



Topic: The merger between two financial institutions

Purpose: This thesis is submitted in partial fulfilment of the requirements for the degree of **MASTERS IN BUSINESS ADMINISTRATION** to the Graduate School of Business, Faculty of Management, University of Natal (Durban), by Stewart Lumka.

Supervisor: Professor Elza Thomson

Due Date: 15 September 2003

CONFIDENTIALITY

TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five years.

Sincerely

S. Lumka

096634

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed.....

Date: 15 September 2003

ACKNOWLEDGEMENTS

A thesis of this nature cannot be completed without the help and support of many others. I would like to thank the following people and institutions for their contributions towards this work:

- My supervisor, Professor Elza Thomson, for the guidance and assistance in the completion of the study.
 - My personal assistant, Beverley Omar, for the typing undertaken, document set up, preparation and sub-editing.
 - Gareth Edwards for information and technological support.
 - Roopanand Lala for printing and binding the final document.
 - Standard bank's group economists and librarians for extracting archived information.
-

ABSTRACT

In this investigation, I assessed the underlying reasons for the revolution that succeeded a conventional merger proposal, which then degenerated into a hostile takeover bid. To my astonishment, I discovered that both banks were not diametrically opposed to an amalgamation. In fact, they both agreed on the strategic importance and business wisdom thereof. The fundamental differences arose from Standard's perception of Nedcor's deep-rooted arrogant intents, which were to gain its assets at bargain basement prices. These views were extended to Nedcor's principal Old Mutual as well, who were accused of harbouring sinister beliefs to actualise the obsessions of Nedcor's CEO, who sought to preside over the largest bank in the country, if not in the sub-continent.

In the final analysis, a significant fortune and precious time were wasted in waging and defending a fruitless effort. This culminated in enriching the consultants and professional advisors, at the expense of both Standard and Nedcor shareholders, and their legitimate stakeholders alike.

Conversely, it has since been acknowledged that this case study was a classical illustration of the potential pitfalls of hostile mergers and acquisitions. These lessons will undoubtedly enlighten other institutions and industry sectors that may be secretly entertaining similar desires.

INDEX

	page
TITLE PAGE	i
CONFIDENTIALITY	ii
DECLARATION	iii
ACKNOWLEDGEMENTS	iv
ABSTRACT	v
INDEX	vi
LIST OF FIGURES	ix
LIST OF TABLES	x
Chapter 1. Introduction and background to the study	1
1.1 Purpose statement	1
1.2 Background	1
1.3 Motivation for the project	6
1.4 Value of the research	7
1.5 Problem statement	7
1.6 Objectives of the study	7
1.7 Research methodology	8
1.8 Limitations of the project	8
1.9 Structure of the study	9
1.10 Summary	9
1.11 Chapter Summary	10

Chapter 2.	Literature review	11
2.1	Introduction	11
2.2	The five forces analytical tool	14
2.3	Literature review	25
2.4	Chapter summary	31
Chapter 3.	Methodology and data collection	34
3.1	Introduction	34
3.2	Historical overview	34
3.3	The banking industry in general	43
3.4	Standard bank of South Africa Ltd.	43
3.5	Nedcor bank	47
3.6	Continental strategies of South African banks into the SADC region	49
3.7	Standard bank (Stanbic Africa Group)	51
3.8	Nedcor's aggressive first mover offensive strategy	53
3.9	Nedcor's anticipated merger benefits	55
3.10	Standard bank's defensive strategy	57
3.11	Standard's exoneration	66
3.12	Chapter summary	70

Chapter 4.	Results (observations and findings)	74
4.1	Introduction	74
4.2	Observations	74
4.3	Standard's intelligence networks	80
4.4	SWOT analysis	81
4.5	Standard Bank's performance against objectives	84
4.6	Chapter summary	86
Chapter 5.	Recommendations	88
5.1	Introduction	88
5.2	The arguments reviewed	88
5.3	Nedcor's haughtiness backfires	91
5.4	Standard's industrious defence	92
5.5	Standard's firm achievements	94
5.6	Recommendations	97
5.7	Recommended defensive strategies for competing in maturing industries	103
5.8	Chapter summary	109
Chapter 6.	Summary and conclusions	111
6.1	Introduction	111
6.2	The Old Mutual equation	114
6.3	Conclusion	116
7.	References	120
8.	Bibliography	122

LIST OF FIGURES

	page
2.1 The five-forces model for competition	15
2.2 Organisational learning and evaluation process	27
2.3 New age leadership strategies	29
3.1 Standard bank’s group profile	45
3.2 Standard bank’s international presence	46
3.3 Stanbic Africa Group-branch infrastructure	52
5.1 Market share of electronic banking utilisation	95

LIST OF TABLES

	page
1.1 Comparative profiles for Standard and Nedcor banks	4
1.2 Comparative capacity profiles for Standard and Nedcor banks	7
2.1 Analysis of existing, and substitute banking products	22
3.1 Racial distribution of national population	39
3.2 Gender distribution of national population	39
3.3 Population distribution older than 65-years	40
3.4 Education levels of people 20-years and older: 1996	40
3.5 Education levels of people 20-years and older by race: 1996	41
3.6 Illiterate population aged 20-years and older: 1996	41
3.7 Senior certificate results: 1979-1998	42
3.8 Racial breakdown of total degrees and certificates awarded by tertiary institutions	42
3.9 Old Mutual's shareholding in Standard bank	54
3.10 Comparative financial performance	63
3.11 Decision circumstances	67
4.1 SWOT analysis	81
4.2 After the skirmish, how they shape up	84
4.3 Characterisation of the relative strengths of each bank	86

CHAPTER 1

1. INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 Purpose statement

The purpose of this research is to examine the causes of what resembled a classical textbook merger as proposed by the Nedcor Banking Group (Nedcor), which sought to combine its entire banking business with that of the Standard Banking Group (Standard). Instead, this seemingly innocent cooperative interrelationship degenerated into a strategically offensive takeover bid.

On 15 November 1999, Nedcor announced a proposed merger offer of one Nedcor share for 5,5 Standard bank shares. By this time, there was a foregone conclusion within the financial sector that Standard was going to be acquired by Nedcor. This view was reinforced by prevailing analytical research, which originated from the investment analyst community, and from other highly regarded financial quarters.

1.2 Background

During this period, Standard was generally regarded as a lethargic colossal, with a management team that had lost touch with the mission of its legitimate stakeholders and customers alike. Their perceived laissez faire management style thus rendered Standard a sitting duck for a friendly or hostile take over bid. Nedcor then seized this opportunity, and was confident of their competitive advantage. Their offensive was aimed at taking over a larger but mortally wounded and equally vulnerable competitor. It was also alleged that Standard was ill equipped to compete on the industry's future battleground, and was invariably poised to rapidly lose market share. In Nedcor's view, Standard had exhibited all the negative signals of a vulnerable competitor in

distress with a weak competitive strategy. Standard's cost to income ratio was regarded as comparatively higher than the industry norm, and that they were committed to aging technology, which further compromised Standard's value chain and competitive capacity.

In addition, Standard was pre-occupied with global growth strategies to the detriment of its continental and local operations, resulting in declining profits. Nedcor suggested therefore that they were motivated by commercial needs to preserve the long-term financial stability and soundness of the sector, and not by sector domination as suspected. Whilst Standard was caught napping by the proposed merger, this shock gave it a deserved early warning of things to come if they remained in this slumber.

1.2.1 Nedcor's proposed merger benefits

Nedcor's proposed merger or acquisition was presented as potentially capable of strengthening their market position, and could possibly open new commercial opportunities for competitive advantage. Therefore, combining its banking operations with those of Standard could also close identified Nedcor resource gaps, allowing the merged entity to undertake projects which the prior independent companies could not even contemplate. Furthermore, the merged entity would have stronger technology, more or better competitive capabilities, a more attractive product portfolio, wider market segment coverage, and greater financial resources. Nedcor also asserted that, combining these operations offered considerable cost-saving opportunities to transform an otherwise high cost to income Standard, into a competitor with average or below average costs. These competitive benefits would be realised as a direct consequence of the merged company's ability to exploit economies of scope.

1.2.2 Related diversification

Nedcor viewed this proposed amalgamation as a friendly merger, which accordingly made significant business sense. They opined that the merger would contribute to the realisation of related diversification and strategic fit, and that these combined value chains will also produce the desired cross pollination of competitive best practices, cost reductions, valuable resource strengths and competencies, and equally, the possibility of competing on a stronger corporate identity.

Furthermore, the prevalence of securitisation, bancassurance¹ relationships, debt and equity syndications were but fitting examples of the probable synergies of related diversification, which are to this day entrenched within the banking industry. On the contrary, Standard interpreted this proposal as an arrogant and potentially hostile takeover, where they would be acquired, their assets stripped of all intrinsic economic value, and finally relegated to Cinderella status.

1.2.3 Strategic fit

At the time of these merger discussions, the South African financial markets were regarded as both over and under-banked, considering that there were 34-local banks, competing within both the retail and wholesale sectors. The banking sector was extremely competitive, experiencing declining profits, and beginning to exhibit strong signals of a maturing-yet ferociously competitive industry. As a consequence, this fierce competition induced mergers and acquisitions among former competitors, effectively crowding out weaker rivals and produced industry consolidation².

-
1. Bancassurance is the selling of insurance through a bank's branch network
 2. This point was later confirmed by the subsequent failure of numerous boutique banks and micro- loan operations, and the formation of ABSA bank was a consequence of 4-banks that had previously merged.

Seemingly Nedcor regarded this and other acquisitions as opportunities for actualising its objective of creating an equally stronger competitor, through this inorganic growth strategy.

1.2.4 Strategic intent

The strategic intent of a company occurs when a company relentlessly pursues an ambitious strategic objective and concentrates its competitive actions and energies on achieving that objective.

- Standard bank 's strategic intent was industry leadership on a national and global scale, and thus differentiated itself through unique and diverse products.
- Nedcor's strategic intent was market domination of a particular niche, and their competitive advantage was to be the lowest cost producer.

Table 1.1: Comparative profiles for Standard and Nedcor banks (Chapter 3)

Competitor	Competitive Scope	Strategic intent ³	Market Share Objective	Competitive Position or Situation	Strategic Posture	Competitive Strategy
Nedcor	Multi-national	Dominant leadership Stay on the offensive	Aggressive expansion via acquisitions	Going after a different market position	Aggressive risk taker	High end market niche
Standard	Globalised as indicated in figure 3.2	Remain among the top four-industry leaders Fortify and defend	Expansion via organic growth	Well entrenched, able to maintain its present position	Mostly defensive	Image and reputation differentiation

Source: Standard and Nedcor's annual statements

³

Thompson Arthur A. Jr., and Strickland A.J.; Strategic Management Concepts and Cases; 13th edition; McGraw Hill Irwin; New York; pp 45

I compared the strategic divergence of both institutions as captured in table 1.1 above, the contents of which refute the contentious strategic convergence proposed in paragraph 1.2.2 by Nedcor. If anything, this information accentuates the strategic divergence, structural dichotomies, and strategic oddities of these competitors. Additionally, and contrary to popular sectoral opinion, Standard had cautioned against this merger, and substantiated this argument with the poor historical record of South African banking mergers. What's more, Standard also advised that the merged entity's ongoing sustainability was incumbent upon its ability to harness the strategies of the two former banks. This would include their core competencies, resource strengths, and competitive capabilities, a situation that was impossible to realise, considering Standard's and Nedcor's diverse strategic intents, and corporate cultures.

