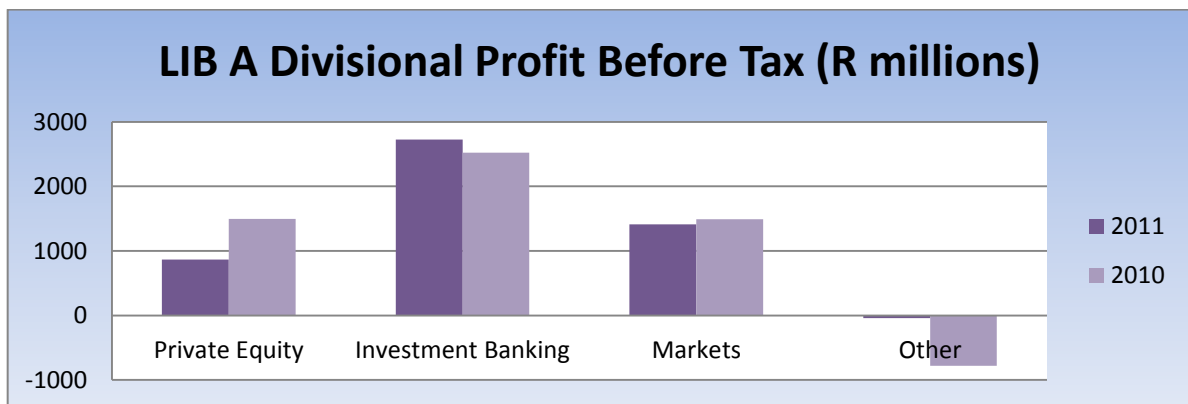
Figure 4: LIB A Profit before tax



The figure 4 above shows a plot of the revenue of LIB A over the last 5 years. LIB A was able to recover exceptionally well from the low in 2009 to achieve massive growth in 2010 and 2011, in spite of the difficult conditions still prevailing. Although it appears like the performance has plateaued in 2011, but the strategy of the group will show how LIB A expects to recover from this slump too.

The consistent growth in testing times has been made possible by its higher focus on low-volume high-margin business like investment banking and private equity. The distribution and wealth management business of an investment bank get affected more by context changes since it is based on speculation. While the high margin deals get mandated by context and more specifically during adverse times.

Figure 5: LIB A Divisional profit before tax



LIB A focuses on the investment banking business. As suggested by the CEO, they wish to strengthen their client franchise and tread cautiously as far as the trading and investing activities are concerned.

Products and Target Markets

GIB A currently is in the process of combining the corporate bank with the investment bank. Currently, its corporate bank is a part of the retail bank. It wants

to venture into Africa too. The parent has a presence in 13 countries in Africa, amongst which it is the market leader in 8.

GIB A's business can be split-up into 4 parts, i) Corporate Banking, ii) Investment Banking, iii) Markets and iv) others. With the corporate banking products, GIB A target large corporates, businesses of all sizes, financial institutions and the public sector clients.

However, on the investment banking side, GIB A targets large deals only. Therefore, there target customer base in mainly multi-national enterprises, large local corporates and large public sector deals. Within the private equity team, GIB A's focus has become purely infrastructure investments. They do have a small team focused on other investments but this does not compare favourably with other investment banks.

The major revenue generator for GIB A is the markets business. They are doing particularly well here because they have been able to combine the client bases of the former locally focused company and the international clients of GIB A's parent. GIB A has targeted financial institutions of all sizes with these offerings. The only segment they do not participate directly in is the retail, although they do tap into this market through their retail bank customers.

Figure 6: LIB A target customer types

Business Area	Business Service	SA	RoA	LFI	GFI	MSFI	RT	MNE	LLC	MSLC	PS
Investment Banking	Equity Capital Markets	Y	Y	-	-	-	-	Y	Y	-	Y
	Debt Capital Markets	Y	Y	-	-	-	-	Y	Y	-	Y
	Meggers and Acquisitions	Y	Y	-	-	-	-	Y	Y	-	Y
	Corporate Finance	Y	Y	-	-	-	-	Y	Y	-	Y
Private Equity	Venture Investments	Y	Y	-	-	-	-	Y	Y	-	Y
	Infrastructure Investment	Y	Y	-	-	-	-	Y	Y	-	Y
Markets	Equity and Equity Derivatives	-	-	Y	Y	-	-	Y	Y	-	Y
	Fixed Income, Currency and Commodities	-	-	Y	Y	-	-	Y	Y	-	Y
	Prime Services	-	-	Y	Y	-	-	Y	Y	-	Y
Research	Local Equity	-	-	Y	Y	-	-	Y	Y	-	Y
	Global Equity	-	-	Y	Y	-	-	Y	Y	-	Y
Corporate Banking	Corporate Lending	Y	Y	Y	Y	Y	-	Y	Y	Y	Y
	Cash	Y	Y	Y	Y	Y	-	Y	Y	Y	Y
	Trade	Y	Y	Y	Y	Y	-	Y	Y	Y	Y
	All other services	Y	Y	Y	Y	Y	-	Y	Y	Y	Y
Others	Asset Management	-	-	-	-	-	-	-	-	-	-
	Treasury and Security Services	Y	Y	Y	Y	-	-	Y	Y	-	Y

Legends

SA	South Africa	RT	Retail
RoA	Rest of Africa	MNE	Multi National Enterprises
LFI	Local Financial Institutions	LLC	Large Local Corporates
GFI	Global Financial Institutions	MSLC	Mid to Small Local Corporates

Operating Model – Business Architecture

LIB A is a subsidiary of the global bank and therefore manages to have the best of both worlds. The parent has matured technology and the local bank had a sizeable balance sheet. This makes the bank competitive on all aspects. The structure though was not what the bank would have liked. Currently, corporate bank has a closer relationship with the retail bank as compared to the investment bank. GIB A wishes to change that and start following a CIB model like all the other banks in the region are doing.

Figure 7: LIB A operating model

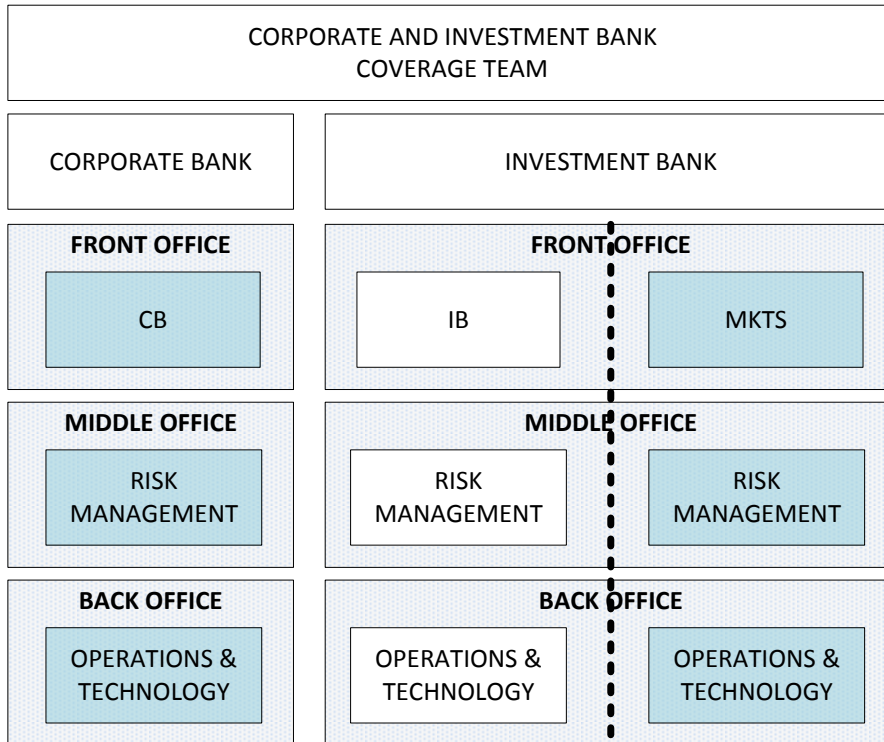


Figure 7 shows the current and target operating model. GIB A wishes to bring the corporate and investment bank under one umbrella called the CIB or corporate investment bank. There is a large amount of overlap between the customers of corporate bank and the investment bank. According to their strategy corporate bank is the best offering to build a relationship and then start cross-selling investment banking products. Therefore, in spite of the front office being broken into three parts, corporate banking, investment banking and markets, there will be a single view of the customer. This would also provide economies of scale at the back office level as the systems and resources will be shared by all three business units. Additionally, the accountability will be directly to the top which removes the control directly from the business units and moves it straight to the head of the organization. This aspect is especially beneficial as the middle office or risk management becomes centralized.

However, there are disadvantages inherent in this structure too. The shared control in the middle and back office level creates shared accountability. This will also slow down the time-to-market of all projects and initiatives.

Sources of Competitive Advantage

LIB A has been a top investment bank in South Africa for a very long time. They have constantly innovated and improved on their strengths. Where they had weaknesses, they have put efforts to overcome them over long periods or have partnered with multi-national enterprises to help them overcome the gap. The best way to explain their performance is the various sources of competitive advantages provided below.

i. Relationships

For LIB A, relationships within their ecosystem is the most important source of competitive advantage. Their existence in the region over a long period of time as a star performer in deals of large size has helped them cement relationships with a lot of clients. The sporadic nature of fee business requires coverage with a much larger client base. Their recent initiative to create a coverage team across corporate bank and investment bank to utilize the existing relationships and service the needs better. They do have dedicated personnel on the ground who manages relationships. They also focus a lot on retaining and growing people and the relationships they form remain in-house. Their local balance sheet is also a tool they use to manage relationships. The relationship management process of LIB A can be summarized in the following four points

- Duration of presence and successful deals in South Africa and some in other African countries
- Dedicated on the ground staff in the coverage team managing relationships
- Low staff turnover in the customer relationship teams
- Strong local balance sheet

- Future potential of using the corporate banking relationships

Therefore, relationships with the large local corporates, public sector entities and some African countries are a competitive advantage. Relationship in newly ventured African countries and multi-national enterprises might be a disadvantage.

ii. Reputation

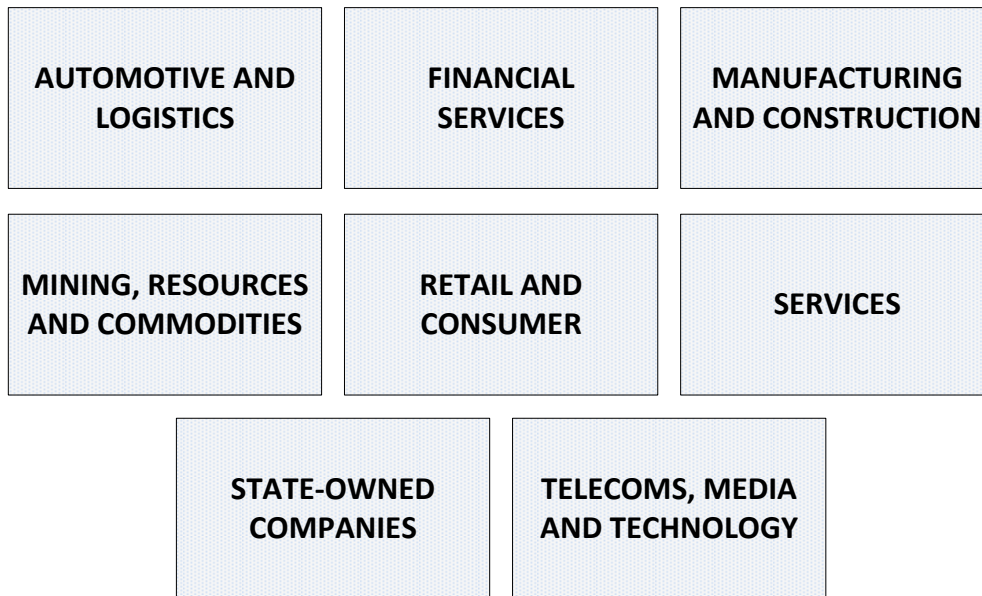
The long history of successful deals has provided LIB A a great reputation in the South African capital markets. LIB A has consistently been rated highly in all the league tables of investment banks in the region in almost all categories. Their work culture and the innovative approaches are highly regarded in the industry. In the South African markets, a key component of reputation is the relationships with other players in the industry. LIB A has a history of strong partnerships with several other players. Additionally, LIB A has rolled out several regional sustainability-based initiatives which it is highly respected for.

This reputation is a competitive advantage for LIB B for all local corporates and especially the public sector entities. When explored through the eyes of the multi-national enterprises, it would not compare as well as some of the global players in the region.

iii. Market / Sector / Product Expertise

LIB A is one of the few investment banks that have approached Africa with its advice offering before flow. Its expertise in the commodities business has helped it achieve this. Their huge list of deals done, provide evidence on their success in various sectors. LIB A has dedicated teams in each of the sectors provided in figure 8.