Given these discrepancies, Standard did not contemplate the probability of a successful merger. Hence they continued to clearly articulate their fierce opposition to this potential takeover, and in no uncertain terms even threatened serious retaliation should Nedcor continue with this offensive. They (Standard management) had initially expressed their rejection of a merger through signalling the likelihood of strong retaliation to fortify their position. Then again, when Nedcor proved to be more resilient than anticipated, the upshot of which was fierce competitive rivalry to the point where it deteriorated into almost personal vendettas. The failure of these prior hints to elicit a satisfactory rebuttal from Nedcor's management increased the potential for a scorched earth policy, where Standard management threatened to walk out en masse in the event of a successful takeover. Unfortunately, Nedcor regarded all these signals as simple posturing, which further reinforced Standard's perceptions that Nedcor's management were arrogant and overconfident of successfully executing their strategic intent.

1.2.5 Research focus

It is against this background that I will develop this study to focus upon Standard's strategy development and execution. My intention is to apply the medium of theoretical information in competitive strategy, and techniques for analysing industries and competitors alike in this process. My primary and secondary references are listed on page 119, and will be supplemented by the Standard Bank website, financial journals, newspaper and magazine articles, press releases, and published annual financial statements. Furthermore, the research period will be restricted to the pre-hostile takeover phase of 1998, through to the first initiative made by Nedcor bank in September 1999, and will then conclude with the Cabinet pronouncement rejecting the merger, which occurred during June 2000.

1.3 Motivation for the project

The reason for this research is to examine Standard's corporate culture, market conditions, industry perceptions, and the internal equity (Standard banks) that prevailed during the period of the proposed merger. Why did Nedcor elect to ignore the repeated criticism and rejection of their offer, which with hindsight resulted in the squander of significant and valuable resources in a futile takeover effort, and precipitated a fierce and profitless battle for industry domination? The comparative resource strengths of both competitor banks are reflected hereunder, and further illustrate Standard's financial and human resource superiority.

Table 1.2: Comparative capacity profiles for Standard and Nedcor

	Employees	Total Assets "Rbn"	Shareholders Funds "Rbn"
STANDARD	31,000	174	13.3
NEDCOR	18,000	126,8	9.8

Source: Internal Standard bank case documents

1.4 Value of the research

Through this study, I will examine Standard's fundamental strategies, and long-term sustainability, in order to contribute to the abundant body of intellectual knowledge. This investment will secure Standard bank's relevance in the dynamic globalising environment wherein it operates.

1.5 Problem statement

Assess the factors that motivated Nedcor to launch a hostile takeover bid for a competitor that was significantly larger, technological, and financially superior to it. Review the defensive strategies launched by Standard bank in return, and identify the restrictive actions (offensive and defensive) unleashed by Standard bank. Finally, evaluate these measures, their effectiveness, and or weaknesses in strategy formulation and execution.

1.6 Objectives of the study

The objective of this research includes, amongst others:

- To investigate the socio-cultural, economic, and political context that existed during the takeover bid, particularly within the financial sector. Also, seek to understand their (Standard – Nedcor) competitive corporate

cultures, and the possible strategic synergies that could have enhanced or inhibited the success of this proposed merger?

- Why did this proposition deteriorate into a trial by the media, followed by costly legal suits, which necessitated political intervention for its ultimate resolution? Was political intermediation avoidable? Were there no alternative strategic options within reach to resolve this impasse?
- Evaluate both institutional responses to the final ruling, and in particular Standard's defensive strategy, its long-term sustainability, and lessons learnt to avert another hostile takeover bid. What strategic and management processes have since been implemented to fortify Standard's competitive structures?

1.7 Research methodology

Techniques that will be employed in examining the integrated business strategies of Standard bank prior to the instigation of this takeover bid by Nedcor Bank will be underpinned by available archived documents pertaining to the legal case. These references will supplement the primary and secondary information sources referred to under the research focus section, and will include high court defence material, minutes of top management discussions held, internal and external communications, and the verdicts pronounced by the regulators, namely the South African Reserve Bank, the Competition Commission, the Registrar of Banks, and the National Cabinet (National Treasury) respectively, which finally concluded this matter.

1.8 Limitations of the project

Inherent in this research are institutional limitations that will preclude the publication of sensitive corporate secrets, unpublished, and embargoed information that the organisation may not desire to avail before the occurrence of a specific event or occasion. Therefore, all sensitive information that is

relevant to this study will be included, but only on condition that this dissertation is not published.

1.9 Structure of the study

The research proposal will be structured as follows:

1.9.1 Chapter two

This chapter will contain discussions of technical theories, and their respective strategic models.

1.9.2 Chapter three

The models developed or applied in chapter two will underpin detailed reviews of the case study in this chapter. These reviews will probe the history of the industry and organisation, its product and services portfolio, markets, competitors, and customer base.

1.9.3 Chapter four

In this chapter, I will present an evaluation of all information contained in the preceding chapters, and will use the strategy development and evaluation process, against a “model” developed at the end of chapter two for this purpose.

1.9.4 Chapter five

Chapter five will contain recommendations.

1.10 Summary

In this chapter, I will summarise the entire research study.

1.11 Summary: Chapter 1

This chapter merely provides a background to the study, which included the relevant key arguments of both the potential acquirer and defender of the merger. This information was intended to clarify the purpose of this investigation, its objectives, and the analytical methodology, so as to realise those objectives. Nedcor's business strategy was thus compared to Standard's through an examination of Standard's primary motivation for the outright rejection of this merger proposal. This assumption will be validated in the next chapter through specific strategic management theorems.

CHAPTER 2

2. LITERATURE REVIEW

2.1 Introduction

In assessing the effectiveness of Standard bank's strategy for rejecting Nedcor's merger proposals, specific literature sources will be consulted to validate Standard's this strategic approach.

The financial sector and its institutions are defined as commercial banks, long and short-term insurers, re-insurers, managers of collective investment schemes in securities, investment managers, and other entities that manage funds on behalf of the public. This sector also includes retirement funds and members of any exchange that is licensed to trade equities or financial instruments in the country, and as in most developed economies, the financial sector plays a central role in enhancing economic growth and development.

The South African financial sector complies wholeheartedly with this definition, and is thus recognised for its world class benchmarked standards in terms of its skilled workforce, adequate capital resources, infrastructure and technology, as well as operating in a conducive regulatory and supervisory environment.

During the period under discussion, most local banks were well capitalised, with transparency and supervision generally consistent with international best practices. These competencies were a direct consequence of the apartheid legacy, where the imposition of comprehensive economic, cultural, academic, and technical United Nations sanctions contributed to immense resourcefulness and sanctions busting demeanour. They effectively led South Africa's banking sector's relative sophistication, inward focus, and technical advancement, offering elegant banking services and products akin to those found in leading economies. However, banking services were still pampering

the needs of the affluent minority, due to economic disparities, access to education, employment, wealth accumulation and needs, and yet this sector exhibited many attributes of maturing industries which include a variety of factors that impact both supply and demand side factors differently. This was the case with the banking industry during the period of this investigation, and some of the most prevalent elements were:

2.1.1 Slowing growth in buyer demand

These effects generate head to head competition for market share, as competitors search for alternative offerings with which to lure customers from their rivals. As a result, aggressive marketing tactics intensify.

2.1.2 Buyers become sophisticated, and often drive harder bargains

Buyers familiarise themselves with different product offerings from each supplier, effectively eroding brand loyalty. Therefore, greater opportunities for comparing and contrasting diverse new innovations increase their negotiating power, resulting in value for money and better deals.

2.1.3 Competition produces greater emphasis on cost and service

Competitors modify their products to match buyer preferences, with buyer choices seeking more combinations of price and services.

2.1.4 Product innovation

Producers find it almost impossible to create new product features to sustain buyer excitement.

2.1.5 International competition increases

Therefore growth minded companies seek out sales opportunities in foreign markets. They cut operating costs, and exploit the greater product standardisation and diffusion of technological know-how to reduce entry barriers. This approach makes it possible for enterprising foreign companies to become serious market contenders in more countries. These are some of the competitive strategies that were employed by foreign banks during their migration into the South African banking markets.

These factors manifested themselves in the industry through:

- The presence of a few very large institutions.
- Perfect bancassurance and joint ventures as distribution channels that were largely used to access customers, where dedicated branch networks and infrastructure were deployed for mass distribution of products and services.
- Utilised priority suites, personal bankers, multi disciplined relationship managers and highly skilled account executives to provide the financial needs of high value clients, offering them sophisticated financial services, including digital communications via the Internet, telephone and private banking. The industry's increasing reliance on technological innovation⁴, and the speed with which competitors caught up with each other confirmed the pervasiveness of the semi strong form of the efficient market hypothesis⁵ (EMH).⁴ On the other hand, unbounded technological advancements rendered banking a virtual service or product, and ironically, the major metropolitan areas became the net beneficiaries of capital infrastructure, at the expense of rural peripheral areas.

⁴ Innovation is doing new things, whilst creativity is thinking up new things.

⁵ The Efficient Market Hypothesis (EMH) refers to the prices of securities which must fully reflect available information. Investors buying securities in an efficient market expect to obtain an equilibrium rate of return. Therefore, weak form EMH asserts that stock prices already reflect all information contained in the history of past prices. The semi-strong form hypothesis asserts that stock prices already reflect all publicly

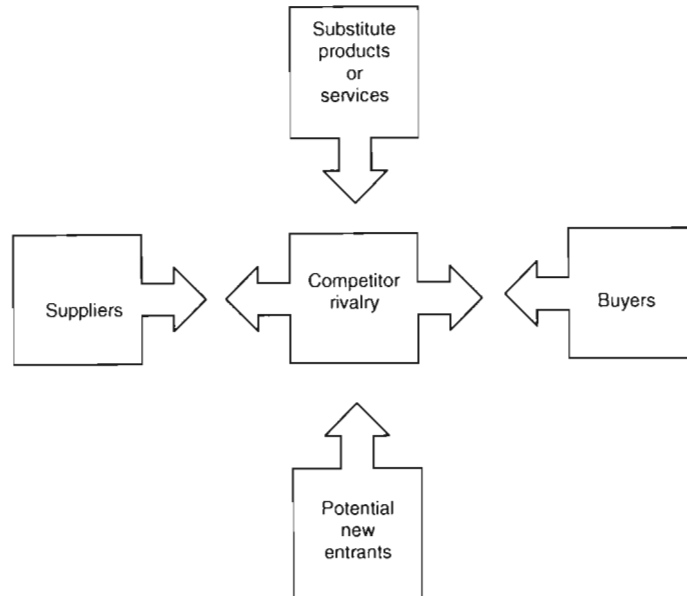
In addition, the industry was divided into wholesale and retail banking streams, with a fairly homogeneous product range at both the wholesale and retail levels. Different financial institutions sought to differentiate themselves on the basis of product innovation and creativity. On the other hand, globalisation provided long sought after solutions, which in this case were imported from one country to another, and demanded from local banks by their clients who had been exposed to them in other international markets. This point also serves to confirm the semi strong EMH form, where information advantages are limited to their time to market, whereafter, competition gains a foothold, thus removing the competitive advantage to the first mover, competitor, or innovator. It is against this background that I will focus on Standard's strategy development and execution, and will apply theoretical information in competitive strategy, and techniques for analysing industries and competitors.

2.2 The five forces analytical tool

This model was selected for its comprehensive analysis in competitive situations, as it enables the researcher to extract exceptional analytical value from complex data sources. My expectation from this brief synopsis is to enunciate the dominant economic characteristics of the South African commercial banking industry, where I intend to employ the five-forces analytical tool for diagnosing the nature and intensity of competitive environmental forces.

available information, whilst the strong form hypothesis asserts that stock prices reflect all relevant information including insider information.

Figure 2.1: The five-forces model for competition: A key analytical tool for diagnosing the competitive environment.



Source: McGraw Hill Irwin; Strategic Management Concepts and Cases; 13th edition; Arthur A. Thompson, Jr. and A.J. Strickland 111; New York. pp. 81.

2.2.1 Competitor rivalry

By March 1999, South Africa had ten foreign controlled banks, with 12 branches and 58 representative offices, competing against four first tier⁶ and 30-second tier banks. Another 29-niche banks (boutiques) specialised in the investment and merchant banking scene, competing against 79-foreign banks. Their scope of competitive rivalry was characterised by intense supply side measures, and skilled labour shortages.¹⁸

Despite this influx of new banking institutions, most of the concentration rested amongst the four local commercial banks that dominated the full spectrum-banking sector (wholesale and retail banking). A further peculiarity of this industry was the ownership of banks by insurance companies and vice versa, where the following banks also controlled 80% of the R100 billion asset

⁶ The big four banks were categorised as the first tier banks, which competed in the retail, corporate and the micro-lending sectors. The second tier niche banks focussed on investment banking opportunities, while the small banks or micro-lenders occupied the third tier banking space.

base, and were from largest to smallest by asset base Standard, ABSA, FirstRand, and Nedbank. Each bank was an amalgamation of:

- Amalgamated Banks of South Africa Ltd. (ABSA Bank) Volkskas Bank, Trust Bank, United and Allied Building Societies, and were owned by Sanlam Insurance company.
- First National Bank and Rand Merchant Bank (FirstRand), which owned Metropolitan Insurance Company.
- Standard owned Liberty Life Insurance Company.
- Nedcor Bank, which was an amalgamation of Nedbank, Syfrets, South African Permanent Building Society and the Cape of Good Hope Bank, were owned by Old Mutual Insurance Company.

Industry profitability was therefore driven largely by profit margins which were approximately 3,5%. These margins were the difference between the SARB ⁷Repo rate, and the base or Prime⁸ lending rate. In the wholesale/corporate banking scene, profitability was determined by the funding structures proposed to clients, front and rear loads, raising fees, risk profiles, yield curves, product innovation, sophistication of the structure, and other unique variables. At best, profit margins were as stated above, and the sector was segmented into three distinct supplier markets, where the four full spectrum banks, followed by 30-second tier niche banks dominated. Third tier community based financial organisations, or alternative financial institutions had all but disappeared from the financial services scene, and did not exist during the period under review.

Due to the efficient sharing of resources particularly in the rural areas where competitor branch representation was lowest, the banking sector had

⁷ South African Reserve Bank's repurchase rate

⁸ The Prime lending rate is the rate commercial banks charge to their best customers

consolidated sufficiently, and thus realised immense scale economies. The physical and fidelity security sector was another area for collaboration, where major banks cooperated successfully in addressing the growing white-collar criminal activity. However, purchasing, manufacturing, transportation, marketing, and advertising were regarded as distinct areas for differentiation and competitive advantage, and became functional areas of great competition, requiring internal retention and protection.

2.2.2 Suppliers of products and services

As noted above, South Africa was already a domestically concentrated market, since the major four commercial banks dominated retail banking, the small and medium enterprise segment, and the commercial/institutional markets respectively. They collectively supplied almost all transactional banking products and services directly, or through associates and agents. This profitable vertical integration effectively crowded out all competition, and indeed fortified their strong competitive positions. Invariably, such lucrative market positions became attractive to global banks, which proceeded to establish South African operations, targeting investment banking and corporate lending activities. During the occasion of this case, there were:

- Four first tier banks.
- 30-second tier competitor banks.
- An unknown number of matrix institutions that straggled the first and second tiers, the second and third tiers respectively.
- An unknown number of third tier community based financial organisations or alternative financial institutions. A representative list of the primary competitors are noted in alphabetical order is as follows:

- African Bank Ltd
- African Merchant Bank
- BOE Bank Ltd
- Citibank N.A.
- Commerzbank AG
- Crédit Agricole Indosuez
- Deutsche Bank AG
- First National Bank of SA Ltd
- Gensec Bank Limited
- Habib Overseas Bank Ltd HBZ Bank Ltd
- ING Barings
- Gensec Bank Limited
- Investec Bank Ltd Mercantile Bank Ltd
- Nedcor Ltd
- Rand Merchant Bank Ltd
- Saambou Bank Ltd
- SA Post Office
- The Standard Bank
- Other banks

2.2.3 Buyers of products and services

The full spectrum South African banks offered both retail and wholesale banking services, a trend that was discernible throughout the world. They then categorised the buyers of banking products and services as the personal and SME's⁹, which consisted of individuals and (SME's). Their key banking requirements were variable term and rate deposits (savings and investment securities), a variety of lending loan products, transactional services (cheque and credit cards), and insurance and assurance products.

⁹ Means a small or medium enterprise (with a turnover ranging from R500, 000 per annum to R20 million per annum) which is wholly owned by Black people.

By contrast, major corporations and institutions with diverse risk profiles preferred a combination of debt and capital instruments, high returns, and low cost investments. They issued and sold debt and equities, transacted mergers and acquisitions, bought and sold securities, and managed diversified investment portfolios. These services were largely provided by the small niche banks, which concentrated on specialised markets, with the full spectrum banks, focusing upon their traditional retail and corporate markets. In the meantime, the foreign banks were targeting investment banking opportunities, and some were teaming up with local Black owned niche merchant banks.

Sadly though, the mainstream banks had elected to ignore potentially poor borrowers, and often heightened entry barriers to traditional banking services through onerous qualifying criteria for opening banking accounts, and through exorbitant banking charges. As a result, almost half of all South Africans could not access mainstream banking services, relying instead on the informal banking sector comprising of loan sharks and stokvels. Hence, micro-lenders identified this competitor gap, and emerged via small time lending firms. They then enabled the majority population to access credit sources, without the usually onerous credit control measures that were associated with mainstream banking.

Buyer bargaining power was complimented by the availability of useful competitor intelligence, including price and service quality differences. The diverse product attributes of rival banks, particularly for the personal and SME markets created most of the competitiveness, and thus first mover advantages enabled the making of informed financial decisions, effectively enhancing buyer bargaining positions.

2.2.4 Potential new entrants

By 2000, 79-foreign banks operated in South Africa, with a total market share of 4.3%. While the foreign banks lured many of the largest corporate clients from the 34-local banks, they showed no interest in entering the retail banking

market where start-up costs were high, especially for establishing branch networks and related infrastructures. Regulatory barriers were equally formidable. As in other developed markets, South African commercial banks were heavily regulated, and required a banking license in order to take deposits. Some of the following inhibiting factors are relevant:

- The very nature of the financial services industry requires heavy regulation to protect investor interests, hence heavy regulation that includes a maximum lending interest rate (usury rate set by the regulators).
- Most large corporations and institutions were multi-banked, and their prudential investment policies restricted their investments and deposits among first and second tier financial institutions only. This situation favoured the four full spectrum banks, which monopolised this market as a consequence.
- An R250m indemnity deposit was required to secure a retail banking licence.
- The cost of establishing a physical retail bank network, and its ancillary capital costs, let alone working capital, fidelity, other risk mitigation and management systems were prohibitive.
- Access to properly qualified and experienced labour was nigh impossible, as training, development, and staff retention costs were also formidable.

2.2.5 Substitute products or services

Given these challenges, it was almost impossible for new local banks to emerge and compete in this space. This opinion is also confirmed by the absence of foreign banks in this competitive sector. Therefore, substitute products were developed and divided into two distinct segments, the personal

and commercial/institutional markets. I have listed in table 2.2, both traditional and their substitute derivatives for purposes of clarity.

The range of available products was fairly homogeneous across all full spectrum banks, with the exception of structured products and special purpose vehicles, and so were the distribution channels used. Apart from the traditional product range which is described in table 2.2, an exotic product portfolio was used as the key differentiator, with SCMB¹⁰ leading through the following innovative range of derivative instruments¹¹, options (currency, debt and interest rate), swaps, forwards, and financial engineering amongst others. Pricing of front and rear loads, including service fees varied from one institution to another, and was the greatest area of gaining or losing market share. The commercial/institutional market segments were and still are very sophisticated, and price sensitive too. Equally, most if not all are multi-banked, which means that due to the size of their balance sheets, and their complex financial structures, no single bank is large enough or prepared to be 100% exposed to them.

Consequently, they spread their risks amongst numerous banks, and even their primary bankers would syndicate these exposures among their peers, or sell them in the secondary markets to mitigate against concentration risk. Therefore pricing is underpinned by the prime overdraft rate¹², or gilt edged securities¹³. Obviously, pricing would range between the bid and offer spread, thus enable the banks to compete by increasing or decreasing their profit margins, depending on the importance of the client, and the risk appetite for low priced securities. Some pricing is thus fixed for the duration of the security, whilst others would be floating, or a combination of both. Unfortunately, due to the regulation of prices in the formal banking sector, the reserve bank sets a maximum rate that can be levied on certain debt

¹⁰ Standard Corporate Merchant Bank is a division of Standard Bank Ltd.

¹¹ Derived from an underlying security

¹² Interest rate charged to the best customers of a bank

¹³ Government stock or bonds

securities. This maximum interest rate is called the usury rate, which cannot be exceeded on any lending.

On the distribution front, all four competitors relied solely on their branch, agencies, and ATM networks. Account executives, relationship managers, and personal bankers complemented this infrastructure, and looked after high net worth individuals, the commercial, corporate and institutional markets respectively.

Table 2.1: Analysis of existing and substitute banking products

	Market segment	Traditional product range	Substitute products
Retail Markets	i) Personal customers High net worth individuals, categorised as upper class (LSM 9-11) Middle income individuals categorised as affinity class (LSM 7-9)	Basic financial services including - Transactional services, being a first order basic and secure means of storing, accessing, and transferring cash for day-to-day purposes. - Savings and wealth preservation services, being a first order basic and secure means of accumulating funds over time. (E.g. savings a/c's, endowment policies, and mutual funds) Unit trusts - Credit services, being basic access to borrowed funds, particularly for major purchases (e.g. house, car, furniture, education etc).	The personal and SME markets utilise cyberspace solutions as alternatives to the mainstream traditional banking products and services, which include: - Internet banking - Smart cards, and - Telephone Banking -
	The under-banked communities were categorised as lower class (mass-markets) (LSM 1-6)	Core products delivered through the E-plan, debit cards, life insurance, funeral policies, micro-loans, home, and low-income housing loans.	Smart card technologies, low income housing portfolios, cooperation between government and

			banks through the provision of law enforcement and protection of security
	ii) Black Economic Empowerment (BEE) iii) Small and Micro Enterprises (SME's)	<ul style="list-style-type: none"> - BEE ¹⁴ - Insurance services to mitigate the impact of defined first order basic risks. - (E.g. Life insurance, Funeral Insurance, Burial Society, Household insurance, and Medical insurance). 	Securities and government receipts. Collaboration between banks, the government and development agencies, in order to integrate their technologies, and evolve innovative products.
	Medium-sized corporations	Agricultural services, Asset managers, Brokerage firms, Insurance, Linked products, Loans and advances, Wealth creation and preservation Electronic banking, Leasing and finance, Property finance, Specially tailored products, Traditional banking products and services	Debt syndications Derivatives, (Futures, options and Swaps) Bonds (Institutional, Corporate) Financial intermediation, Insurance Securitisations
Wholesale Markets	i) Large corporations ii) Institutional markets iii) All Government tiers iv) State Owned Enterprises	Asset management, Corporate finance, Electronic banking, Financial asset services, International services, Project, Structured and Property finance, Stock broking, Treasury, Debt syndications, Derivative instruments (Futures, options and Swaps), Bonds (Institutional, Corporate, Municipal), Financial intermediation, and Insurance companies	Debt syndications Derivative instruments (Futures, options and Swaps) Bonds (Institutional, Corporate, Municipal) Financial intermediation Insurance companies

Source: Extracted from Standard bank's annual financial statements and market strategy documentation 2002

- The personal market segment consisted of pension fund trustees, fund managers, and financial consultants played a critical role in influencing the flow of funds. Initiatives were therefore developed to enhance their understanding of investments in general, and specifically their participation in targeted investments and BEE transactions.
- The wholesale market segment was dominated by second tier institutions, SCMB being one who pioneered the development of the over-the-counter (OTC) interest rate derivative market in 1991, and has remained at the forefront thereof ever since. SCMB invested heavily in the debt capital markets, and was recognised as a dominant market leader in the ZAR¹⁵ interest rate derivative market. Its market presence and innovation over the last decade has seen derivative instruments expanding into a full suite of substitute products, which have been developed in ZAR, but are also available in USD, EUR, GBP, and JPY¹⁶.
- In addition, swaps and options were also available for equities, gold, base metals, energy and other commodity swaps, options and futures. SCMB also developed an in-house exotic derivative capability, which could replicate and manage the risk of non-standardised risks, or unusual combinations of derivative risk. With the increased globalisation of the South African economy, SCMB found an increasing demand for G7¹⁷ and cross-currency interest rate swaps, and had been managing a cross-currency book since 1994. This capability enabled the bank to offer fast and fine pricing in derivative solutions, which were the predominant innovative alternative banking products and services. Additionally, other niche banks also specialised in the above solutions, but also added to their bouquet of product offering:

¹⁵ ZAR means South African Rand denominated securities.