Figure 8: LIB A sector expertise



iv. Technology

LIB A historically has had greater focus on investment banking rather than markets and treasury specific services. With LIB A's focus shifting to Africa where there is limited investment banking opportunities and relationships are mainly formed through corporate banking, LIB A will have to focus a lot more on improving its technology stack. Currently, it does have capabilities across all products and services but it is fragmented as a consequence of their federated architecture. LIB A has allocated a huge budget for IT investment. This would be used to not only build integrated platform offering to all customer types but also to have an integrated view of the customer internally for the coverage team.

Therefore, it can be concluded that technology is not a competitive advantage for LIB A currently. This might all change with the aggressive investment plans in technology.

v. Pricing

According to the head of strategy, in the investment banking business, pricing is not critical. Relationships and innovation in coming up with the most innovative solution for the customer becomes more critical. Relationships built on the basis of previous work done for the customer gets the vendor a shortlist. The best solution to the problem faced by the customer seals the deal. Additionally, sometimes reputation and sector expertise becomes critical but never pricing.

In the markets business area, pricing is critical. LIB A has always looked for large local clients who perform wholesale business and therefore pricing becomes less critical. The intentions of LIB A to expand in Africa and its corporate banking integration, pricing is bound to become critical.

Therefore, it can be concluded that pricing for LIB A is not a competitive advantage.

vi. Comprehensiveness of products and services

LIB A believes that comprehensiveness of products and services is critical for the success of the bank. It does have comprehensive coverage currently, but it is fragmented across the parent and the subsidiary. LIB A has already started initiative for integration of the business units to be able to follow the CIB model. This process upon completion will provide full integrated set of products and services for LIB A. This should also assist LIB A in its ventures into Africa too.

Therefore, it can be concluded that currently comprehensiveness of products and services is a partial competitive advantage for LIB A but in due course it might become its strength.

vii. Strong Balance Sheet

LIB A is a market leader in several aspects of investment banking. The strong balance sheet coupled with the skills and expertise is used to win fee business.

LIB A has the ability to use the balance sheet of its parent to do extensive business in South Africa.

The formation of a focused joint entity CIB is in progress. LIB A will be able to further optimize the value it is able to extract from its balance sheet. This aspect will be very helpful in Africa and Asia corridor expansion since they will all be branch operations. LIB A has been successful in getting some business there already. In these regions it aims to exploit the funding ability of its Asian partner too.

Therefore, a strong balance sheet is an advantage for LIB A locally and in its Africa and Asia expansion plans.

viii. African Footprint

LIB A currently has presence in 7 countries in Africa, either through a direct branch or has shared operations with its parent company. It has done deals for around 30 countries in Africa. LIB A wishes to strengthen its operations in Nigeria, Ghana and Kenya. A majority of operations are new operations and the footprint is not matured as yet. The once-off deals might still be there but to create a steady income pipeline in Africa LIB A will have to persevere with the branches for a few years. Additionally, it is still in the process of building integrated platforms for its African operations. LIB A is still a few steps away from forming mature operations in Africa.

LIB A's African footprint is a competitive disadvantage for them.

ix. Innovation

LIB A's parent company is considered one of the most innovative companies in the world and they have got global recognitions for this aspect. The business architecture of LIB A was developed to encourage the entrepreneurial spirit and performance of individuals and teams are measured and awarded for this aspect.

The head of corporate finance of LIB A believes that they are not as innovative as the parent and they are trying to change this. They have instituted a new initiative to foster innovation called NOVA. Since the

Local investment bank B – LIB B

Introduction

LIB B is the largest bank in Africa and the one that is closest to being a pan-African bank. It is the market leader in terms of size in almost all aspects of banking. LIB B has presence in Africa in 18 countries and has plans to setup operations in more. Most of its operations in Africa have been hugely successful. Even globally, it had setup operations in 5 countries in Asia, 5 in Europe, and 3 in the Americas. Some of these operations have not worked out to be fruitful and LIB B is planning withdraw from them. Due to the current global climate and its performance globally, LIB B's strategy is to grow in Africa and shrink in the rest of the world.

LIB B has coverage across all aspects of banking. Whether it is personal, business, corporate or investment, LIB B can act as a one stop shop. According to the company website, LIB B wishes to become the leading bank in, for and across Africa. With this goal in mind, they have rightfully acquired the leadership position in the commodity business. They use this as the hook product to get all other forms of financial services role.

History

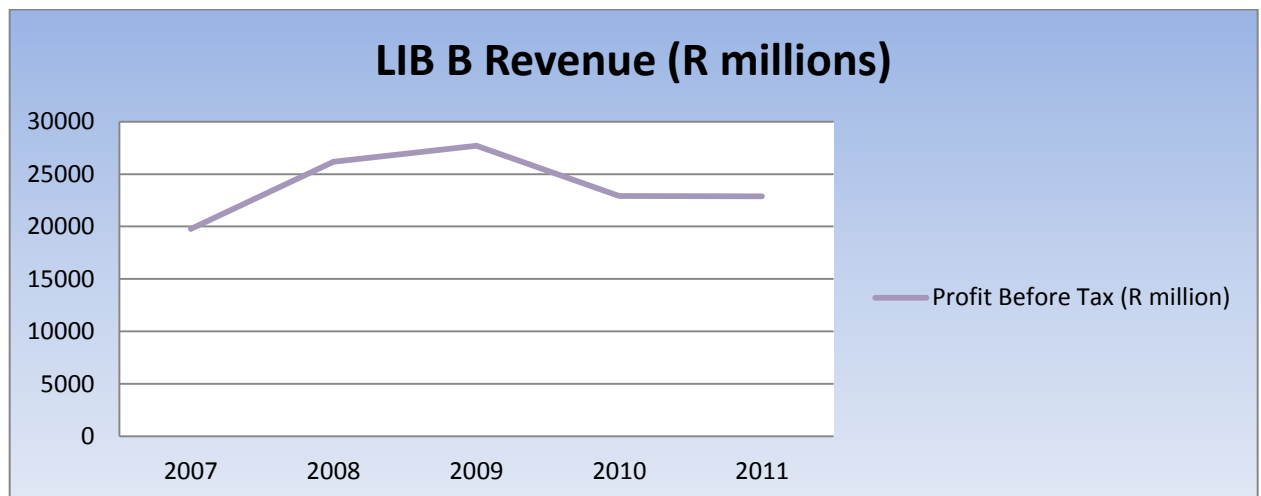
The roots of LIB B goes as far back as 1862, when a British bank for a subsidiary in South Africa. Over the year, the subsidiary grew at a phenomenal rate and in 1987 the local holding company was able to buy back the remaining stake that the parent had, making LIB B a pure South African bank.

In 2007, a major bank from China bought 20% stake in LIB B. This was a very important step since China was not only the fastest growing economy in the world; it was also the biggest trading partner to Africa. This deal amongst other thing created a platform for currency flows between China and Africa.

Performance

LIB B has always been the top performed in revenue terms in South Africa. By virtue of pure scale it does better than all other investment banks. The market conditions and international investments not performing as expected did cause a steady decline its revenue between the 2008 and 2010 period. This prompted a change in strategy from global to pure Africa and its revenue figures have begun to show a spike again.

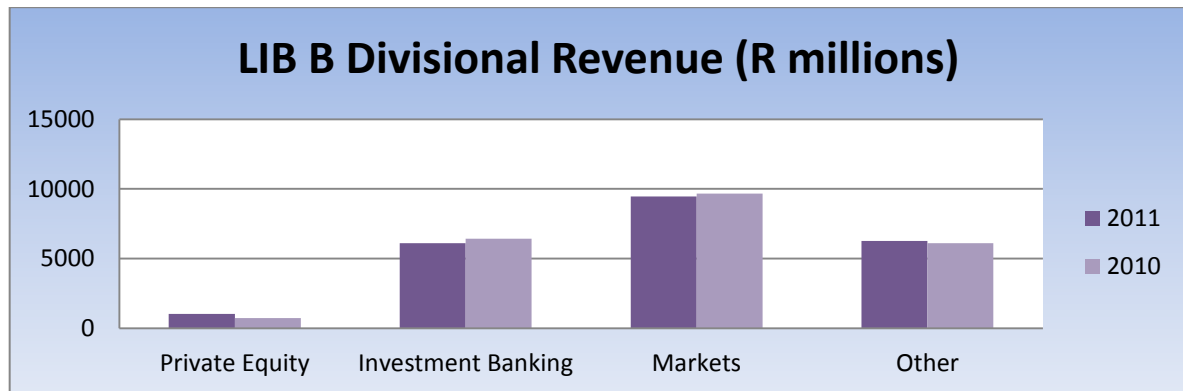
Figure 9: LIB B revenue



The figure 9 above shows the overall revenue trend over the last 5 years. According to the head of markets, LIB B Africa business shows a growth of 84%, its South Africa business of 5% but when the international business is included, the overall revenue goes into negative territory.

Within the divisions of LIB B there was growth in every area, other than private equity which like all other investment banks has ceased to remain a focus area. The three main pillars of the banks revenue seem to be the investment banking business, the markets business and the transactional services business.

Figure 10: LIB B divisional revenue



The figure 10 above shows the revenue split across various businesses and the growth experienced in 2010-2011 period.

Products and Target Markets

LIB B has its presence in more customer segments than any other bank in the region. It is able to utilize its size to provide a huge basket of services to wide array of customer segments. LIB B has been able to do this successfully in South Africa over the years. In other African countries, the branch offerings have grown based on demand of the region. Its integrated technology back-bone helps in rolling out all the regional demands in quick time.

LIB B's business can be split-up into 4 parts, i) Corporate Banking, ii) Investment Banking, iii) Markets and iv) others. With the corporate banking products, LIB A tries to target corporates, businesses of all sizes, financial institutions, international counter-parties and the public sector clients.

On the investment banking side, LIB B caters for the needs to several segments across several geographically spread markets. LIB B targets customers of all sizes in many of these markets, irrespective of whether it is multi-national enterprise, businesses of any size or public sector. The private equity team of LIB B is focused on real-estate investment only.

The markets and others (mainly transactions business) form the bulk of LIB B's revenue. They have targeted all customer types with these service offerings. They are one of the few investment banks that have a retail offering for markets directly. LIB B has strong platforms that can be offered to financial institutions, issuers, counterparties of all sizes across Africa for their needs inside the continent and also for global transactions.

Figure 11: LIB B target customer base

Business Area	Business Service	SA	RoA	LFI	GFI	MSFI	RT	MNE	LLC	MSLC	PS
Investment Banking	Equity Capital Markets	Y	Y	-	-	-	-	Y	Y	Y	Y
	Debt Capital Markets	Y	Y	-	-	-	-	Y	Y	Y	Y
	Mergers and Acquisitions	Y	Y	-	-	-	-	Y	Y	Y	Y
	Corporate Finance	Y	Y	-	-	-	-	Y	Y	Y	Y
Private Equity	Venture Investments	-	-	-	-	-	-	-	-	-	-
	Infrastructure Investment	Y	Y	-	-	-	-	Y	Y	Y	Y
Markets	Equity and Equity Derivatives	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Fixed Income, Currency and Commodities	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Prime Services	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Research	Local Equity	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Global Equity	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Corporate Banking	Corporate Lending	Y	Y	-	-	-	-	Y	Y	Y	Y
	Cash	Y	Y	-	-	-	-	Y	Y	Y	Y
	Trade	Y	Y	-	-	-	-	Y	Y	Y	Y
	All other services	Y	Y	-	-	-	-	Y	Y	Y	Y
Others	Asset Management	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Treasury and Security Services	Y	Y	Y	Y	-	-	Y	Y	Y	Y

Legends

SA	South Africa	RT	Retail
RoA	Rest of Africa	MNE	Multi National Enterprises
LFI	Local Financial Institutions	LLC	Large Local Corporates
GFI	Global Financial Institutions	MSLC	Mid to Small Local Businesses
MSFI	Mid to Small Financial Institutions	PS	Public Sector

Operating Model – Business Architecture

Almost all the major local and global investment banks in Africa are trying to build or have already adopted the CIB or Corporate and Investment Bank based operating model. LIB B has had this operating model for ever. This consolidated view of their customers has provided them the ability to serve the customer's

needs better. The Africa operations have been particularly successful because of this structure since the need there is in part corporate banking and in part investment banking. Additionally, a multi-national enterprise with operations has the ability to use a single platform from LIB B in all countries in Africa. This assists them in becoming operationally efficient and leveraging economies of scale and scope.