¹⁶ USD means United States Dollar
 EUR means European Union currency, the Euro
 GBP refers to the British Pound Sterling
 JPY refers to the Japanese Yen

- Tailor-made structured solutions for individual customer requirements, such as the January 1997 innovative establishment of a daily benchmark “fix” for all metals denominated in South African Rand.
- Market making obligations both as primary and secondary dealers, combined with significant bond and interest rate derivatives.
- Daily summary reports, including market commentaries on the latest prices across treasury markets.
- Periodic reports throughout the year, focusing on specific base metals or topics, with price forecasts, short, medium, and long term views on the base metal complex, with recommended alternative strategies.

2.3 Literature review

Mergers and acquisitions are an attractive strategy for strengthening a firm's competitiveness. Mergers allow a company to fill resource gaps or correct competitive deficiencies, as combining operations can result in lower costs, stronger technological skills, more or better competitive capabilities and capacity to expand into new areas. Similarly, they had considered vertical integration, as vertical integration makes sense if it strengthens a company's position via cost reductions, or the creation of differentiation based advantage. It is within this context that the relevant literature will be reviewed.

2.3.1 Offensive and defensive strategies

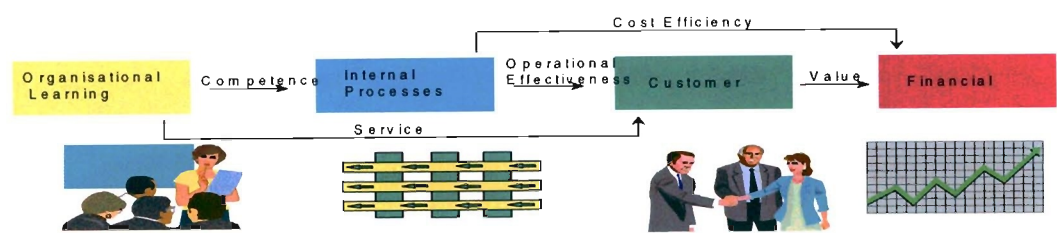
Offensive strategic moves can be used to secure a competitive advantage. They are aimed either at competitor strengths, or at their weaknesses. Additionally, they can involve end runs or grand offensives on many fronts, and can be designed as guerrilla tactics or pre-emptive strikes to target

a market leader. The timing of the strategic move is important. In most cases, first movers sometimes gain strategic advantage, when low cost provider strategy executions work well where the products are the same from seller to seller, buyers are price sensitive, and shop for the lowest price. There must be limited opportunities to achieve product differentiation that are valuable to customers as well. Most buyers use the product in the same way and thus have common user requirements. Buyer's cost of switching from one seller to another are low or even zero.

As a form of self-preservation, defensive strategies protect a company's position. They usually take the form of making moves to put obstacles in the path of would be challengers, and thus fortify the company's present position. Actions that are undertaken to dissuade rivals from even trying to attack include signalling that the resulting battle will be more costly to the challenger.

When corporations innovate, a continuous learning environment occurs, which further enhances organisational competence and creativity, effectively optimising internal processes, reducing operating and processing costs. These benefits invariably flow to the customers through efficient service provision, reduced fee structures, and an effective delivery value chain. Such technical approaches exhibit modern organisational management systems, and are graphically illustrated hereunder.

Figure 2.2: Organisational learning and evaluation process



Source: www.pm-express.com: Performance management system

2.3.2 The balanced scorecard performance management system.

Emerging management philosophies require the integration of strategy formulation through to final evaluation. Gone are the days when companies were organised along line and staff functions. Today's modern organisations demand integrated objectives and strategy formulation processes, where each functional component is integral and contributes equally to the final outcome. They all participate actively in the execution, monitoring, and evaluation thereof, which management ethos thus requires an equally integrated monitoring and measurement system. The balanced scorecard is prominent in this process. What makes it the most preferable is its ability to integrate strategy elements within the corporate structure, enabling management to evaluate its performance in an integrated and objective manner.

In addition, the balanced scorecard management system was selected precisely because of its ability to harness the capacity of an entire organisation, integrating all executions that support the vision, and thus harmonise their measurement in an integrated, functional support

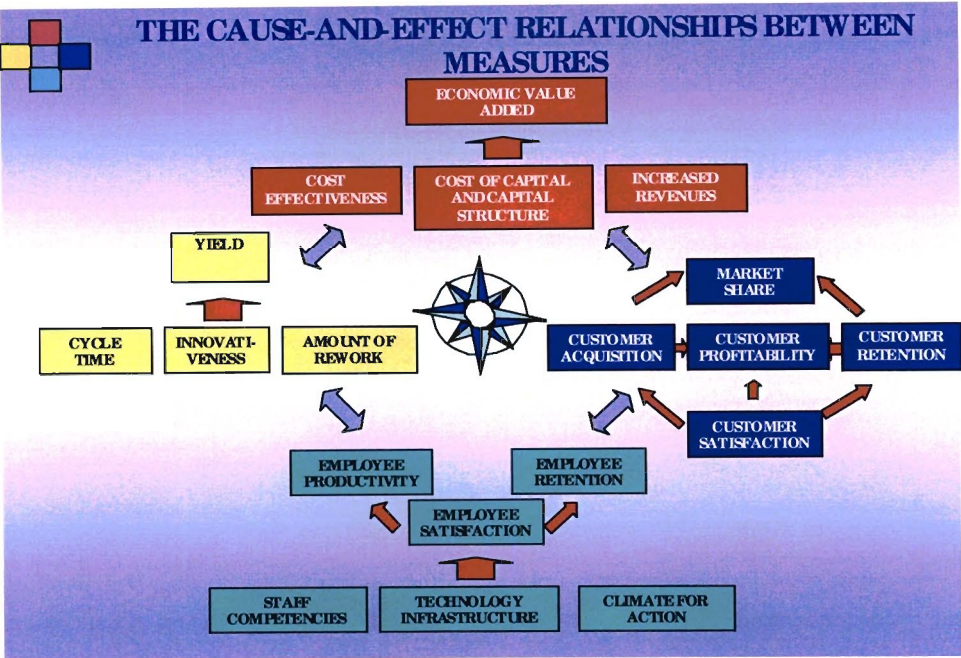
process. Financial and customer objectives are aligned with internal operating excellence, so is innovation, and learning, which then becomes self-reinforcing thereby enhances continuous improvement.

Figure 2.2 depicts this measurement process through an easy to follow cause and effect methodology. Although the measurement elements are sequentially grouped, each process in the value chain has to be completed to give effect to the next activity. The process continues accordingly, and when one element is inconclusive, this triggers an early warning system, effectively forcing corrections to be implemented, long before continuing to the next component, and the reasons for creating a balanced scorecard evaluation system are to:

- Obtain clarity and consensus about strategy
- Achieve strategic execution and focus
- Leadership development
- Strategic intervention
- Educate the organisation
- Set realistic and measurable strategic targets
- Align programs and investments to the strategy
- Build an effective feedback system

Therefore, the balanced scorecard management system should communicate the shared vision, the strategic execution process, and the measurement systems selected for evaluation must be derived from the company's strategy. Therefore designing an efficient balanced scorecard process requires a thorough understanding of the strategic objectives of the company, whereafter, the company derives its critical success factors for achieving those objectives. These critical success factors are then cascaded into key performance indicators.

Figure 2.3: New age leadership strategies



Source: www.pm-express.com: Performance management system

Therefore, the organisation must develop information support systems that will gather and present the measurement data, and implementation plans of how the measurements will be interpreted and applied in the organisation. After developing these management tools and their measurement systems, the next imperative is the ability to communicate them efficiently. Clear communication systems must be formulated to communicate corporate vision, ethos and strategy to all organisational levels. It goes without saying that successful organisations depend on successful execution of strategic objectives. This process must influence people's decision making, focus their energy and effort, and optimise individual performance.

On the other hand, the strategies must be integrated and aligned to formulate a strategic plan, which then cascades throughout the organisation. When such strategies are effectively implemented, agreed-upon values thus become

entrenched as a consequent. A methodology and process that works must be simple and integrated, and one of the greatest challenges of cascading strategy throughout an organisation is its simplicity and presentation in a readily understandable format. At the same time, such simplicity must not detract from the integration with performance management systems. These challenges were thus met in a unique, elegant and practical way by Standard bank, and the methodology employed is discussed as follows:

2.3.3 Efficient and results producing

Whilst the effort required to effectively cascade strategy cannot be underestimated, it is critical, in the interest of time that such effort is applied in an efficient, results producing framework. The delivery process and methodology is both extremely time efficient, and produces measurable results in the three dimensions of individual, team and organisational effectiveness.

2.3.4 Performance measurement

A structured approach to measuring the execution of strategic objectives, consisting of defining performance measures, measuring, collecting and processing performance data and timely delivering it to the interested parties.

2.3.5 Performance management

A set of processes and disciplines designed to ensure that the enterprise accomplishes its strategic objectives. These include organisation design, compensation systems, feedback, evaluation and learning mechanisms, and continuous improvement initiatives. Performance management systems are regarded as a pyramid where, strategic management systems are at the apex of the pyramid, and the financial and operational performance management systems make up the middle layer, and finally, transaction systems underpin the structure.

2.4 Summary: Chapter 2

Nedcor's timing was therefore crucial, as they waited for Standard to evince its weakest position. This was premised on a pre-emptive strike, and its consequent advantages. An aggressive first mover advantage was exploited, which is an area where Nedcor was sufficiently skilled, and where they demonstrated better structural and executional cost drivers. As a result, Nedcor responded by proposing an acquisition offer of one Nedcor share for 5,5 Standard bank shares on 15 November 1999. By this time, there was a foregone conclusion within the financial sector that Standard bank was going to be acquired by Nedcor, whose proposed merger benefits were primarily underpinned by efficiency and empowerment imperatives that accordingly made significant business sense. In Nedcor's view, South African financial markets were over banked, considering that there were 34-local banks, competing within both the retail and wholesale sectors. In addition, these banks were experiencing declining profits, with the industry beginning to exhibit strong signals of a maturing-yet ferociously competitive sector.

Nedcor then assumed that it made economic sense to consolidate the industry, particularly amongst the more stable and successful parties. This alliance would effectively create a local and regional banking champion, which would be benchmarked against international competitors. On the contrary Standard countered and substantiated this argument using the poor historical record of South African banking mergers. In essence, these discussion points ultimately became the fundamental reasons for the subsequent hostility that emerged.

In this chapter, I attempted to unravel the causes of the failed takeover bid through the use of integrated business strategies as the primary analytical tools. Other sources of information were complemented by archived Standard bank documents pertaining to the legal case. As noted above, South Africa's

financial markets were a domestically concentrated market, with oligopolistic tendencies, particularly in the retail-banking scene. It was not long before the entrance of foreign banks, which increased competitiveness. Seemingly, the different markets were clinically segmented into the personal and SME, commercial, and institutional sectors. Equally, the products and services were predominantly homogeneous, and were distributed using similar channels.

For instance, the four full spectrum banks straggled the entire sector, but dominated the upper personal and SME segments, while dabbling in the other two segments as well. The foreign bankers simply targeted niche commercial and corporate clients, and to some extent the institutional markets. The lower end of the market was the Cinderella sector that really had no banking champion specialising in its requirements. It was literally ignored by the mainstream banks, and effectively relied on informal loan sharks whose practices were predominantly unethical. Consequently, the mainstream competitors dictated the product range and mix, which was invariably homogeneous throughout, save for cosmetic modifications here and there. The cost of margin driven was also determined by the importance of the client, and ranged from comparatively low for high volume users, to very high for unsophisticated low volume customers.

Financial institutions are expected to lead through the acquisition of cutting edge of technology, and continuous product innovation. This imperative is influenced by the globalised nature of financial markets, and the virtual banking service, which is a direct consequence of prevailing information technological advances. This situation encouraged supply side monopolies, and limited substitute products for the personal and SME segment. This anomaly was partly attributed to fewer the suppliers, relatively costly delivery mechanisms leading to limited scope for differentiation. However, at the upper personal and commercial end, the options were endless, as the service providers experienced numerous incentives to innovate, in order to retain their existing customers, attract other customers from their competitors, and

through this critical mass, reduce their cost to income ratios, whilst increasing their return on investments.

The analytical theories were then linked to a harmonious measurement system in the balanced scorecard evaluation system, and their efficacy. These theories will be disclosed in subsequent chapters, as detailed reviews will be used to investigate industry history, and to further elaborate on the competitors product and service portfolios, their respective target markets and customers alike.

CHAPTER THREE

3 METHODOLOGY AND DATA COLLECTION

3.1 Introduction

The models developed and applied in chapter two will form the basis of a detailed review of the case study in this chapter. This review will cover the history of Standard bank, their product and services portfolio, target markets, competitors, and customer base. Additionally, the review will investigate the socio-cultural, economic, and political context that existed during the takeover bid, particularly within the financial sector in general, and will seek to understand their (Standard – Nedcor) competitive corporate cultures, and the possible strategic synergies that could have enhanced or inhibited the success of this proposed merger?

3.2 Historical overview

The final proclamation for the abolishment of slavery in the 1600's, and the emancipation of freed slaves by President Thomas Jefferson in the United States of America precipitated the global migration of nations. The African continent was a net beneficiary of new trading partners, given that slavery was no longer acceptable as the most favourable trading commodity. Colonisation of Africa became the new flavour, and the West Coast was the target of the British, the North and East Coasts were annexed by the Arabs, whilst central Africa was targeted by the Portuguese, the Belgians and the British alike. Southern Africa hosted, however grudgingly the Germans in Namibia, the Portuguese in Angola and Mozambique, the British in South Africa and Zimbabwe, and the Dutch also in South Africa.

3.2.1 Political overview

South Africa was to be characterised by the intensification of apartheid policies during the 20th century, which had started in earnest during the early 1900's, and was to peak after the Second World War in 1945.¹⁷ The 1950's and middle 1960's saw increased political mass action, treason trials, the incarceration and exile of political leaders and dissidents, with 1976 to the 1980's producing further mass action that culminated in the democratisation of the South African political scenario in 1994. In the interim, South Africa had become a pariah state, with economic, academic/intellectual and cultural sanctions being imposed by the United Nations, and thus forced the South African economy to become inwardly focussed, insular, and experienced a temporary boom. Economic sanctions led to disinvestments by foreign companies, and local management's then instituted MBO's¹⁸, which gave birth to the First National Bank, formerly Barclays bank London, Standard Bank of South Africa, formerly Standard Chartered Bank of London, and Nedbank the former Netherlands bank. As a result of anti-apartheid pressures and comprehensive United Nations sanctions, many South African companies experienced reduced investment options, and thus resorted to buying stakes in each other, which also buoyed prevailing bancassurance relationships.

Other industry sectors also experienced the emergence of South African companies, which were offshoots of their disinvesting foreign principals. Local insurance companies underwrote most of these acquisitions, leading to a strong liaison between them and local banks. Hence, circular shareholding arrangements became a common feature of South Africa's corporate landscape.

¹⁸ Management buy outs, where local management raised funds from both equity and debt markets, to acquire assets of their divesting principals.

After the dismantling of apartheid, the new government promoted privatisation, market liberalisation, and Black Economic Empowerment (BEE), three distinct economy transformation policies.⁷

The goal of privatisation was to make traditionally state owned enterprises (SOE's) more efficient, attract more foreign investment and technology, and effectively reduce government debt. Equally, market liberalisation sought to establish democratic institutions, a bill of rights, an independent judiciary, a free press, and free political interaction, trade liberalisation and the removal of extensive protection barriers, whilst promoting an outward looking market strategy. These policies were designed to attract foreign direct investments, and increase the competitiveness of domestic companies. Furthermore, Black Economic Empowerment (BEE) initiatives were intended to improve the socio-economic status of Blacks, and included supply push efforts to provide favourable terms for securing Government licenses and procurement contracts. To give effect to this policy, the government passed the Employment Equity Act in 1999, requiring all companies with more than 50-employees to submit annual reports documenting progress plans towards proportional representation by designated groups. A BEE Act was subsequently promulgated in 2003, for the selfsame reasons as articulated in 1999.

3.2.2 Economic sector

During the 20th century, the main pillars of South Africa's economy were still the traditional primary sectors of agriculture, manufacturing, mining and the tertiary sector. Despite its reliance on the primary sectors, South Africa had a well-developed tertiary sector, especially its financial markets which were the largest, and constituted 65% of 1999 GDP.¹ The mood in the South African economy during 1998 was one of cautious optimism, with declining bond yields from October 1998, which then levelled off in the first quarter of 2000. After the financial shocks of 1997-1998, the economy appeared to be on a solid recovery path. Having managed a low positive growth of 0.6% in 1998,

the economy gained further in 1999 by increasing at a nominal 1%. Signs of strong growth were discernible in the fourth quarter, when the economy surged by 3,6% annualised.

At the same time, interest rates began to decline in the middle October 1998, with prime overdraft rates declining from 23% at the end of 1998 to 15,5% by the end of 1999. The inflation outlook remained contained at 5,2% (1999) relative to the 6,9% (1998), with core inflation at 7,9% (1999) 7,5% (1998). Sentiment in the bond market boosted secondary market turnover in 1999, with private consumption spending significantly constrained by the high interest rates regime.

3.2.3 Exchange controls

There were no substantial restrictions on current account transactions, but there were certain restrictions on outward investment by residents. With regard to financial institutions, approval was required from the South African Reserve Bank for a South African resident to borrow from a non-resident, and documentary proof was required before foreign exchange was provided for import payments. Therefore, exporters had to ascertain that the proceeds of their exports were received in South Africa within six-months of shipment, obviously with no restrictions on the repatriation of profits, or on the transfer of dividends or branch profits. Moreover, companies were allowed only on application to make offshore acquisitions within certain country or region specific limits.

3.2.4 Labour and employment

Poor employer/employee relations, the apartheid legacy, political autocracy, collusion between the then government and business bred strong left wing allied trade union federations. The divide and rule apartheid policies were deliberately created to undermine the intellectual development of the Black population as represented in table 3.5, and these policies were efficiently

executed through the provision of poor quality education. They were implemented comprehensively, and effectively restricted Black people to under resourced homeland based tertiary institutions only.

Likewise, the academic subjects and modules offered at these homeland institutions were overwhelmingly skewed towards the humanities, religious instruction, languages, and educational faculties. Mathematics, science, commerce, business, and technology subjects were not offered, resulting in these institutions producing graduates that were largely incompetent for the requirements of the broader economy. Racism also remained a factor, where Whites were paid twice as much as Blacks for undertaking the same occupations with compatible skills and experience. As a result, unemployment and abject poverty levels among the African population reached alarming proportions, with around 40% unemployed. These policies were indirectly responsible for the emergence of hostile labour federations, which affiliated to the ILO¹⁹, and essentially mobilised their resources to address these glaring socio-economic disparities.

This dichotomy contributed to the twin evils of economic development, in the form of high unemployment on the one hand, coupled with an insatiable demand for skilled labour on the other. Besides unemployment, the labour scene was characterised by adversarial trade union relationships, owing to the polarisation of the workplace. Incidentally, this was the only outlet for political expression during the repression. However, as democratisation took effect in the mid 1990's, the CCMA was established to create a co-operative climate through conciliation and mediation in labour disputes.

3.2.5 Statistical overview ¹²

According to the final results of the 1996 census, Statistics South Africa reported that the population stood at 40,6 million, and was distributed racially as follows:

Table 3.1: Racial distribution of national population

Race	Number	Proportion of total %	Proportion of total % <15-years
African	31 127 631	76,7	36
Coloured	3 600 466	8,9	
Indian/Asian	1 045 596	2,6	
White	4 434 697	10,9	21
Unspecified / other	375 204	0,9	
Total	40 583 573	100,00%	+/-34%

Source: South African Institute of Race Relations; 1999 – 2000; South Africa Survey; Millennium edition; SAIRR; Johannesburg.

Real per capita GDP R22, 169 (1997) (\$3,167), and of this 40,6 million

- 6,5% or 2,7 million were disabled, another
- 41% had visual disabilities, and
- 34% were under 15-years of age.

Table 3.2: Gender distribution of national population

Total population	Men	Women	Average Life expectancy
40,6 million	48%	52%	55

Source: South African Institute of Race Relations; 1999 – 2000; South Africa Survey; Millennium edition; SAIRR; Johannesburg.

Table 3.3: Population distribution older than 65-years

Total population	Total > 65 years	Women >65	Men >65
40,6 million	5%	6%	4%

Source: South African Institute of Race Relations; 1999 – 2000; South Africa Survey; Millennium edition; SAIRR; Johannesburg.

3.2.6 Education

Table 3.4: Education levels of people 20-years and older: 1996

No Schooling	Some Primary	Some Secondary	Grade 12	Higher	Unspecifie d Other	Total
4 066 187	5 084 189	7 130 121	3 458 434	1 294 720	1 112 568	22 146 220
18%	23%	32%	15.6%	5.8%	5%	100,00%

Source: South African Institute of Race Relations; 1999 – 2000; South Africa Survey; Millennium edition; SAIRR; Johannesburg.

This table indicates that:

- 18% of the population under 20-years had no education
- 23% had some primary education
- 32% had some secondary education
- 16% had completed grade 12
- 6% had some form of post matriculation education

Table 3.5: Education levels of people 20-years and older by race: 1996

	African %	Coloured %	Indian/Asian %	White %	Total %
Higher	3,0	4,3	10,0	24,1	6,2
Grade 12	12,1	12,3	30,4	40,7	16,4
Some Secondary	32,8	42,5	40,0	32,8	33,9
Some/complete primary	27,8	30,7	13,1	1,2	24,2
None	24,3	10,2	6,5	1,2	19,3

Source: South African Institute of Race Relations; 1999 – 2000; South Africa Survey; Millennium edition; SAIRR; Johannesburg.

The above table indicates that almost a quarter of Africans had no education, compared to 10% of Coloureds, 7% Indians and 1% Whites.

Table 3.6: Illiterate population aged 20-years and older: 1996

Male	Female	Total	Proportion of total population %
3 373 305	4 205 297	7 578 602	36

Source: Education Statistics of South Africa; Survey 1999 – 2000. Millennium edition; South African Institute of Race relations

In Addition, 36% or 7,6 million of the total population aged 20-years or older were illiterate²⁰. Comparatively, more women 55% than men 45% were illiterate.