Figure 12: LIB B operating model

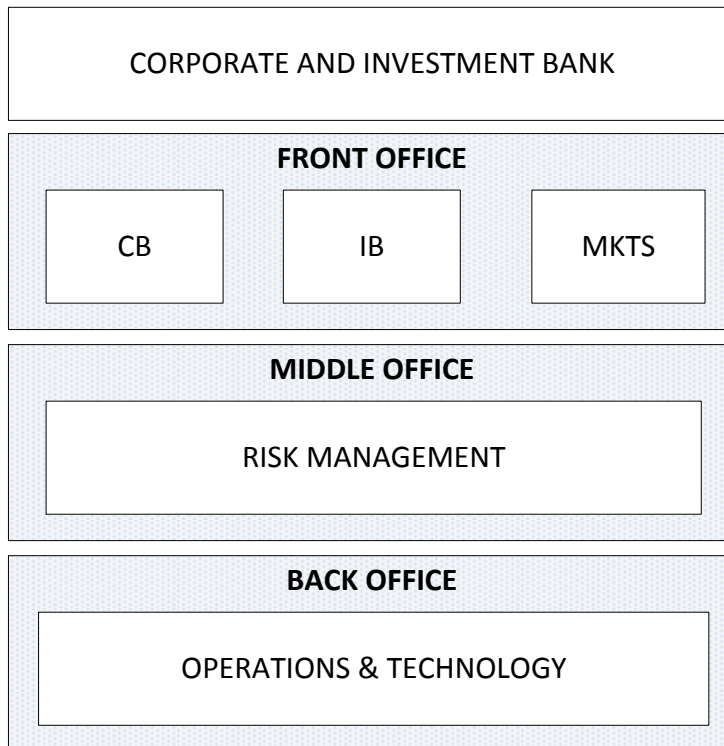


Figure 12 shows operating model of LIB B. They use the headquarters-branch architecture for doing business in Africa, where the South African operations in the hub and all other African countries act as spoke. All innovation and strategic thinking from a back office perspective happens in South Africa and is rolled out to all other countries. The various regional offices have the ability to strategize from a sales and branch performance perspective. The branches do have product development and customization teams that can perform the region specific changes.

This operating model has helped them achieve economies of scale and scope, and has also made the management of systems easier. It has also provided a centralized perspective of risk.

On the flip side, the time to market for products and services roll-out has been higher.

Sources of Competitive Advantages

LIB A is a part of a bulge bracket bank with coverage across all aspects of the financial services.

i. Relationships

LIB B focuses on forming strong working relationships with all its clients. Its sheer footprint and duration of operations both in the home country South Africa and all over Africa provides it a strong competitive advantage. Additionally, it has deployed people on the ground who maintains relationships with all the clients. Its ability to manage relationship across borders reinforces the value propositions. There are five main points that summarize the relationship based advantage for LIB B

- Duration of presence and successful deals in the region
- Dedicated on the ground staff managing relationships
- Ability to manage relationship across borders in Africa
- Strong local balance sheet
- Huge corporate banking client base who are targeted for cross selling

Therefore, it can be concluded that relationships with all local and regional corporate and public sector will be a competitive advantage for LIB B. The same cannot be said about the multi-national enterprise and global financial institutions.

ii. Reputation

LIB B has a very strong and respected brand in Africa. LIB B has built this reputation capital through strong performance over several years. It has continuously featured in all the South African league tables as one of the top performers in all categories of investment banking. It has made huge contribution to the regional growth and community based initiatives across Africa.

This reputation is a competitive advantage for LIB B for all local corporates and especially the public sector entities. When explored through the eyes of the multi-national enterprises, it would not compare as well as some of the global players in the region.

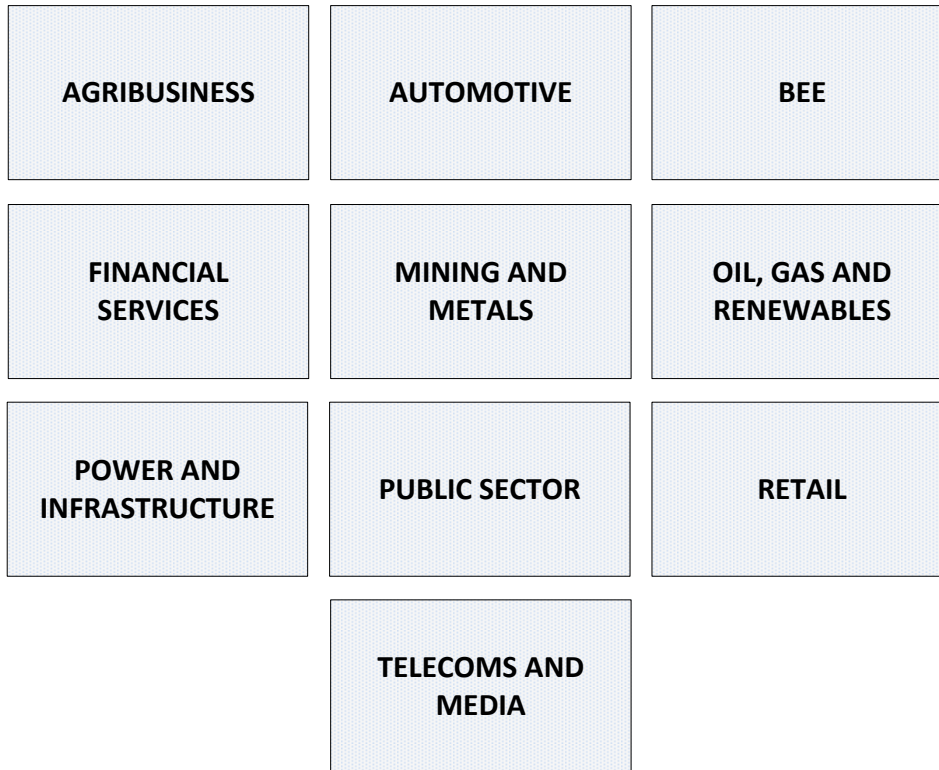
iii. **Market / Sector / Product Expertise**

The biggest competitive advantage of LIB B is its scale. It is able to exploit this scale by deploying teams to focus on market sectors and specialize in them. Africa's most important market sector is natural resources. LIB B has focused in this through a team of 80 people and acquired expertise in it. In the region, LIB B has around 85% market share in this sector. Additionally, they use natural resources as a hook product for winning other business.

Even in other sectors of focus outlined in the figure 13, LIB B has a sizeable team. These teams have been in existence over the years of its operations and have helped LIB B specialize in all of them. In addition to this, LIB B has established strong relationships with all partners in the value chain. The domain knowledge, great platforms and strong partnerships helps LIB B build the most suitable solutions for its client base.

Therefore, it can be concluded that market/sector expertise is a competitive advantage for LIB B.

Figure 13: LIB B sector expertise



iv. Technology

LIB B is one of the biggest investor in technology in Africa and continuously innovates around its products and services. It has a stack of best-in-class IT systems already which provides it a robust platform for doing business in Africa.

The biggest asset for LIB B is its integrated online platform for e-banking. This assists its clients, who have presence across Africa, to perform all their operations using a single system. It has integrated platforms to support business areas like trade finance, money markets, interest rate, currency, credit, equity and commodity risk. Most notable amongst these is the product for commodity trading focussed

around mining, metals, agribusiness, energy and capital goods. This is especially relevant from an Africa perspective as the regional focus is on commodities.

Therefore, it can be said that LIB B has the most comprehensive and robust technology stack and this is being leveraged by LIB B as a competitive advantage.

v. Pricing

In the investment banking business area, pricing is not critical. LIB B uses its several other competitive advantages like reputation, relationships and balance sheet to win deals.

In the corporate banking, markets and other (transactions) business areas, pricing is very critical. LIB B believes that customers compare features vis-à-vis the price of the offering. LIB B comes out on top when the combination is scored. The scale of operation in the target market provides them with economies of scale and scope due to which it is able to price aggressively. The core requirement in Africa is the commodity business and their commodity platform is most widely used. LIB B's strategy has been to build or acquire best-in-class solutions and roll it out to its massive footprint in Africa. The scale provides them the ability to price better.

Therefore, it can be concluded that pricing is a competitive advantage for LIB B.

vi. Coverage – comprehensiveness of products and services

LIB B has a comprehensive coverage across all investment banking products and services in South Africa and all African countries where it has presence. This aspect has assisted LIB B in winning business that is pan-African. It has achieved success in integrating both business and technology offering. The CIB model was implemented several years ago and the process of this organization has been institutionalized. The areas of weakness have been complemented by forming strategic alliances with global partners.

Therefore, it can be concluded that coverage is a competitive advantage for GIB B.

vii. Strong Balance Sheet

LIB B is one of the biggest investment banks in South Africa. According to an executive at LIB B, it puts its extensive balance sheet to use to do business here. LIB B has huge presence in Africa and this aspect has been the key contributor to its success. Since it has branches in all these countries it is able to employ its balance sheet to win business in Africa. It also has Asian partners who assist LIB B with balance sheet funding and across border transactions.

LIB B has been extremely successful with both on and off book funding. This has led to a lot of fee based business for them.

Therefore, strong balance sheet is a competitive advantage of LIB B in South Africa, other African countries and trade between Asia and Africa.

viii. African Footprint

LIB B is truly a pan-African investment bank. It has operations in 17 African countries apart from South Africa. LIB B has had operations in these countries for a long time and they have now become mature operations. The timing has just been right for LIB B. There is very little growth expected from it South Africa operations over the next few years. Its African operations are where the real growth is expected. LIB B already has several customers in this region and its dedicated regional teams have strong relationships with them. Its platforms can be used across Africa and therefore its service offerings save costs for its customers. It has plans to grow further in Africa and the platform formed by its success in the region should help them immensely.

GIB B's Africa footprint is a competitive advantage for them.

ix. Innovation

LIB B is considered the biggest innovator in the CIB industry in South Africa. It has put aside huge budget for this purpose. According to the head of e-markets at LIB B, they are working with one of the top technology providers in the world to develop a novel banking platform. LIB B's approach to constant innovation can be seen from the various new technology platforms it has developed and rolled out over the years. They have achieved the status of the market leaders due to this innovative mind-set. They are far ahead of the competition currently but are still focused on extending the lead in the continent.

This extensive focus on innovation is a huge competitive advantage for LIB B.

Global investment bank A – GIB A

Introduction

GIB A's parent is one of the top global bulge bracket banks in the world. Unlike other global investment banks who ventured into South Africa, entered the country to start small and then grow with opportunities. In the case of GIB A, the entry mode was a major investment. GIB A bought 54% share in one of the top 4 major banks in South Africa. This led to the formation of the first large global investment bank of South Africa which contained both global expertise and as well as strong local knowledge.

The current structure of the GIB A covers four main areas

- Investment Banking
- Private Equity and Infrastructure Investing
- Global Markets
- Others - Wealth Management

GIB A plans to follow the CIB model that some of the others in the region are also doing. This would entail a significant move of their focus to corporate banking. GIB A wishes to become the corporate banking partner of choice to all large corporates, financial institutions and multi-national enterprises in South Africa. Once this relationship has been formed, GIB A then wishes to cross-sell other investment banking products to this customer base.

GIB A's focus is moving out of the private equity business which is also a trend seen in most of the global banks. GIB A is a market leader in the debt capital markets space.

History

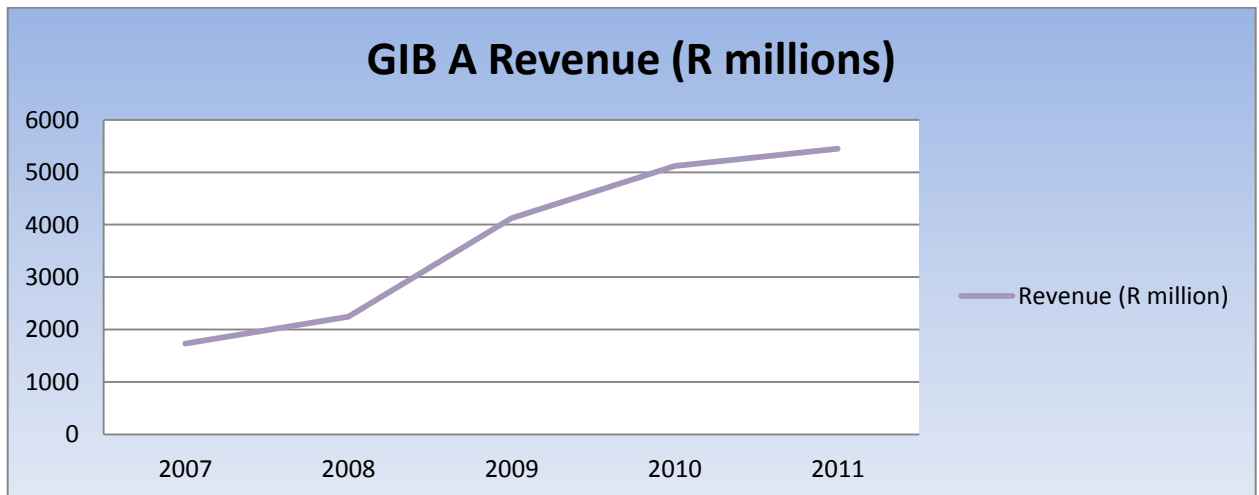
The roots of GIB A can be traced back to 1690 when two entrepreneurs started a small trading operation in London. Over the next few centuries through high performance and numerous acquisition GIB A grew at a very fast pace. It was only

in 1896 that the joint entity, after the acquisitions, was given the name of GIB A's parent.

Performance

Ever since GIB A was established in South Africa in 2005 as a pure investment bank, it has shown continuous high levels of year-on-year growth. While most other investment banks went through negative growth over the 2007-2008 period, GIB A still managed to grow slightly.

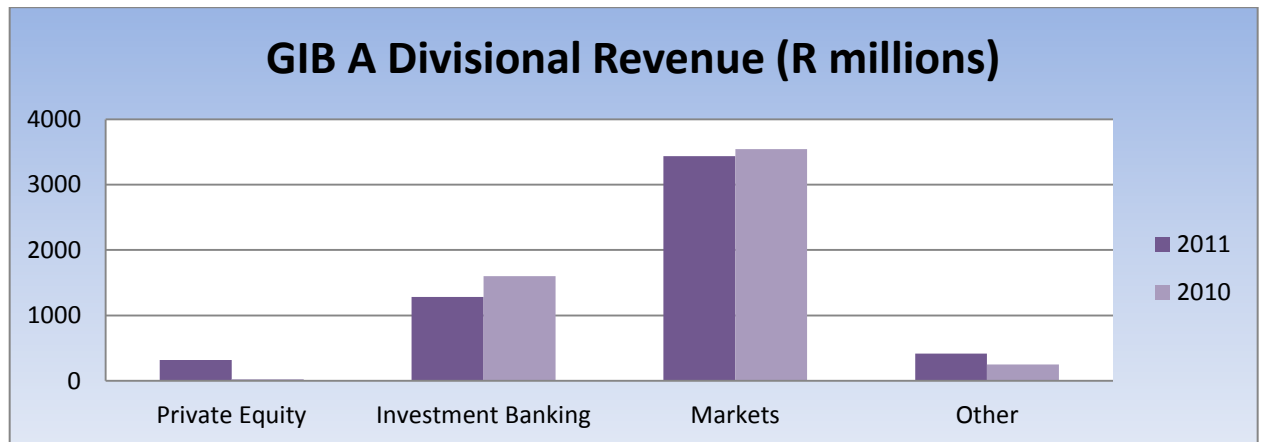
Figure 14: GIB A Revenue



As shown the figure 14 above, ever since inception, GIB A has managed to grow at a phenomenal rate and has now achieved the revenue levels that other top investment banks in South Africa find it difficult to achieve.

As stated in the focus areas of GIB A earlier, its private equity and infrastructure investments business is just a minor contributor to the overall revenue of GIB A. Even its wealth management business (the “other” category) is a small contributor.

Figure 15: GIB A divisional revenue



There are two key pillars to the growth of GIB A, its investment banking business and its markets business. Figure 15 above shows the contribution of these two divisions to the overall revenue profile.

There are three main areas of investment banking within GIB A, i) mergers and acquisitions, ii) equity capital markets and iii) debt capital markets. Amongst these, the major contributor was its debt capital markets business. GIB A has got as many as 37 debt underwriting mandates in 2011 (Bloomberg, 2011).

Almost 70% of GIB A's overall revenue comes from the markets business. This business unit covers the Equity (cash and derivatives) business and the FICC (fixed income, currency and commodity) business.

Products and Target Markets

GIB A has combined the corporate bank with the investment bank into one entity. It wants to strengthen its presence in Africa by using the parent banks current footprint. The parent has a presence in 13 countries in Africa, amongst which it is the market leader in 8.

GIB A's business can be split-up into 4 parts, i) Corporate Banking, ii) Investment Banking, iii) Markets and iv) others. With the corporate banking products, GIB A

tries to target large corporates, businesses of all sizes, financial institutions and the public sector clients.

Although on the investment banking side, GIB A looks for large deals only. Therefore, their target customer base is mainly multi-national enterprises, large local corporates and large public sector deals. Within the private equity team, GIB A's focus has become purely infrastructure investments only.

The major revenue generator for GIB A is the markets business. They are able to particularly do well here because they have been able to combine the client bases of the former locally focused company and the international clients of GIB A's parent. GIB A has targeted financial institutions of all sizes with these offerings. The only segment they do not participate directly in is the retail, although they do tap into this market through their retail bank customers.

Figure 16: GIB A target customer base

Business Area	Business Service	SA	RoA	LFI	GFI	MSFI	RT	MNE	LLC	MSLC	PS
Investment Banking	Equity Capital Markets	Y	Y	-	-	-	-	Y	Y	-	Y
	Debt Capital Markets	Y	Y	-	-	-	-	Y	Y	-	Y
	Mergers and Acquisitions	Y	Y	-	-	-	-	Y	Y	-	Y
	Corporate Finance	Y	Y	-	-	-	-	Y	Y	-	Y
Private Equity	Venture Investments	Y	Y	-	-	-	-	Y	Y	-	Y
	Infrastructure Investment	Y	Y	-	-	-	-	Y	Y	-	Y
Markets	Equity and Equity Derivatives	-	-	Y	Y	-	-	Y	Y	-	Y
	Fixed Income, Currency and Commodities	-	-	Y	Y	-	-	Y	Y	-	Y
	Prime Services	-	-	Y	Y	-	-	Y	Y	-	Y
Research	Local Equity	-	-	Y	Y	-	-	Y	Y	-	Y
	Global Equity	-	-	Y	Y	-	-	Y	Y	-	Y
Corporate Banking	Corporate Lending	Y	Y	Y	Y	Y	-	Y	Y	Y	Y
	Cash	Y	Y	Y	Y	Y	-	Y	Y	Y	Y
	Trade	Y	Y	Y	Y	Y	-	Y	Y	Y	Y
	All other services	Y	Y	Y	Y	Y	-	Y	Y	Y	Y
Others	Asset Management	-	-	Y	Y	Y	-	-	-	-	-
	Treasury and Security Services	Y	Y	Y	Y	-	-	Y	Y	-	Y

Legends

SA	South Africa	RT	Retail
RoA	Rest of Africa	MNE	Multi National Enterprises
LFI	Local Financial Institutions	LLC	Large Local Corporates
GFI	Global Financial Institutions	MSLC	Mid to Small Local Businesses
MSFI	Mid to Small Financial Institutions	PS	Public Sector

Operating Model – Business Architecture

GIB A is a subsidiary of the global bank and therefore manages to have the best of both worlds. The parent has matured technology and the local bank had a sizeable balance sheet. This makes the bank competitive on all aspects. The operating model though was not what the bank wanted. GIB A wanted to adopt the CIB model in order to create a single view of the customer. Before 2010, corporate bank was a separate entity called the GIB A corporate and business bank.

Figure 17: GIB A operating model

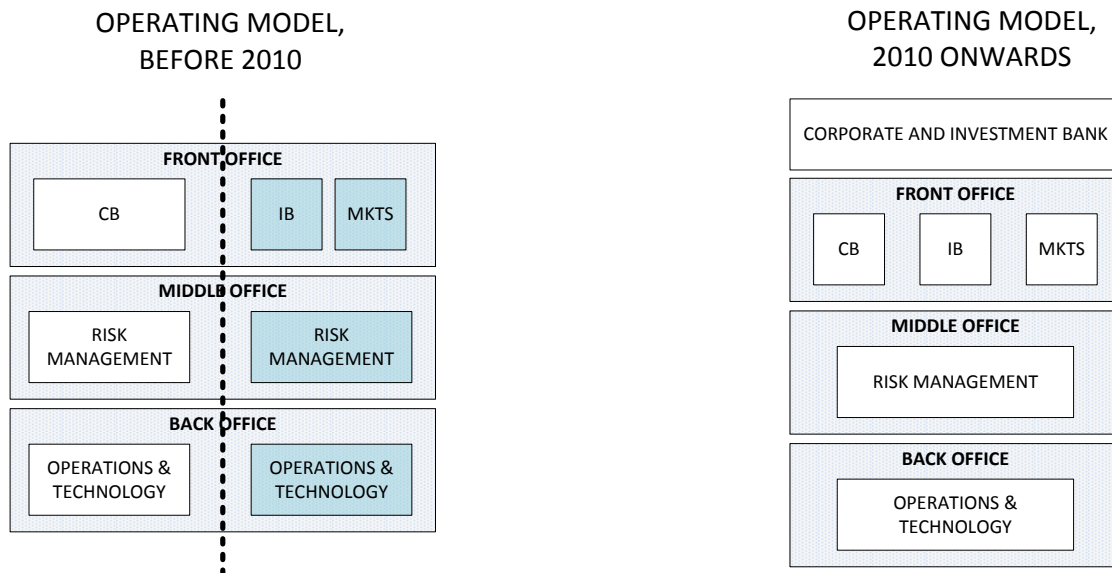


Figure 17 shows the operating model of GIB A before and after 2010. GIB A wishes to bring the corporate and investment bank under one umbrella called the CIB or corporate investment bank. There is a large amount of overlap between the customers of corporate bank and the investment bank. According to their strategy, corporate bank is the best offering to build a relationship and then start cross-selling investment banking products. Therefore, in spite of the front office being broken into three parts, corporate banking, investment banking and markets, there will be a single view of the customer. This would also provide economies of scale at the back office level as the systems and resources will be shared by all three business units. Additionally, the accountability will be directly to the top which

removes the control directly from the business units and moves it straight to the head of the organization. This aspect is especially beneficial as the middle office or risk management becomes centralized.

There are disadvantages of this structure too. The shared control in the middle and back office level creates shared accountability. This will also slow down the time-to-market of all projects and initiatives.

Sources of Competitive Advantages

The strategist at GIB A believes that the high level of performance can be attributed to several competitive advantages they have over the competition.

i. Relationships

GIB A believes that relationships are a critical to be successful in the investment banking business. There are several aspects by virtue of which they already have strong relationships with key customers. The top four reasons for strong relationships between GIB B and its target customer base are

- It uses the relationships that it has built over the years by doing good work for the several organizations locally.
- GIB B wishes to utilize the relationships the parent has built by assisting multi-national enterprise globally and in Africa where it has presence.
- Its move to combine corporate and investment banks gives them exposure to a shared client base. GIB B wishes to focus on the corporate banking products which are an easier sell to build strong relationship with the target customers hoping to convert them into fee based business later.
- GIB B has the advantage of a local and global balance sheet to its disposal which very few others have. It wishes to use this to build strong relationships by using these.

Therefore, it can be said that relationships is a competitive advantage for GIB B and it should be able to win more business in future because of strong relationships.

ii. Reputation

GIB A believes that for survival in the investment banking industry, reputation capital needs to be protected most vigilantly. GIB B’s efforts in previous deals before the acquisition had given them the reputation of a strong player. Their acquisition by a major brand in the global financial services industry has strengthened it. GIB B’s parent has an exceptional record in the global investment banking league tables. The organizational boundary now includes GIB B and a free flow of resources between the parent and subsidiary. The risk management activities performed at GIB B has the same level of rigor. This combination has provided GIB B a dual advantage in terms of reputation as the local expert and the global leader.

iii. Market / Sector / Product Expertise

GIB A has 6 core areas of focus and dedicated teams that work for them as shown in Figure 18. These teams are small but they play a pivotal role in the operations of GIB B. GIB B also has the ability to bring in experts on a need basis from its parent organization. These teams are also have an important role to play in the expansion efforts in Africa where the parent is already a market leader in some areas of business.

Figure 18: GIB A sector expertise



iv. Technology

In the markets and transactions business areas, technology is a critical success factor. There is a huge amount of flow business that GIB A gets from its international clients. The technology stack of the parent is best-in-class but the same cannot be said about the subsidiary. A lot of customization needs to be done to make all the platforms suitable for the local market. GIB A is putting a huge emphasis on upgrading technology currently. They do have coverage across all areas through disparate systems and they are trying to build a fully integrated system by 2014.

GIB A has implemented a South African version of the award winning cash and forex platform of the parent. Due to the economies of scale and scope achieved in the implementation, GIB A is able to price this offering very aggressively.

Therefore, it can be said that in one area technology is a competitive advantage for GIB A, but overall it currently is not. Its investment in a revamp might change the scenario in the future.

v. Pricing

According to the strategist at GIB A, pricing does not form a critical part of the advisory offerings. Rather advisory business is won on the basis of the pricing offered for other products. This cannot be said about all deals but in general this holds true.

For the flow business, pricing is critical. This is not just restricted to the platform products. This also holds true for other corporate banking products like Forex, cash and trade products. The ability to provide best pricing in these in African capital markets requires a better loan book exposure. There are credit limits dictated for various regions which need to be increased to be able to provide better pricing to the customers.