²⁰ Illiteracy was defined as fewer than seven years of formal schooling obtained.

Table 3.7: Senior certificate results: 1979-1998

Year	Total number of candidates	Candidates passed	Proportion passed %	Candidates who obtained Matric exemption	Matric exemption Proportion %
1979	85 276	74 313	87	32 460	38
1998	552 862	272 501	49	69 861	13

Source: South African Institute of Race Relations; 1999 – 2000; South Africa Survey; Millennium edition; SAIRR; Johannesburg.

Between 1979 and 1998 senior certificate examination candidates increased by 548%. The number passing increased by 267%, while the number obtaining matriculation exemption increased by 115%.

Table 3.8: Racial breakdown of total degrees and certificates awarded by tertiary institutions

Race	% 1996	% 1995
African	44	35
White	45	53

Source: South African Institute of Race Relations; 1999 – 2000; South Africa Survey; Millennium edition; SAIRR; Johannesburg.

Total number of degrees, diplomas, and certificates awarded by universities and technikons increased by 29% between 1992-1996, and were distributed as represented above. Additionally, the number of students who received loans from the Tertiary Education Fund of South Africa (TEFSA) increased by 777% since 1991, while the total amount allocated to assist needy students increased by 1496%. 26% of the 361 000 teachers were considered unqualified or under-qualified, having less than a senior certificate and a three year teaching qualification. The content of these tables illustrates the poor academic conditions that prevailed prior to democratisation.

3.3 The banking industry in general ³

In most economies the financial sector plays a central role in enhancing growth and development. South Africa was no exception, and its financial sector was recognised for its world-class status. This recognition affirmed South Africa's skilled workforce, its adequate capital resources, infrastructure and technology, and the conducive operating, regulatory and supervisory environment. Specific actions were thus expected from the sector, which related to ensuring the provision of basic financial services including:

- Sustainable and affordable banking services, contractual savings schemes, credit for poor households, access to capital for small and micro enterprises.
- The development of sustainable institutions to serve poor communities.
- Support for the establishment of third tier community based financial organisations or alternative financial institutions.
- Efficient delivery of financial services, which enhance the accumulation of savings, directing them to developmental purposes.

3.4 The Standard Bank of South Africa Ltd. ¹

The Standard bank was established during the boom years of the 1850's in Port Elizabeth. At the time, there was great prominence in the economy of the then Cape colony, but merchants felt severely the want of capital resources. In 1857, the "Standard bank of Port Elizabeth" was proposed by leading local merchants, and in April 1860; a prospectus of the Standard bank of British South Africa was issued with a proposed capital of 1,500, 000 Pound Sterling.

This was followed on 13 October 1862 by the signing of the Memorandum of Association for the Standard bank of British South Africa Ltd. The bank was duly registered on 15 October 1862, with a nominal capital of one million pounds, and commenced business in Port Elizabeth on 16 January 1863. It grew rapidly and opened branches in Durban (June), and Bloemfontein (October) 1863. At the time, two older local competitor banks were already in operation, and the sixties proved to be a period of intense depression, as reported by the bank manager in June 30 1864.¹

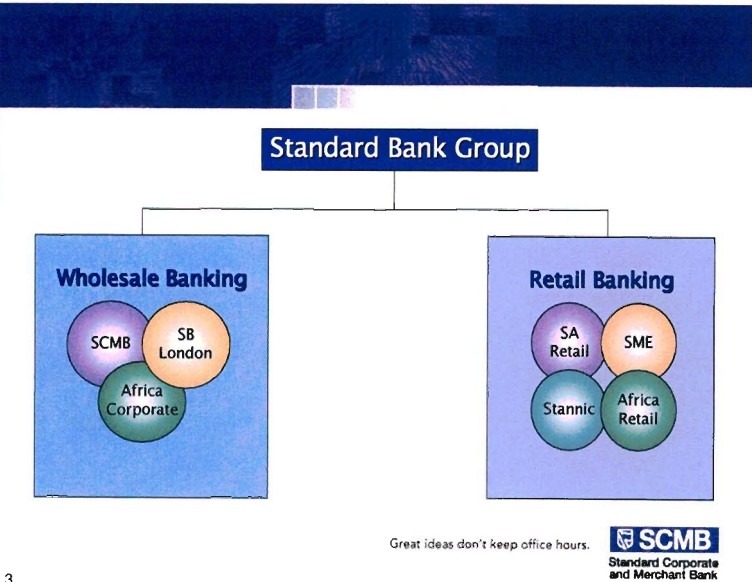
Following the slump of the 1860's, the 1870's were characterised by a massive economic boom that was fuelled by diamond mining, wool exports and capital imports for railway construction. In the second half of the decade though, the boom faded, culminating in a deep depression of the early 1880's. As that depression eased, gold mining emerged as the new locomotive for the economy of the sub-continent, leading to a tremendous boom in the latter 1880's. That boom was in turn succeeded by a slump in 1890, from which the economy made a slow recovery. Further progress was inhibited in the middle to late 1890's by a series of agricultural calamities such as droughts, cattle disease, and locusts. Increasing tensions under these difficult circumstances ultimately produced war between Britain and the Boer republics in 1899, and it was only in 1902 that peace was restored. The fortunes of Standard varied considerably over the last third quarter of the 19th century, though the bank remained the largest financial institution in South Africa at the time.

The London-based Standard Chartered, which eventually became a global giant specialising in emerging markets banking, was Standard's owner, although the bank was managed out of South Africa. By 1900, the bank had 100-branches throughout Southern Africa, and had become the area's most stable and profitable bank, a position it maintained until the early 1990's. Its centenary milestones were celebrated in 1982, and included the launch of its image enhancing campaign "there's a bank that understands," and the bank took occupation of its new administration building, the Super Block at six Simmonds Street, Johannesburg. Simultaneously, the Society of Worldwide

Interbank Financial Telecommunication (SWIFT) was introduced in South Africa. Standard and 17-other local banks were amongst the first to be linked to SWIFT.

In figure 3.1 hereunder, I illustrate the structural organisation of Standard Bank, which clearly shows the differentiated businesses of its wholesale merchant banking activities from its retail personal segments. In addition, the different business components comprising each stream are reflected therein.

Figure 3.1: Standard bank's group profile



3

Source: Formulated from internal Standard bank reports

Financial difficulties, and the growing momentum of the anti-apartheid movement pressurised Standard Chartered to sell its 40% interest in the bank in 1987. Liberty Life bought the bulk of these shares, at which time, Liberty was the third-largest insurance company in the country, and was also partly owned by Standard. Depicted hereunder is the representational strength of Standard bank outside of the African continent.

Figure 3.2: Standard bank's international presence



Source: Formulated from internal Standard bank reports

This figure merely indicates the global nature of Standard bank, and the extent of its physical location on the world stage.

3.4.1 Channel segmentation of the personal market

Standard bank segmented the personal market into three-areas, as the upper class, middle-income group, and the mass market as denoted in table 2.2. Different delivery channels were thus created to differentiate and target these markets separately. For instance, the upper income retail customers were serviced through priority suites and dedicated personal bankers, which are separate delivery channels that are located outside branches, and where customers would receive dedicated personalised service. The middle-income groups were serviced within the branch infrastructure, whilst mass-market customers transacted through E-Plan centres. These were off site centres, which were staffed by officials who could converse in the different indigenous languages that occur in the country. Customers were then addressed in any of these preferred languages, and were thus empowered with the mechanics of operating ATM's in such pleasant circumstances. Because there was no back

office in this delivery channel, ATM technology significantly reduced transactions costs.

3.5 Nedcor bank

The Nedcor banking Group was founded in 1888 as the Netherlands Bank of South Africa (NBSA). When Germany occupied the Netherlands during World War II, all of the bank's Dutch assets were temporarily transferred to South Africa, and after the war, the NBSA exercised increasing independence from its parent bank, finally severing all ties with the mother country in 1976. In the post-war period, the NBSA's market position within the South African banking scene improved from a 3% share in 1945 to a 10% to 15% share by the middle 1970s, firmly establishing Nedcor among the country's top four commercial banks. Nedcor was regarded as a wholesale businessman's bank rather than a retail bank during this period. It traditionally had a smaller branch network than the other three banks, focusing more on foreign trade and industrial financing.

However, as a result of taking a massive position in the gilt market in 1986, Nedcor teetered on the verge of bankruptcy, but was rescued in a government-arranged bailout by Old Mutual, which acquired a controlling interest (54%) in the bank. Nedcor continued its slow recovery in the late 1980's, but remained less profitable than the market-leading banks. In 1989, Nedcor acquired South African Permanent Building Society (SA Perm), and integrated SA Perm into its retail network. By then, Nedcor had acquired an investment bank Syfrets, and combined the retail infrastructure of Nedbank, SA Perm, and the Cape of Good Hope Bank to serve its lower income customer base. After briefly flirting with bankruptcy, Nedcor emerged during the 1990's as South Africa's most profitable bank. Similarly, prevailing market interpretations regarded Nedcor's management team as vastly superior in terms of articulating and executing a clear strategic vision for their bank.

3.5.1 Nedcor's strategic focus

During the 1990's, Nedcor returned to its earlier roots as a bank for businesses and wealthy individuals. This back to your roots approach was ascribed partly to its earlier brush with bankruptcy, and its original strategy, which was based on risk avoidance. Nedcor was also obsessed with improving its cost to income ratio, and were acutely aware of increasing operating costs that arose from serving smaller accounts. By this time, most of Nedcor's profits were derived from serving the upper end of the savings and investing market, and therefore, having the right customers was more important than having many customers. Nedcor then decided to focus on corporate lending, mortgages, and high-income individuals, offering better service rather than better pricing. As a consequence, Nedcor divided and rebranded SA Perm into two separate banks, namely the Permanent and Peoples bank. Permanent was dedicated to serving middle-income retail customers, and Peoples bank, the low-end mass market. Through this transition, Nedcor lost approximately 800,000 of its four million retail accounts due to the following factors:¹⁹

- Permanent bank required a minimum account balance of R5, 000 thus forcing the majority of Permanent bank customers to switch to Peoples bank, or alternatively to competitor banks.
- Nedcor divided up Permanent bank's branch network unequally, giving Peoples bank just 30% of the branches. People's bank customers were deprived of convenient branch access, and faced penalty bank charges for using Permanent bank branch networks.
- Nedcor's obsession with becoming the industry's lowest cost producer resulted in exorbitant increases in their transaction fees at all its banking brands, which thus became marginally higher than industry benchmarks, including for the high-end customer segments. For example, they imposed a monthly administrative fee of R15 per month on all accounts, an attempt

aimed at improving their cost to income ratio. Nedcor then invested heavily in technological upgrades, to apply its effort of becoming a digital bank, with low-cost, largely automated branches. It successfully migrated to a Microsoft platform in 1993, which unified its entire branch network. During the scale-back at Permanent, the bank used its marketing savvy with advertising to maintain its reputation as a "bank of the people," even though it was trying to move up-market.

3.6 Continental strategies of South African banks into the SADC²¹ region⁵

South African banks were encouraged to extend their operations into Africa, in order to service their clients who were migrating into the region. These banks entered the SADC by acquiring stakes in existing banks, or by acquiring an entire local bank.

ABSA and Nedcor had ventured into SADC countries by acquiring stakes in locally operating banks. This form of investment gained them precious time to get acquainted with domestic conditions of the host country, and provided them their first mover advantages of lowering market leader and innovator risks. As a result, most South African banks that had ventured into the region were achieving phenomenal returns from these investments, and gainfully deployed the experience attained in South Africa, a market that was considerably similar in more ways to those in other African countries. Competition was tough though, particularly from the major global players such as Standard Chartered and Barclays of the UK, and Citigroup from the USA who were operating in the same markets.

²¹ Southern African Development Communities (SADC)

3.6.1 Amalgamated banks of South Africa (ABSA).

ABSA's SADC strategy was to acquire one bank in a different country each year for the next few years. Their first African investment was made in 1998, through the acquisition of a 26% interest in the Commercial Bank of Zimbabwe. In 1990, they subsequently bought 36% equity in the Windhoek bank of Namibia, and a 55% stake in Tanzania's largest bank, the National Bank of Commerce (NBC). Since August 1999, ABSA had been providing management services to this bank on behalf of the Tanzanian government.

3.6.2 First National bank (FNB).

FNB had extended its banking services outside South Africa, and had established itself as a major player in Namibia, Botswana, and Swaziland. These FNB subsidiaries employed nearly 2,000 people, mainly local nationals, and contributed about 10% of group profits. FNB entered Swaziland in 1995, when it acquired Meridian BIAO Bank of Swaziland.

3.6.3 Investec bank

In June 1996, Investec opened Banco Africano de Investimentos to support its South African operations in Angola. A Mauritian bank, and the Banque Privee Edmond de Rothschild followed this investment in 1997.

3.6.4 Nedcor bank

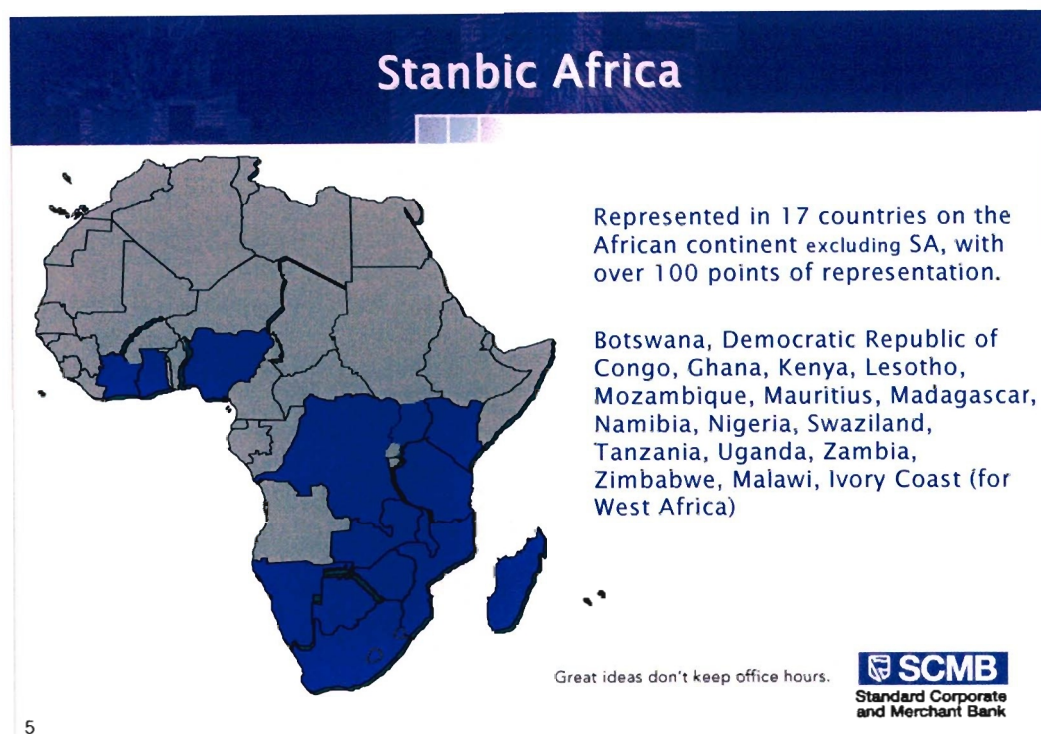
Nedcor had been active in seven SADC countries. In 1994, they obtained a 47.3% shareholding in the Commercial Bank of Namibia, and had held 29.3% in the Merchant Bank of Central Africa in Zimbabwe since 1993. This was followed by the acquisition of a 20.1% stake in the State Bank of Mauritius, which effectively made Nedcor the second largest shareholder after the government. In July 1999, Nedcor acquired a stake in the Finance

Corporation of Malawi, which has since become their wholly owned foreign subsidiary.

3.7 Standard bank (Stanbic Africa Group).

Standard first expanded into sub-Saharan Africa by focusing on trade finance, whilst servicing South African corporate clients as they ventured north. This demand-pull strategy was based on the bank's South African customers, who were diversifying into continental markets, and as such led this migration. Because of their confidence in the capabilities of the bank, these clients initiated discussions of SADC specific opportunities that the bank could capitalise upon, given its asset and capacity base. It was precisely this pent up demand for debt capital that initiated the bank's forays into Africa, and subsequently fuelled its diversification into retail banking operations.

Standard's strategy had been mixed initially, as it acquired stakes in some local banks, as well as entire banks in Tanzania and Lesotho. Its movement into Africa began in 1995 with acquisitions in Mozambique, Tanzania, and Lesotho. In Mozambique, Standard acquired a 40.72% stake in Banco Standard Totta, and in Tanzania, the Meridien BIAO group, and renamed it Standard Bank Tanzania. It then acquired Barclays Bank of Lesotho, and later renamed it Standard Bank Lesotho, and extended its presence there in 1999 by taking a 20% stake in the Bank of Lesotho, which increased to 70% after a three-month restructuring exercise. Standard bank has since established a substantial footprint in Africa, where it conducts its business trades as Stanbic Africa Group. This trading name was deliberately chosen to avoid confusion with Standard's former owner and current competitor in Africa, Standard Chartered Bank. Since then, Stanbic Africa has invested R391-million since 1995 in 17-African countries outside South Africa, and employs more than 5,500 people.

Figure 3.3: Stanbic Africa Group-Branch Infrastructure¹³

Source: Formulated from internal Standard bank reports

Standard's continental, and sub-Saharan representation is depicted in figure 3.3 above, and in 1997, Standard injected R46m in new equity capital into Stanbic Zimbabwe, thus securing full control of its Zimbabwean subsidiary. Similarly in August 1998, an R27m investment of new equity capital into Stanbic Zambia transformed the bank into a wholly owned subsidiary. By 1998, Stanbic Africa held a 65% share in Barclays Bank of Swaziland. This stake was bought from Barclays Bank of London, a deal that precipitated a merger of Standard and Barclays' operations in Swaziland, with the merged entity now operating as Stanbic Swaziland.

3.8 Nedcor's aggressive first mover offensive strategy

As Nedcor consolidated its competitive position, it was covertly seeking a credible acquisition with acceptable retail and wholesale banking competence, in order to actualise its growth objectives. The following weaknesses made Standard bank the ideal takeover target.

- By August 1999, Liberty Life held 10% of Standard bank shares. In the past, Standard had been able to get shareholder approval for its actions by bringing its two largest shareholders together, namely Liberty and Old Mutual, which jointly held over 60% of Standard bank. After Liberty Life unbundled its Standard bank shareholding, Old Mutual became the largest shareholder (at 21%) and no other shareholder held more than 10%. As the market became flooded with Standard Bank shares, its price dropped, and earnings growth dipped to 8% after years of +20% increases.
- Standard's share price had already been damaged by a number of bad credit decisions between 1994 and 1998.²⁰ The most significant thereof are:
 - The loss of R150m after Russia defaulted on its debt in 1998.²¹
 - The bankruptcy of Pepsi Cola's South African franchise holder.
 - The issuance of a credit card on behalf of Woolworth's, and
 - The liquidation of a number of South African businesses.

In addition, Standard's global growth strategies were regarded as responsible for the thin dispersal of management capability over wide diverse markets, which culminated in the lack of a composite strategic focus. One top Standard executive conceded that if the bank's best personnel had been concentrated

in the country rather than in London or other parts of Africa, many of these bad debts would have been avoided.

- In certain financial quarters, Standard's management was regarded as having lost the confidence of its shareholders. They were perceived as arrogant, insular, and unable to articulate what Standard stood for. Equally, their attitude was perceived as not really caring whether the performance of the stock was lagging that of its peer group or not. Nedcor then seized upon this opportunity, and exercised its first mover strategy, by which time, Nedcor already held 26.1% of Standard's issued share capital through its associates, as follows.

Table 3.9: Old Mutual's shareholding in Standard bank

Old Mutual policyholders and shareholders funds	21,4%
Mutual and Federal	0,5%
NIB asset Management	1,4%
Old Mutual administered pension funds	0,5%
Old Mutual asset Management	2,3%
Total	26,1%

Source: Formulated from internal Standard bank reports

Nedcor intended to combine the two businesses, and as such, create a fundamentally better banking group for the benefit of South Africa and all its stakeholders. They argued that the proposed transaction was not going to prevent or lessen competition substantially, since the relevant market in which the parties conduct business is the financial services industry in general, which is not limited to the business of retail banking only. Part of this rationale was based on substantial public interest grounds, and that the merged entity will potentially enhance the ability to provide credit to the under banked mass market, it will result in the creation of a regional bank with sufficient scale to enhance trade across South Africa, whilst also contributing to the enhancement of SADC and continent wide banking. This capacity will result in

sufficient Black Economic Empowerment opportunities. It is against this background that Nedcor decided to implement its takeover strategy.

3.9 Nedcor's anticipated merger benefits

In 1999, Nedcor presented its initial merger proposal of the two banks to the board of Standard, and suggested that the potential greater scale arising from a merger would achieve the following five main benefits:

- The merged bank would be able to cut costs, as it could combine administrative back and head office operations, reduce overlapping branches, and reap the benefits of sharing future technology such as smart cards and Internet banking. Nedcor estimated that it could trim R1.9billion per year after tax by 2002 from the merged company, and could bring the merged bank's cost to income ratio below 50%.
- After some initial revenue losses, the merger would lead to long-run revenue growth. The initial revenue losses would result as the merged bank exited certain high-risk markets, and as corporate clients redistributed their banking portfolios. Likewise, Nedcor believed that revenue would increase in the longer term as the group expanded into new markets, including the historically under banked mass markets.
- The merger would improve the financial health of the banks' by creating a stronger capital structure, greater free cash flow, and a reduced risk profile.
- A merger would improve the efficiency of South Africa's banking sector, which Nedcor characterised as over-banked, and that the merged bank would be better positioned to compete internationally. There was an urgent need for consolidation of the excess banking capacity, which had been aggravated by the many new foreign and local arrivals on the banking

scene since 1994. Nedcor asserted therefore that they were well placed to meet the challenges outlined above, and believed however that their shareholders, Standard bank shareholders, and the country as a whole would further benefit from the creation of a highly efficient and well capitalised bank of international scale. Nedcor then structured their bid as embodied in the announcements made on 15 November 1999, which entailed a three-stage process as follows:

- The first stage was a bid for 50, 1% of Standard's capital, the partial offer.
- The second was the reconstitution of Standard's, and thereafter Liberty Life's boards.
- Finally, there would be a scheme of arrangement proposed by Standard bank for the acquisition of the remaining shareholding not already held by Old Mutual/ Nedcor, resulting in the expropriation of any dissenting minorities as usually happens under a scheme of arrangement process.

On the other hand, it was not feasible to mount a take-over offer for over 90% of Standard's capital, since Liberty still held more than 10%, and Liblife Controlling Corporation, a Standard bank subsidiary another 7%. Nor was it possible to proceed under a scheme of arrangement, as that could only happen if Standard bank was a willing party. A combination of the two procedures may have done the trick though, as once control of Standard and Liberty were obtained, the 17% shareholders that would otherwise vote against the bid could easily be converted into votes in favour. Nevertheless this was a questionable structure. Standard bank challenged it in all its official announcements, and stood ready to contest its legality before the courts.

Another crucial variable was the extent to which Old Mutual and Nedcor were to be regarded as concert parties for the purpose of the SRP Code²². On any common sense reading of the matter they were, but the law does not always embody everyone's idea of common sense. Instead they offered to do a stock swap that was based on then current market prices of about six Standard shares for each Nedcor share. Nedcor argued that market prices were a fair indicator of value, because both banks had recently gone on road shows, and had placed substantially useful information at the disposal of market analysts.