Therefore, it can be concluded that pricing is not a competitive advantage for GIB A in African markets. In the South African market, there are products like Forex where GIB A does have a price based competitive advantage.

vi. Coverage – comprehensiveness of products and services

Coverage across all aspects of business is important for a player to be successful in the investment banking space. GIB A, after the integration of the corporate and investment banks, has achieved extensive coverage. This joint entity has already started providing the better results but it has to be given time and integrated platforms to perform to its potential.

In its annual report, GIB A has mentioned coverage as a goal to achieve the ability to cross-sell to its customers. The business is going through a transformation and should be able to achieve the desired result with successful delivery of these initiatives and time.

Therefore, it can be concluded that coverage is a partial competitive advantage for GIB B and might go on to become a strong one later.

vii. Strong Balance Sheet

The head of investment banking believes that GIB A has the best of both worlds as far as having a strong balance sheet is concerned. It has a strong balance sheet in South Africa by virtue of the erstwhile company being local. Its parent has a strong balance sheet for its global investments. GIB A uses this strong balance sheet to fund a lot of growth for its clients. This in turn generates fee based business for them. GIB A calculates its overall return on equity based on the loan based business coupled with the returns from the fee based business.

The problem though is its ambitions for international expansion lie in Africa. Here the banks internal risk controls have put a credit limit. Therefore the main area in which it is looking for growth, it cannot use its balance sheet strength beyond the credit limit. GIB A is trying to get the parent to increase its credit limit in Africa in order to improve performance in these countries, although the credit worthiness of some of the potential investments might be questionable.

Therefore, for GIB A, a strong balance sheet is a competitive advantage in South Africa, other African operations and UK.

viii. African Footprint

According to a strategist at GIB A, the South African CIB market is completely saturated. To make matters worse there is a prediction of the GDP growth rate falling from 3.1% in 2011 to 2.7% in 2012. GIB A wishes to focus on Africa and build a huge footprint there. GIB A's parent has presence in 13 countries in Africa and amongst 8 of them they are the market share leaders. GIB A wishes to leverage these relationships and complement them with their product and services. They are starting on this initiative and it might take them some time before they can start extracting value out of these ventures.

GIB A has a partial competitive advantage with its parent company's footprint in Africa. Whether it is able to convert this into a complete competitive advantage depends on its actions in the future.

ix. Innovation

GIB A has a local strategy team and a local innovation team. According to the strategist at GIB B, they have a massive budget kept aside for the upcoming technology upgrade projects and further innovations. Unlike other global investment banks they do not implement global systems without changing them. They put massive effort into customization of the systems to suit the local needs. They have plans to build products and platforms which competes with those of LIB B which is the leader in the market currently.

Global investment bank B – GIB B

Introduction

Unlike most GIBs in South Africa who have grown and shrunk operations based on opportunities available in the market, GIB B has always managed a steady base in the country. They entered the country through the acquisition of an established player in the investment banking space that was a major influence on the resources businesses. GIB B brought its extensive experience to the table and quickly rolled out several innovative products and services that were totally unknown to the South African capital markets. They quickly established themselves as the market leader in several areas of investment banking and have managed to maintain most of them over the years.

GIB B's core offerings included all aspects of investment banking like equity capital markets, debt capital markets, mergers and acquisitions and associated corporate finance. They have stayed away from private equity in South Africa and did not want to setup a dedicated team here. The head of investment banking of GIB B believes that private equity has been on the decline globally and GIB B never had the appetite to invest in a dying business. GIB B has built extensive capability around treasury and security services which covers all asset classes. It also has teams focussed around asset management and private banking. It is also well known for its global and local equity research.

More recently, GIB B has begun to develop corporate banking capabilities in South Africa. This will mainly cater to its captive global customers who have operations within the country. The head of strategy suggested that GIB B's core strategy has been to follow their customers across the globe and grow with them.

History

The parent of GIB B, which was started in the USA, is one of the largest banks in the world now in terms of assets. It has had massive growth both through mergers and acquisitions of other large banks in the world and organically.

GIB B historic presence in Sub-Saharan Africa dates back to 1904 through 2 predecessors but it started its branded operations in South Africa in 1998. GIB B

was formed through the merger of three entities, two global banks and one local bank. The merger had several synergies like the local bank had equity capital markets expertise and the global banks had expertise in mergers and acquisition, debt capital markets and distribution.

GIB B's branded presence in Africa has existed for 40 years, although their presence had been restricted purely to Nigeria.

As early as 2000, it became the market leader in Equity Capital Markets and was rated number one by all local rating agencies.

In 2010, GIB B formed the global corporate bank to offer integrated IB and TSS services to all its corporate customers.

In 2011, GIB B started offering the rand clearing service.

In 2012, GIB B started its operations in Ghana and Kenya. These operations are focussed more towards trade finance rather than pure investment banking.

Performance

Since GIB B is a branch of a global bank, they do not publish their revenue and margin figures locally. Therefore the analysis of their performance locally becomes a challenge. The approach taken in this research is to identify the performance of individual divisions to understand the performance of the organization as a whole.

GIB B's Investment Banking division has three key sub-division, i) equity Capital Markets, ii) debt capital markets and iii) mergers and acquisitions. GIB B was a top performer in the equity capital markets during the 2001 to 2004 period. Currently, it has slipped outside the top 10 (Bloomberg, 2011). Although, it needs to be taken into account that very few deals were done in South Africa this year amounting to a total value of issue of R 12.1 Billion (Bloomberg, 2011) and GIB B has a strategy of pursuing very large mandates only. The head of investment banking suggested that they have 8% market share in the mergers and acquisition pool of South Africa and trails behind just one global investment bank. The 156 takeover proposed last year amounts to a value of R 81.8 Billion (Bloomberg, 2011).

GIB B does not have a division which focuses on private equity based on their strategy mentioned earlier.

The division that looks at e-markets business is called the treasury and security services. This division is further subdivided into equity and equity derivatives sub-division and fixed income currency and commodity division (FICC). In the year 2011, the volume of instruments traded by GIB B by value was R 249 Billion and it had an overall ranking for 10th on the JSE.

Products and Target Markets

GIB B focuses on specific customer types for each of its products. The head of investment banking of GIB B believes that they cannot be everything for everyone in the African market. For their investment banking products and services they are just pursuing large deals. They prefer the few deals that have the potential of earning them a mammoth share of their fee income. For smaller deals to yield the same amount of income requires too many people on the ground. This is where the local banks play, who have invested in teams for relationship management. Therefore, they are targeting large multi-national enterprises, large local corporate and public sector with these products only.

Similarly, the target customer base for the markets products are large local, global financial institutions and large issuers only. The research is an add-on product for the customers of the markets.

Corporate banking is a capability that GIB B is planning to introduce in Africa. The target customer base for this product will again be the large multi-national enterprises, large local corporate and public sector only.

Figure 19: GIB B target customer base

Business Area	Business Service	SA	RoA	LFI	GFI	MSFI	RT	MNE	LLC	MSLC	PS
Investment Banking	Equity Capital Markets	Y	Y	-	-	-	-	Y	Y	-	Y
	Debt Capital Markets	Y	Y	-	-	-	-	Y	Y	-	Y
	Meggers and Acquisitions	Y	Y	-	-	-	-	Y	Y	-	Y
	Corporate Finance	Y	Y	-	-	-	-	Y	Y	-	Y
Private Equity	Venture Investments	-	-	-	-	-	-	-	-	-	-
	Infrastructure Investment	-	-	-	-	-	-	-	-	-	-
Markets	Equity and Equity Derivatives	Y	Y	Y	Y	-	-	Y	Y	-	Y
	Fixed Income, Currency and Commodities	Y	Y	Y	Y	-	-	Y	Y	-	Y
	Prime Services	Y	Y	Y	Y	-	-	Y	Y	-	Y
Research	Local Equity	Y	Y	Y	Y	-	-	Y	Y	-	Y
	Global Equity	Y	Y	Y	Y	-	-	Y	Y	-	Y
Corporate Banking	Corporate Lending	Y	Y	-	-	-	-	Y	Y	-	Y
	Cash	Y	Y	-	-	-	-	Y	Y	-	Y
	Trade	Y	Y	-	-	-	-	Y	Y	-	Y
	All other services	Y	Y	-	-	-	-	Y	Y	-	Y
Others	Asset Management	-	-	Y	Y	-	-	-	-	-	-
	Treasury and Security Services	Y	Y	Y	Y	-	-	Y	Y	-	Y

Legends

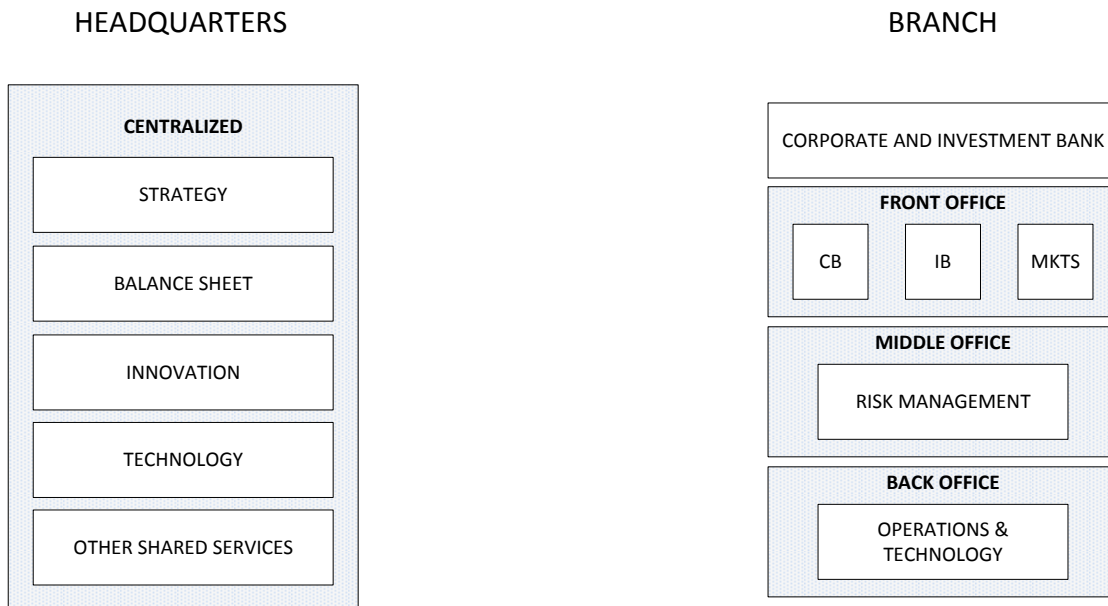
SA	South Africa	RT	Retail
RoA	Rest of Africa	MNE	Multi National Enterprises
LFI	Local Financial Institutions	LLC	Large Local Corporates
GFI	Global Financial Institutions	MSLC	Mid to Small Local Businesses
MSFI	Mid to Small Financial Institutions	PS	Public Sector

Figure 19 above provides a view of the various segments that GIB B are targeting with their offerings. It is evident from this figure that the core targets of GIB B are the larger organizations only.

Operating Model – Business Architecture

The current operating model of GIB B looks like a typical headquarter-branch architecture. With the rollout of corporate banking this will change to corporate and investment banking becoming the umbrella offering and all current services feeding into it. This new architecture will also assist in rolling out corporate banking in the new geographies identified, namely, Ghana and Kenya.

Figure 20: GIB B operating model



GIB B will continue to operate as a branch that will follow the key global strategies being developed by the head-quarters. With the focus on Sub-Saharan Africa being driven out through the South African office, GIB B will have a greater role to play in the front office architecture of the region. The front office will be driving out sales for all business areas. All other functions, especially strategy, innovation and technology, will be managed as a hub-and-spoke architecture. The headquarters will be taking the decision and rolling it out to all the branches.

Sources of Competitive Advantages

The head of investment banking of GIB B believes that there are several competitive advantages which act together to win a deal in the South African market. GIB B has several competitive advantages over its competition and these along several contextual factors define the ultimate winner of the deal. GIB B has always followed a strategy of few very high revenue deals through blue chip companies; its structure is different from the local banks.

i. **Relationships**

On the investment banking side, GIB B pursues high value opportunities originated by blue chip companies. It has 210 clients on their books for South Africa but in a calendar year only 10 of them is active. According to GIB B, they do not have the capacity to put people on the ground to manage relationships with all their customers like some of the local investment banks do. They try to do the best they can with the capacity available. Although, the parent company already has strong relationship with the global blue chip companies in South Africa by virtue of doing work for them in other geographies. These relationships come into play very often in the local market. They believe that it is highly unlikely that their global network would not have strong relationship with a multi-national enterprise in some geography. GIB B is able to successfully use these relationships to do business locally.

Relationships also have a flip side to it. GIB B believes that there are occasions when you need to withdraw support for the sake of risk management. This destroys relationship and they seldom get repaired. The legacy of such unfavourable situations in one branch is carried over to all global branches.

Therefore, the relationships of GIB B can be summarized in three points

- They are looking for deal originated by large global companies only
- Their vast global network has strong relationships with large global network by virtue of good work done in the past. This relationship is core to the GIB B success in the local capital markets.
- The deals originated by large purely South African companies is considered a bonus deal if it gets given to GIB B. It will be more on the basis of reputation and some local relationships.

Relationships with multi-national enterprises are a competitive advantage for GIB B, while the relationships with the large local corporate and public sector entities are a competitive disadvantage. The rest of the deals are not targeted by GIB B.

ii. Reputation

Reputation has been a key factor for the success of GIB B internationally and South Africa is no an exception to this rule. GIB B is a top rated bank in almost all aspects of investment banking in most global surveys. It is considered a power house in capital markets globally. Their work culture and their commitment to the success of their clients have given them a great name. In most geography where it has presence, they have not just performed well but have also taken up various sustainability initiatives. Due to the above, GIB B's brand is one of the most respected brand in the world.

The head of investment banking stated that this is the most important hygiene factor as far as pursuing business for the high-end market is concerned. This leads to their auto-consideration for most top deals and rejection of those who do not have the legacy. Reputation is the comfort most top clients need when they are pursuing high risk deals. GIB B's operation in South Africa has not only been able to live up to the parent's reputation but also built upon it.

Therefore, reputation is indeed a competitive advantage of GIB B and is a key qualifying criterion in the South African capital market deals.

iii. Market / Sector / Product Expertise

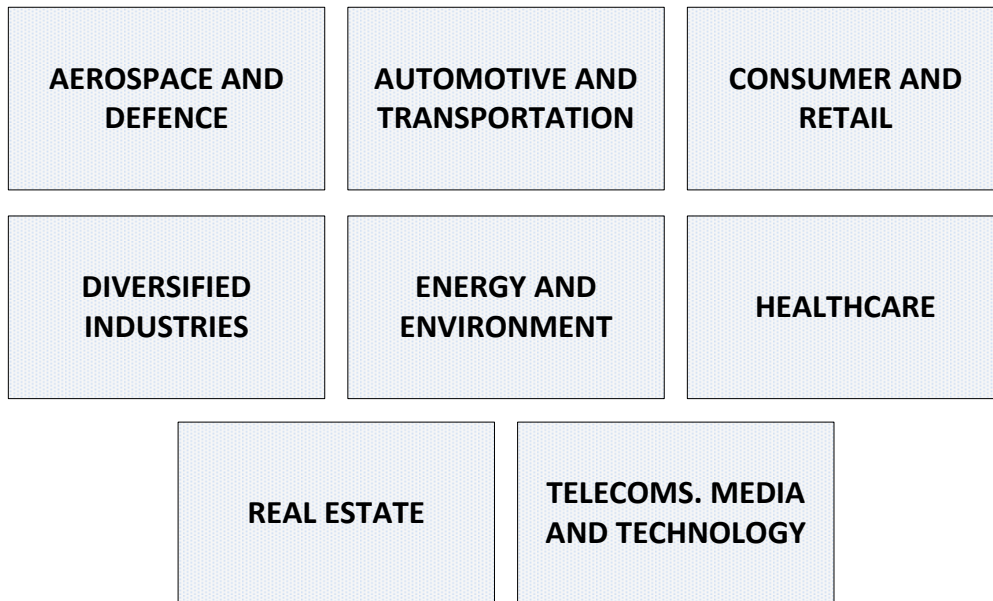
GIB B possesses both a local and a global pool of resources when market expertise is a critical requirement. It does not explicitly state particular sectors because of the availability of experts in all sectors in some geography of its existence. They are able to freely tap into these experts based on needs.

The history of GIB B in South Africa makes it critically rich in resources expertise. The partner GIB B acquired as its market entry strategy was the best in advising mining companies. The legacy of local knowledge around mining was critical for initial success.

According to the head of investment banking, GIB B is particularly proud of having a considerable market share in the financial services sector and being known as the bank of banks. GIB B has been the bank of choice for advice to other banks who act as their competitors in most of the other deals.

The other areas that local GIB B branch claims to have expertise in are

Figure 21: GIB B sector expertise



On the products front, GIB B was the first investment bank to introduce American Depository Receipts (hereafter ADRs) to the JSE. Since then their focus has shifted and they are no longer the leader in the space. They believe they do have product experts that could be utilized but the opportunity has to be right. They could choose any product category that shows signs of being profitable at a point of time and could roll them out.

Therefore, market/sector/product expertise is a competitive advantage that GIB B possesses.

iv. Technology

The corporate banking clients view high end technology capability as a hygiene factor. The rest of the features get discussed post the technology conversation. Therefore, technology capability has become a critical selling point from both the treasury and security services (hereafter TSS) and corporate banking point of view. Although in the pure investment banking division, the criticality is not as extensive.

GIB B's parent has been one of the front-runners in adopting technology. They have acquired specialists companies in technology to enhance their stack. They have invested huge amount in continuously staying in the fore-front of technology. Additionally, they have had tremendous success in rolling out the acquired products to all their satellite offices around the world. There have been some regional developments too. Although, most of their large scale technology adoption projects, have been global. This has helped the subsidiary pitch for the flow business in a large way.

GIB B has robust technology platforms which deal with all aspects of TSS. They have best-in-breed technology which covers the entire trade life-cycle across all instrument classes. A majority of their flow comes from international clients, who use the same systems they use in other markets. The flow to South Africa is just an extension to their existing capabilities.

With its focus on building corporate banking capability in Sub-Saharan Africa, GIB B will be introducing the global technology capability in support of the initiative too.

v. Pricing

In investment banking, there are scenarios where pricing becomes a key factor for GIB B. For example, some key public sector deals go on RFP where the pricing offered becomes important for winning the deal for GIB B. There are other aspects where a standard pricing strategy is followed by all respondents. In such cases pricing is not important. The debt business gets conducted at a package level. At the negotiation table, discounts are provided in some areas and covered in other areas. Negotiations are done on the basis of overall profitability, structuring offers based on client's requirements and ability to manage risks. GIB B measures all the factors and tries to come up with a pricing which is most suitable for both the client and the bank.

In TSS, pricing becomes more critical since the clients are measuring functionality vis-à-vis the price they need to pay. Since the costs to a large extent are fixed, there is greater room to provide discounts. GIB B tries to create stickiness around their clients (mostly top financial institutions). Once a client decides to use a particular investment bank, it becomes very difficult to switch. This triggers a huge amount of price based competition. GIB B has a large number of captive institutional clients.

vi. Comprehensiveness of products and services

All aspects of investment banking are critical for it to be able to provide good services to its customers. GIB B believes that having well-oiled machinery is a hygiene factor for an investment bank to do deals. From an investment banking perspective, the advice or underwriting service needs to be followed up with favourable analysis and reporting.

On the TSS side, financial institutions do not wish to use one investment bank for one instrument type, another for the second and buy research from a third. They would rather have a single vendor providing all the services.

vii. Strong Balance Sheet

For decades investment banks have used the balance sheet to build relationship and then win fee based business as a return for the favour. A similar structure exists in the South African capital markets. The local investment banks have strong balance sheets and can provide rand based loans. Global investment banks do not bring a huge balance sheet to all geographies. GIB B had a similar approach. Initially when it came to South Africa it was a front-runner in the equity capital markets because of its push in the area in the absence of a local balance sheet.

GIB B can use the parent's balance sheet but bringing in money from the parent to GIB B is difficult since the regulatory processes take too much time.

Therefore, not having a strong balance sheet in the country to compete with is a competitive disadvantage for GIB B.

viii. African Footprint

GIB B has been present in 4 countries for several years. Its presence in Nigeria dates back almost 40 years. It now also has presence in Ghana and Kenya. Currently, it is in the process of strengthening its presence in these countries just like all other banks. GIB B understands that there will be greater growth out of its rest of African operations rather than South Africa. The head of GIB B stated that there will not be strong investment banking needs in most African countries. They just need capabilities like trade finance (Reuters Africa, 2012). It might take GIB B 5 – 10 years to start generating profits in these new operations, but there is a need to get started. GIB B has a small presence in Africa and therefore generating a huge amount of revenue from the African operations will be difficult. They do not have a strategy to expand beyond them in the near future.

GIB B's footprint in Africa is a competitive disadvantage for GIB B.

ix. Innovation

GIB B does not have a team focused on strategy and innovation locally due to the size of their operations in South Africa. The South African operation is a branch which gets its instructions from the parent.

The parent has a central team which performs functions like strategy and innovation. The parent company is highly regarded for its innovative initiatives. Since the parent follows a hub-and-spoke model as far as innovation is concerned, all the benefits of innovation get filtered down to all the branches. These innovations might not be region specific but rather innovations which will benefit the larger organization as a whole.

Therefore, the lack of local capability to innovate is a competitive disadvantage for GIB B.

DISCUSSION OF RESULTS

Introduction

The previous section outlined the results of the mini case study exercise conducted with four investment banks. Two of these were local investment banks and two were global investment banks. They compete in the same environment and employ various strategies to perform better than the competition.

This section will analyse the four mini case studies to check if there is a group among local and global investment banks that has a better performance. This check will be performed not only at the investment bank level but also at the level of each business unit within the investment bank. This will be followed by an analysis to uncover patterns in terms of competitive advantages that the local or the global investment bank has over each other. These competitive advantages will be used to explain the performance exhibited by each group.

Performance: GIB vis-à-vis LIB Strategy Groups

For ease of comparison, the various products and services provided by an investment bank in South Africa was categorised into four categories, namely, i) private equity, ii) investment banking, iii) markets and iv) others – which covers all the products and services offered by the investment bank. The fourth category does not necessarily contain the same products and services and therefore have not been used for comparison at individual category level, but have been used in analysing the overall performance of the investment bank. Most of the major investment banks have adopted the combined model of corporate and investment bank. The products and services of the corporate bank have not been used to measure performance in this study as it is a recent phenomenon and the results of the early operations might be misleading.

Private equity

- **Global Investment Banks**

GIB A is a subsidiary of a global investment bank. It has minor focus on private equity and treats it as pure infrastructure investments. GIB B is a branch of a global investment bank. It does not have a private equity division and has no plans to build this capability. It is generally seen that global investment banks in South Africa who have branch operations here do not have a private equity division.

- **Local Investment Banks**

LIB A have a strong private equity division both in terms of number of people and the focus of the investment bank. LIB B sold off its private equity wing in 2010. It looks at private equity business as pure infrastructure investments now. It calls this division principal investment management.

- **Performance**

The performance figures that are quoted by the investment banks have been done in different measures. Table 1 below shows the overall performance of the private equity arm of the businesses:

Table 1: Private equity comparison

R millions	LIB A		LIB B		GIB A	
	REVENUE	NET PROFIT	REVENUE	NET PROFIT	REVENUE	NET PROFIT
2011	DNP	865	1031	124	317	DNP
2010	DNP	1498	729	477	22	DNP
DNP	Company does not publish these figures at division level					

It is clear from the results above that the only local investment banks are still focusing on the private equity practice and are doing well. Will this be the case in the future also? This will completely depend on the actions of the regulators and BASEL III. On the whole, it can be concluded that the global investment banks have stopped focusing on private equity business in South Africa. It is only the local investment banks that have some interest left in the business area.

- **Trends in private equity business**

Both local and global investment banks are scaling down their private equity business. This trend has been spurred by the global economic crisis and the

regulators' push to reduce investment banks' principal investments in alternative assets.

Investment banking

There are several aspects that an investment banking division of an investment bank focuses on. These services can be broken down into two key categories, fee business and margin business. Most of the investment banks publish their performance figures with the investment banking business division as a single unit and do not split them between advisory and finance income. It has been seen though that investment banks who participate in both segments in South Africa have a majority of their income coming from the financing business and only a small percentage from the advisory business. Like in the case of GIB B that shows a split across the two categories, ZAR 167 million or 10% came from the advisory business in 2010 (ABSA Capital, 2012) and ZAR 1431 million or 90% came from the financing business (ABSA Capital, 2012). Therefore, it can be concluded that the whole revenue figure can be used for comparison of the financing business of an investment bank.

- **Fee or advisory business**

The Fee or Advisory business can be broken up into three business sub-divisions, namely, mergers and acquisitions (hereafter M&A), equity capital markets (hereafter ECM) and debt capital markets (DCM). The global investment banks are very active in this market due to their deep product and sector expertise. Since very few investment banks publish the performance of their branches separately, figures from the investment banking industry league tables have been used.

Table 2: Advisory comparison

Investment Bank	Rank	Fees (R millions)	Market Share
GIB B	1	142	14%
LIB B	4	64	6%
LIB A	7	41	4%
GIB A	10	31	3%

The same league table also shows that around 83% of the deals done by the 10 top performers were done by global investment banks and only 17% were done by local investment banks (Thomson Reuters, 2012)

- **Margin or financing business**

One of the main aspects of being competitive in the margin or finance business is the access to a strong balance sheet. GIB B does minimum activity in this business area due to three reasons

- GIB B does not possess a local balance sheet
- GIB B has to follow an onerous one with the controls in the parent country
- Normally the returns for GIB B's parent is too low to mandate an effort

Most of the global investment banks in South Africa do not play an active role in this business area because of the same reasons.

The table 3 below shows the performance of both the local investment banks and of GIB A which is a global investment bank with a local balance sheet.

Table 3: Financing comparison

R millions	LIB A		LIB B		GIB A	
	REVENUE	NET PROFIT	REVENUE	NET PROFIT	REVENUE	NET PROFIT
2011	DNP	2727	6110	2455	1598	DNP
2010	DNP	2522	6424	2548	1282	DNP
DNP	Company does not publish these figures at division level					

In the margin or financing business area LIB A has the best performance. It uses its balance sheet effectively and is able to generate good business with it.

- **Trends in investment banking business**

Fee or advisory business: This business area is dominated by the global investment banks with some local banks performing well.

Margin or financing business: This business area is highly dependent on the balance sheet and the local investment banks that have a local balance sheet are doing well. Subsidiaries of global investment banks with a local balance sheet are performing well too.

Markets

The markets business area can be broken down into three main areas, i) equity and equity derivatives, ii) FICC or fixed income, commodity and currency and iii) prime services.

- **Local investment banks**

The operations of this area differ in the client type that the local investment banks focus on. The key targets are financial institutions, issuers and public sector enterprises locally, in Africa and areas of international presence. LIB A trades mainly on behalf of its local and African customer base and does some international trade between the Asian and African corridors. While LIB B, has global presence and generates local, regional, global flow from all three client types.

- **Global investment banks**

GIB A generates flow locally from its regional clients. It is also able to trade on behalf of its parent's clients who bring international flow. GIB B primarily trades for its international clients. They do have some clients in the region also.

- **Performance**

Only LIB A used to report the performance of these groups separately. With the closing of the proprietary trading desk and the merger of these two areas, it is expected that going forward LIB A will also publish the performance of these business areas together.

Table 4: Markets comparison

R millions	LIB A		LIB B		GIB A	
	REVENUE	NET PROFIT	REVENUE	NET PROFIT	REVENUE	NET PROFIT
2011	DNP	1410	9466	2004	3544	DNP
2010	DNP	1492	9657	2116	3436	DNP
DNP	Company does not publish these figures at division level					

Table 4 shows the performance of the markets business units of all three investment banks. LIB B is ahead of the other two but all three do create substantial flow. For analysing GIB B's markets business performance, the best source is the league table rankings. GIB B has been is the top 10 in both the equities and the FICC rankings (McNulty, 2012). This can be cross verified by the volume generated on the JSE and GIB B has had a top 10 rank over the years (JSE, 2012). Additionally, there is little disparity in the volumes generated by the top 10 investment banks.

- **Trends in markets business**

Both the local investment banks and the global investment banks generate sizeable revenue from their markets business. LIB B is able to generate higher revenues as compared with the other investment banks. The target market for the local and the global might be different but there is overlap in each other's market segment too.

Other business services

The other business services part of the South African investment banking sector is difficult to compare. There are varied products and services that lie in this category. Two good examples of this disparity are

- For GIB A wealth management form a part of this category. LIB A's parent has a separate company focusing on this aspect. GIB B does not offer this service at all.
- Cash management sits in this category for LIB B. This forms a part of separate companies under the LIB A and GIB A's parent group. GIB B does not offer this service in South Africa.

Due to the varied offering that the various investment banks put in this basket, the Other business service category has not been used for comparison.

Overall comparison

All four investment banks compared in this research have their own strengths and generate substantial revenue leveraging them. The table below shows the revenue and profit comparison of LIB A, LIB B and GIB A. As mentioned earlier about GIB B, by virtue of it being a branch operation, it does not publish its overall revenue figures for South Africa. It can be said though that it has comparable performance in the areas of markets and advisory. Therefore, its total revenue and profits should be in the comparable to any of these three banks' returns from those two business areas.

Table 5: Overall comparison

R millions	LIB A		LIB B		GIB A	
	REVENUE	NET PROFIT	REVENUE	NET PROFIT	REVENUE	NET PROFIT
2011	DNP	4959	22538	5816	5508	2241
2010	DNP	4728	21591	5252	5519	2074
DNP	Company does not publish these figures at division level					

- **Trends in overall performance**

Both the local investment banks and the global investment banks have a business of comparative performance in most areas of business. The table XXX below shows the areas in which these the global and local investment banks are competing. The private equity and investment banking businesses are low volume high margin businesses and a few large deals can change the performance considerably. Therefore, performance is not the correct method to judge the competitiveness. Their presence in the top 10 league tables has been mainly used to judge competitiveness. In the markets business, which is low margin high volume, the performance is a good measure of competitiveness and all four investment banks have a sizeable market share.

Table 6: Performance trend comparison

Division	Sub-Division	LIB A	LIB B	GIB A	GIB B
Private Equity		C	PC	PC	NC
Investment Banking	Advisory	C	C	C	C
Investment Banking	Financing	C	C	C	NC
Markets		C	C	C	C

C Competitive
 PC Partly Competitive
 NC Not Competitive

LIBs: Sources of competitive advantages

The local investment banks have good performance in all four areas of focus of this research. This section tries to identify the patterns in sources of competitive advantage they have.

Private Equity

LIB A is the only investment bank that has this capability. LIB B has just a small operation which does purely real estate investments. The general trend suggests that most investment banks both local and global are moving away from private equity. Most of the private equity work is being done by clients of investment banks or boutique operators in the area. Therefore, a details analysis has not been done around the competitive advantages of private equity part of the business since we would need to draw a comparison with a different set of entities that are not investment banks.

Investment Banking – Advisory Business

Both LIB A and LIB B have a good performance in the advisory business. The sources of competitive advantages in this area of business have been outlines in table 7 below.

Table 7: Advisory sources of competitive advantage

Sources of Competitive Advantages	Importance	LIB A	LIB B	Comments
Relationships	High	P	P	There are three target customer types, - Multi-National Enterprise - No - Large Local Corporates - Yes - Public Sector - Yes
Reputation	High	C	C	Both are well known and respected in the ecosystem
Market / Sector / Product Expertise	High	P	P	- Market expertise in South Africa and Rest of Africa - Sector expertise in most sector relevant to the continent but lack the depth of the global investment banks - Product expertise in most products but lack the depth of the global investment banks
Technology	Low	NA	NA	Not relevant for advisory business
Pricing	Low	NA	NA	Not relevant for advisory business
Comprehensiveness of products and services	Low	NA	NA	Not relevant for advisory business
Strong Balance Sheet	Low	C	C	Both have strong local balance sheets
African Footprint	High	C	C	Both have strong African footprint as far as advisory business is concerned
Innovation	Low	NA	NA	Not relevant for advisory business

Legends

C – Complete Competitive Advantage

P – Partial Competitive Advantage

N – Not a Competitive Advantage

NA – Not Applicable

General trends and highlights:

- LIBs have strong relationships with large local corporates and public sector entities
- Locally, LIBs have a good reputation

- They do have market expertise but sector and product expertise is not as high as the GIBs. **This acts as the biggest weakness.**
- Their strong balance sheet is used build relationships and get more fee-business. **This acts as their biggest strength.**
- Their strong African footprint especially in advisory projects one of their competitive advantages.

Investment Banking – Financing Business

This business area brings the local investment banks a mammoth share of their overall revenue. The sources of competitive advantages in this area of business have been outlines in table 8 below.

Table 8: Financing sources of competitive advantage

Sources of Competitive Advantages	Importance	LIB A	LIB B	Comments
Relationships	High	P	P	There are three target customer types, - Multi-National Enterprise - No - Large Local Corporates - Yes - Public Sector - Yes
Reputation	High	C	C	Both are well known and respected in the ecosystem
Market / Sector / Product Expertise	High	C	C	- Market expertise in South Africa and Rest of Africa - Sector expertise in most sector - Product expertise in most products
Technology	Low	NA	NA	Not relevant for financing business
Pricing	High	C	C	Are able to provide funds cheaper than the global investment bank branches
Comprehensiveness of products and services	High	C	C	Both have products of all types Use their international partners and operations to arrange financing

Strong Balance Sheet	High	C	C	Both have strong local balance sheets
African Footprint	High	C	C	Both have strong African footprint as far as financing business is concerned
Innovation	Low	NA	NA	Not relevant for financing business

Legends

C – Complete Competitive Advantage

P – Partial Competitive Advantage

N – Not a Competitive Advantage

NA – Not Applicable

General trends and highlights:

- LIBs use their financing expertise across markets, sectors and products to win deals.
- Their strong local balance sheet which can be used as a source of funding. **Main Strength**
- LIBs are able to price the funding better since the source of funds is local.
- LIBs have a comprehensive products and services offering which makes them a partner across all needs. LIBs have also formed strategic partnerships with banks of countries that are trading partners of Africa.

Main Strength

- LIBs have a strong African footprint, especially in financing projects and are able to win deals in a low competition high growth territory.
- They have strong relationships with large local corporate and public sector entities, but lack a similar relationship with Multi-National Enterprises. **Weakness**

Markets

The table 9 below shows the sources of competitive advantages of LIBs from a markets business perspective.

Table 9: Market Sources of competitive advantage

Sources of Competitive Advantages	Importance	LIB A	LIB B	Comments
Relationships	High	P	P	There are three target customer types, - Local FIs - Yes - Global FIs - Some - Issuers - Yes
Reputation	High	C	C	Both are well known and respected in the ecosystem
Market / Sector / Product Expertise	High	P	C	- Market expertise in South Africa and Rest of Africa - Sector expertise in most sectors - Product expertise in most products
Technology	High	P	C	LIB A has a comprehensive set of tools, though they are not integrated enough for the cross-border market LIB B has a comprehensive set of tools that are integrated across the target market.
Pricing	High	P	C	Both price their offering very competitively, although LIB B has the potential of reducing pricing based on Scale
Comprehensiveness of products and services	High	P	C	LIB A has a partial suite of products LIB B has the most impressive coverage
Strong Balance Sheet	Low	NA	NA	Not relevant for markets business
African Footprint	High	P	C	LIB A has a small African footprint LIB B is the market leader in Africa
Innovation	High	C	C	Both have a strong culture of innovation and pursuing major initiatives

Legends

C – Complete Competitive Advantage

P – Partial Competitive Advantage

N – Not a Competitive Advantage

NA – Not Applicable

General trends and highlights:

- LIBs have strong relationships with local financial institutions and issuers but have limited coverage of the global financial institution market
- LIBs have an offering supported by a strong technology back-bone that is fully integrated and focussed towards regional needs. **Main Strength**
- There is a drive for innovation by the LIBs in support of regional needs.
- LIBs have a comprehensive set of products and services to cater to all the needs of the regional clients. **Main Strength**
- The pricing of the offering provided by LIBs is better due to the regional scale of the operations.
- The strong African footprint assists the LIBs in providing integrated cross-border services. **Main Strength**

GIBs: Sources of competitive advantages

The global investment banks have exhibited strong performance in several business areas of investment banking. This section tries to understand the sources of competitive advantages that justify their performance.

Private Equity

GIB A has minor focus on private Equity and GIB B does not have a division which operates in the private equity business area at all. This is based on new regulations which forbid them from investing in alternate asset classes. Therefore, this section has been ignored for the purposes of this research.

Investment Banking – Advisory Business

Both global investment banks focus heavily on the advisory business and have strong performance in them. The sources of competitive advantages in this area of business have been outlined in table XXX below.

Table 10: Advisory sources of competitive advantage

Sources of Competitive Advantages	Importance	GIB A	GIB B	Comments
Relationships	High	C	P	There are three target customer types, GIB A is strong in all three but GIB B has the following profile - Multi-National Enterprise - Yes - Large Local Corporates - No - Public Sector - No
Reputation	High	C	C	Both are well known and respected in the ecosystem
Market / Sector / Product Expertise	High	P	P	- Market expertise in South Africa and but not in Rest of Africa - Sector expertise available in the global organization - Product expertise available in the global organization
Technology	Low	NA	NA	Not relevant for advisory business
Pricing	Low	NA	NA	Not relevant for advisory business
Comprehensiveness of products and services	Low	NA	NA	Not relevant for advisory business
Strong Balance Sheet	Low	C	N	GIB B does not have a local balance sheet
African Footprint	High	P	P	Both have small footprint in Africa
Innovation	Low	NA	NA	Not relevant for advisory business

Legends

C – Complete Competitive Advantage

P – Partial Competitive Advantage

N – Not a Competitive Advantage

NA – Not Applicable

General trends and highlights:

- GIBs have strong relationships mainly with the Multi-National Enterprise due to their global relationships.
- Both locally and globally, GIBs have a good reputation.
- They have expertise in both sectors and products which more than makes up for their slightly less market expertise. **Main strength**
- GIB A (subsidiary) has a strong local balance sheet and it uses it effectively. GIB B (branch) does not have a local balance sheet and therefore has to depend on its other competitive advantages. **Main weakness.**

Investment Banking – Financing Business

GIBs with branch operations in the region, have very little activity in the financing business area. The GIBs operating in this region as subsidiaries of global investment banks show strong performance in this business area. Their sources of competitive advantages GIBs with subsidiaries in South Africa in this area of business have been outlined in table 11 below.

Table 11: Financing sources of competitive advantages

Sources of Competitive Advantages	Importance	GIB A	Comments
Relationships	High	C	There are three target customer types, GIB A is strong in all three
Reputation	High	C	Well known and respected in the ecosystem
Market / Sector / Product Expertise	High	P	- Market expertise in South Africa but not in Rest of Africa - Sector expertise available in the global organization - Product expertise available in the global organization

Technology	Low	NA	Not relevant for financing business
Pricing	High	C	GIB A is able to provide cheap funds because of the local balance sheet.
Comprehensiveness of products and services	High	C	GIB A has products of all types Leverage their international partners and operations to arrange financing
Strong Balance Sheet	High	C	GIB A has a strong local balance sheet
African Footprint	High	P	GIB A has a small footprint in Africa
Innovation	Low	NA	Not relevant for financing business

Legends

C – Complete Competitive Advantage

P – Partial Competitive Advantage

N – Not a Competitive Advantage

NA – Not Applicable

General trends and highlights :

- GIBs with subsidiaries in South Africa enjoy all the competitive advantages of LIBs
- Additionally, they also have strong relationships with all three customer types, large local corporates, public sector entities and multi-national enterprises. **Main strength**
- Currently they have small African footprint. **Weakness**

The point to note is that most global investment banks in South Africa are branch operations and have limited activity in the financing business area.

Markets

The table 12 below shows the sources of competitive advantages of GIBs from a markets business perspective.

Table 12: Markets sources of competitive advantages

Sources of Competitive Advantages	Importance	GIB A	GIB B	Comments
Relationships	High	C	P	GIB A has good relationships with all three categories. For GIB B there are three target customer types and it has the following profile - Local FIs - Low - Global FIs - Yes - Issuers - Yes
Reputation	High	C	C	Both are well known and respected in the ecosystem
Market / Sector / Product Expertise	High	P	P	- Market expertise in South Africa and Rest of Africa - Sector expertise in most sectors by virtue of its global team - Product expertise in most products by virtue of its global team
Technology	High	P	P	GIB A has a comprehensive set of tools, though they are not integrated enough for the cross-boarder market GIB B has a comprehensive set of tools, though they are not customised to the needs of the local market.
Pricing	High	C	C	Both price their offering very competitively and have the potential of reducing pricing based on Scale
Comprehensiveness of products and services	High	P	P	Both GIB A and GIB B has a partial suite of products
Strong Balance Sheet	Low	NA	NA	Not relevant for markets business
African Footprint	High	P	P	Both have a small African footprint

Innovation	High	C	N	GIB A has been innovating aggressively GIB B does not have a local team focussed on innovation
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Legends

C – Complete Competitive Advantage

P – Partial Competitive Advantage

N – Not a Competitive Advantage

NA – Not Applicable

General trends and highlights:

- GIBs with branch operations have strong relationships with global financial institution but have limited coverage of the local financial institutions and issuers.
- GIBs have globally focused technology stack rather than locally.
- The pricing of the offering provided by GIBs is better due for the global customers due to scale of the offering but not for locals.

The GIBs with subsidiaries in South Africa have all the sources of competitive advantages of the LIBs. Additionally,

- They also have good relationships with the global financial institutions.
- They have globally suitable high performance technology stacks and their local operations are continuously innovating to make them regionally focussed.

CONCLUSION

Findings

The purpose of the research was to understand the implications of the increased focus of the global investment banks in South Africa. It was assumed that global investment banks have superior expertise as compared to their local counterpart both in term of skills and technology. Additionally, the liability of foreignness which could prevent a major market share switch was a non-issue in the South African context since all the major global investment banks have existed in South Africa for over a decade. Over the last 18 years, global and local investment banks have competed with each other and neither could dominate the market completely. Was the market-share dynamics about to change and was a dominant group about to emerge?

This question was answered by understanding the current performance of the two strategy groups – global investment banks and local investment bank. The performance was explained on the basis of the sources of competitive advantages possessed by each strategy group. This was used to identify the nature of competition between the two groups and the consequence of increased investment of global investment banks in South Africa.

- **Performance of GIBs and LIBs in South Africa**

The performance of the two strategy groups can be summarized as

- Private Equity: The few LIBs that still have operations in the business area have a dominant market share. Most GIBs and LIBs have exited this area
- Investment Banking – Advisory: The GIBs dominate the overall market share with some top LIBs playing a significant role.
- Investment Banking – Financing: The LIBs dominate the overall market share with some GIBs, who are subsidiaries rather than branches, playing a significant role

- Markets: The markets business is equally shared by LIBs and GIBs, but the LIBs dominate is the rest of Africa business.

- **Nature of competition between GIBs and LIBs**

The performance of the two strategy groups can be summarized as

- Private Equity: Since GIBs do not operate in this business area the sources of competitive advantages were not explored.
- Investment Banking – Advisory: GIBs dominate this market through superior expertise across markets / sectors / products.
- Investment Banking – Financing: LIBs dominate this market since they have a local balance sheet, strategic alliances with trade partners of Africa and a comprehensive set of target market relevant products/services. LIBs also use their lesser competitive and faster growing African footprint to enhance their profitability.
- Markets: The GIBs are performing well because they have stronger relationships with international customer base who they serve globally, have globally suited technology, have better pricing for global operators and do innovations focussed around their needs. The LIBs are performing well because they have stronger relationship with the regional and local customer base who they serve across the region, have a comprehensive set of solution for them, offer better pricing to the regional cross-border operators and do innovations to better service their needs.

In addition to this, the business model of all the investment banks in South Africa is changing to the CIB or Corporate and Investment Banking model. This is being done to strengthen the relationships with their corporate clientele and cross-sell other products and services to them. The local investment banks adopted this model first and it is only now that the global investment banks are following suit. Even this change should increase competition within the LIB and GIB strategy group rather than move market share of one strategy group to the other.

Therefore, it can be concluded that the competition in the South Africa investment banking sector between LIB and GIB strategy groups is intra-group rather than between the two groups. The only exceptions to this rule are subsidiaries of global investment banks, which are a hybrid between the two groups and can change the market share of both the groups.

Recommendations to Stakeholders

There seems to be very little threat of competition between the LIB and GIB strategy groups. Most of the competition will be intra-group and each group needs to focus on intra-group rivalry. LIB B tried to target GIB strategy group's customer base but the timing went horribly wrong and it had to switch focus back to LIB target customer base. Looking at the market conditions, there is little possibility of any other local bank trying to replicate LIB's attempt over the next 5 years.

Disruptive change in the South African investment banking industry can only be brought about by a subsidiary of a global investment bank because it is a hybrid between the global and local investment bank business models. It has the disadvantages of both strategy groups but more importantly it has the advantages of both the strategy groups too. It can choose to compete in either area and with right strategy and resources might succeed in moving market share.

The growth over the next five years will come out of African operations of investment banks and not the South African operations. This is true for the target market of both the LIB strategy group and the GIB strategy group. This can be explained through three points, i) The South African investment bank market is saturated and highly competitive, ii) The GDP growth rate expectation from South Africa is between 2.7% to 3.1% and iii) The volume of activity both in the primary and secondary markets have fallen to half their levels.

The key to investment bank success in Africa is the commodities business. Africa thrives on natural resources and trades it as raw material, semi-finished products or finished products in this reducing order of trade volume. The second most prominent sector is agribusiness. Therefore, the best offering and capability for the African capital markets is commodities trading.

The partnerships with banks of Africa's trade partners will be a strong competitive advantage. The key need of the continent is trade finance and a partnership of this kind will not only enhance value proposition but also increase profit margins. Currently, with the Eurozone crisis creating unpredictability around sovereign debts issue, Asia has become the main trade partner.

All four high performing investment banks have either adopted or are in the process of adopting the CIB model. This seems to be the chosen business model for investment banks going forward. The key rationale behind doing so was threefold, i) Achieve a consolidated view of the customer, ii) Cater to the overall needs of the customer better, iii) Cross-sell more products and services and iv) To create stickiness by building an ecosystem of products and services.

Recommendations for future Research

This research covers the competition between GIB and LIB strategy groups and concludes that there is mainly intra-group competition rather than competition between groups. Further research could be conducted on the intra-group competition to understand the sources of competitive advantages to succeed within a group. This research could be conducted between tier I investment banks or between tier I and tier II investment banks.

Currently, there are very few subsidiaries of global investment banks within South Africa. One of the key outcomes of this research was that disruptive change could be brought about by the subsidiary of a bulge bracket global investment bank in South Africa since they can it will possess the characteristics of both a GIB and a

LIB. This nearly happened through HSBC's bid to buy Nedbank (Bloomberg, 2010). Research could be conducted on the change in market share dynamics when such a scenario materializes.

This research was conducted on the investment banking industry in South Africa. Further research can be conducted in other industries to understand the nature of competition between local and global participants.

Finally, this research adopted a qualitative approach through case studies. Research could be performed through quantitative methods to validate the findings of this research. Based on the scope of the research, only four participant investment banks were selected. An approach with a higher number of participants will provide a more detailed perspective and uncover competitive advantages which reside deep inside the industry structures.

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APPENDIX A: INTERVIEW QUESTIONNAIRE

1. COMPETITION FACTORS

- What factors of competition do you believe are South African investment banks competing on?
 - Reputation
 - Relationships - issuers, institutional investors, retail investors and regulators
 - Market / sector / product expertise
 - Strong Balance Sheet
 - Technology
 - Price
 - Coverage - comprehensiveness of products and services
 - Others, _____ please _____ specify
-

2. PERFORMANCE

- What is your target year-on-year growth rate in revenue terms over the next 5 years (average figure)?
- Which areas of the Bank do you see this growth coming from
 - i. Investment Banking – Low Volume / High Margin (hereafter LVHM),
 - ii. Private Equity – LVHM
 - iii. Distribution across asset classes (global markets) including Prime Services – High Volume / Low Margin (hereafter HVLM), and
 - iv. Asset/Wealth Management – HVLM
- Are you anticipating a drop in costs within your organization? If yes, what is your target year-on-year savings rate in cost terms over the next 5 years (average figure)?
- Which areas of the bank do you see the savings coming from
 - i. HVLM
 - a. Front Office
 - b. Middle Office
 - c. Back Office

- d. Support Functions
- ii. LVHM
 - a. Investment Banking Value Chain
 - b. Private Equity Value Chain

3. PRODUCTS / SERVICES / MARKETS

- How are your banks current products / services differentiated from those of your competitors? Check each area at a high level.
- Do you see opportunities in the horizon that your bank can exploit? Example colocation, high frequency trading (HFT), sponsored access *et. al.*
- Are there new markets your bank is planning to target over the next 5 years? New geography, new customer type *et. al.*
- Is you bank planning to develop new products/services over the next 5 years? Which markets/segments will the bank target with these products?
- Do you have partnership agreement/JV with local banks? Will the partner have a greater role to play in future? Are there other partnership/JV targets you are exploring?
- Are there outsourcing opportunities being explored currently?

4. RISKS

- What do you perceive as the key risks to your business is currently facing?
- Check the following areas
 - i. Conservative, risk averse customers
 - ii. New strategies employed by competition
 - iii. Suppliers' margin eroding
 - iv. New and constantly changing regulations
 - v. International investment banks coming to South Africa due to favourable conditions
- How easy is it for your firm to respond to these risks?

Continued...

5. RESOURCES / CAPABILITIES / CORE COMPETENCIES

- What are the core strengths and weaknesses of the bank? Spot their position on the value chain and its impact on the overall value chain.
- Resources and capabilities
 - i. Financial
 - ii. Assets – Tangible
 - iii. Assets – Intangible
 - iv. Technology
 - v. Skills / Human
- What factors of historical performance stand evidence to the above capability?
- How does the growth across product / services / markets and align to the resources / capabilities?
- How will the weakness limit the growth plans? Are the areas suggesting joint venture or outsourcing aligned to areas of weakness?

6. COMPETITION WITH LOCAL BANKS IN SOUTH AFRICA

- What is the nature of competition with local investment banks? Based on factors of competition, products / service and markets.
- What is the banks approach towards local banks in South Africa? Just competitors, network partners, suppliers *et. al.*

THANKS