3.10 Standard bank's defensive strategy

Standard had always maintained that a merger with Nedcor could not be justified as being in the public interest, and that a successful defence could be mounted on those grounds. The failed Canadian bank mergers influenced this opinion. Only a year earlier, two of the major four Canadian banks decided to merge, stating as their motivation that it would increase their ability to compete with their powerful American rivals south of the border. This merger, which was a friendly one, prompted the other two of the four majors to rise to the challenge, and they also decided to merge. These two merger applications were then submitted to the Canadian Competition Bureau that undertook a very thorough investigation of the Canadian banking industry. This authority eventually rejected both mergers, because the mergers would have grossly undermined domestic banking competition, which far outweighed their strategy of creating national champions.

This Canadian precedent was thus applicable to the SA banking situation too, and it was clear that Standard would have to argue the public interest questions thoroughly, and even resort to the regulators as the umpires in need.²² However, it was wisely decided to focus Standard's strategic defence

²² Section 440B of the Companies Act, makes provision for a Securities Regulation Panel to be consulted in such transactions

on the commercial issues, to play the regulatory card further down the line, and hence focus the rejection of Nedcor's proposals on the commercial issues, and on the significant risks involved in implementing the proposed merger. Flowing from that stance, Standard held international road shows to the investment community, and made the following groundbreaking announcements:

- Leadership change
- A stand-alone case, and
- New management team

Parallel with this, the legal strategy of defending the bid was evolving.²³ The bid as announced on 15 November 1999 stated that first; approval under the Banks Act would be sought and obtained before the offer was sent out. Nedcor followed its announcement by submitting its application for approval to the Registrar of Banks as required. On the other hand, at Standard's initial meeting with the Competition Commission, they were informed that the Commission did not have substantive jurisdiction to rule on the bid, and would only fulfil a consultative role in terms of the Banks Act. Standard disputed that position and, consistent with its stance, made a full filing with them in terms of the requirements of the Act, and duly paid their substantial R500, 000 fee.²⁴

3.10.1 Why the merger should be disallowed²⁵

Standard had countered that unprecedented levels of market dominance and concentration, which were contrary to those permitted in comparable jurisdictions would result. Systemic risks would be increased by the hostile nature of the transaction, with potentially negative implications for South Africa's sovereign ratings. There would be a concentration of ownership of financial services in the hands of Old Mutual and its offshore investors, and the effective competitor to Nedcor and Old Mutual through the Standard and

Liberty alliance would be destroyed, increasing unemployment in a profitable industry.

On the technological front, the merger would reduce innovation as a result of inward focus and decreased competition for South Africa's strongest banks. Standard's mass-market strategy may also be eroded,²⁶ and equally, South Africa's potential to produce an acceptable counter-party to facilitate international trade could be destabilised.

3.10.2 No synergies

First, Standard questioned Nedcor's estimates of the potential synergies, and argued that most bank mergers did not produce their predicted returns. In support of this, they cited a study for the impact of globalisation on the financial services industry, which demonstrated that this sector had no geographic boundaries. All banks were effectively in competition with one another, and South African banks effectively compete with other financial service providers worldwide.

3.10.3 Consolidation trends

South Africa was already a domestically concentrated market, since the large four banks dominated the retail market, the small and medium enterprise (SME) market, and the commercial and institutional markets respectively. Therefore, a Eurocentric style regional expansion was not relevant to the South African banking industry, asserted Standard, and also disagreed with the notion of creating a combined bank that would ultimately have a market share that is well in excess of those permitted in other countries such as Canada and Australia. In essence, the combined bank would have market shares of 52% in retail cash, cheque, and transmission accounts, 40% in mortgages, and 54% in credit cards. For that reason, these higher market concentration levels would encourage the development of oligopolistic

practices, higher than normal consumer prices, and reduced customer service.

3.10.4 Proposed national champion²⁷

Nedcor's "national champion" argument was emotive and illogical, since the Nedcor/Standard combination would rank 144th in the world in terms of the 1998 total assets. Furthermore, Nedcor contributed nothing to enhance Standard's existing global profile. Besides, Standard challenged Nedcor's contention that the merged bank would be internationally competitive, and also argued that a South African bank was in a weak position to challenge the large international banks, because its capital was denominated in a softer currency, the South African Rand. A bank with Rand-based assets, however large, was unlikely to compete effectively with international banks whose assets were denominated in the world's more stable and liquid currencies. Any sustained attempt to compete with these banks in mainstream banking outside Africa would undermine its sustainability, and thus increase the risk of failure for the merged entity.

3.10.5 Bank mergers can and do fail

A Deloitte and Touche research report on consolidations by global banks concluded that most mergers simply have not delivered the benefits that were promised, and proceeded to highlight three key reasons for this failure, which were:

- Unanticipated difficulties with the integration of information technology in IT integration.
- Mergers failed to draw on the strengths of each organisation, and
- Mergers ignored the impact on employees.

3.10.6 Hostility exacerbates merger risks

By its very nature, hostility substantially increases execution risks, and whilst estimates of synergy benefits tend to be realistic, revenue losses tend to be under estimated. Using this information, Standard questioned Nedcor's estimates of the potential synergies, arguing that most bank mergers did not produce the predicted returns. This was the case in an analysis of US bank profitability as measured by return on assets between 1988 and 1997. The results showed that the 10-largest banks were in fact the least profitable over this period. In addition, the U.S. Federal Reserve bank found that 50% of mergers by large banks eroded returns, while only 17% yielded positive returns. In support thereof, they cited a study of the Wells Fargo and First Interstate as the only relevant case study with sufficient history to analyse. Unfortunately, this merged entity collapsed and was a dismal failure. Another recent example was the Netherlands BNP Paribas, a hostile takeover that is reported to have already experienced business problems.

3.10.7 Similar transactions were prevented in other jurisdictions

In 1998, Canada rejected two proposed mergers amongst that country's top four banks, whereas Australia rejected all banking mergers among its top four banks.

3.10.8 Vastly increased systemic risks²⁸

In developed economies, banking regulators determined that no bank was large enough such that its failure could threaten the entire economy and taxpayers alike. In the U.S. for example, no bank could hold more than 10% of total banking deposits. In Europe, the limit is 25%. The Nedcor-Standard merged bank would hold 37% of total banking deposits. As luck would have it, the hostility of this merger added to the systemic risks, where Standard's managers had threatened a mass exodus if Nedcor took over. "If we all

walked out the day they walked in, the systemic risks would be huge," said one Standard executive.

In rejecting a similar transaction, the Canadian regulatory authorities concluded that too few banks would lead to too much concentration, where the four large domestic clearing banks will be reduced to three. Therefore approval of the Standard/Nedcor bank and the creation of an enlarged entity could leave the remaining two large competitors with no option but to merge as well, and their combined market shares could be unsustainably high, a reason advanced by Canada for declining similar merger proposals. What's more, the dependence of South Africa on one bank through the Standard/Nedcor combination that would invariably become the dominant counter-party across all banking products could threaten the South African economy, with disastrous consequences. Systemic risks would also increase if Nedcor held less than 100% of Standard. It was imperative therefore that Nedcor guaranteed its acquisition of 100% of Standard or nothing, as it would be impossible to achieve the desired benefits if minority shareholders remained within Standard bank.

Another compelling argument against this bank merger was the extremely high implementation risks, especially for South Africa, where skills and management competence were in dire short supply. Nedcor was, after all much smaller than Standard, and could not hope to manage a merged entity on their own.

3.10.9 Avoidable job losses would result

Part of Nedcor's plan to streamline the merged company was through massive layoffs. Standard had argued that these unemployment and social costs were unnecessary, particularly since both banks were already healthy. A three-year profit history of Standard bank is enclosed hereunder to emphasise this fact. The year on year growth in post tax income of 30% in

2000 (19% 1n 1999) supports this assertion, so is the operating profit of R4, 522bn in 2000 (R3, 496bn in 1999) as noted in table 3.10 hereunder.

Table 3.10: Comparative income statement¹³

R '000	2000	1999	1998
Interest income	20,654	21,255	21,888
Interest expense	13,465	14,524	15,916
Net interest income before provisions for credit losses	7,189	6,731	5,972
Provisions for credit losses	1,406	1,527	1,804
Net interest income	5,783	5,204	4,168
Non-interest income	7,201	6,352	5,225
Total income	12,984	11,556	9,393
Operating expenses	8,462	8,060	6,946
Operating profit	4,522	3,496	2,447
Income from associated undertakings	16	10	295
Exceptional items	(37)	(13)	(17)
Income before taxation	4,501	3,493	2,725
Taxation	1,299	1,035	665
Income after taxation	3,202	2,458	2,060

Source: Standard Bank's published annual financial statements 2002

Contrary to Nedcor's estimates, the merger would crowd out approximately 10 000 to 15 000 permanent jobs probably within 12-months. A majority thereof would have been disproportionately Black, given the occupation sectors that were likely to become redundant from the banks' overlapping branch networks, and primarily at the clerical and branch levels. Therefore to even suggest that natural attrition would resolve the endemic problem of job losses was facile and cynical, considering Nedcor's cost cutting imperative, and its estimate was likely to be understated. This merged entity would thus upset the amicable industrial relations climate that had prevailed until then in

the sector, resulting in the likelihood of the merged entity becoming a less attractive employer.

3.10.10 Implementation and IT risks

The scale of integration was daunting and its completion was projected to take up to six years, which protracted timeframe could further increase business risks. Standard contended that integrating the two banks' IT systems was a major barrier to reaping the anticipated synergies. It further argued that Nedcor had no experience of integrating IT systems on such a large scale, and thus estimated that it would take 100 years of IT labour to integrate the systems of the two banks. Standard also cited Lloyds TSB in the United Kingdom as an entity that still maintained separate systems four years after its merger due to the difficulty and high integration costs. ABSA too, had experienced immense problems integrating its IT systems in the seven years' since it was formed.

3.10.11 Public interest issues

Nedcor's sudden interest in the under banked mass markets was considered inconsistent with its past, and therefore viewed as expedient. The merger was projected to result in the permanent removal of at least 10 000 jobs from two highly profitable companies.

3.10.12 Consequences of approving a hostile bid

Standard therefore argued as articulated above that the systemic risks would be exceptionally high. The substantial integration risks exacerbated by the consequent hostility, and the lack of a common vision would result in the departure of key Standard management, especially at Standard Corporate and Merchant Bank (SCMB). Moreover, Standard's mass-market strategy would be jeopardised by a competitor with no appetite or experience in this regard.

Whilst Standard's board felt Nedcor had underestimated the merger risks and overstated its benefits, Standard did not initially dispute the logic of Nedcor's arguments.²⁹ The board's two main objections to Nedcor's proposal were that:

- Nedcor's offer price was too low. Standard preferred a premium of no less than one Nedcor share for 4.75 Standard shares (a 26% premium), as they felt that Standard's share price was trading at its lowest, and did not reflect its true value. According to one analyst, a premium of around 30% would have been appropriate in a merger of this kind.
- During Nedcor's presentation to Standard's board, Nedcor management were alleged to have stated that both banks had their strengths, Standard was its brand, and Nedcor was its management. So Standard's executive board members felt disparaged, and thereafter Standard's top management commented that had Nedcor demonstrated just a little courtesy and a higher offer price, Standard's board would have had great difficulty in resisting their initiative.
- In the meantime, financial markets wreaked havoc on Standard bank shares, as abnormal expectations peaked in anticipation of a successful conclusion of this transaction in Nedcor's favour. Whereas Standard was alleged to have rarely talked to investors, Nedcor was regarded as a bank with a vision and a good merger story. In addition, they generally enjoyed friendly relations with finance and investment analysts, and had a good public relations department.

As luck would have it, during December 1999 and early 2000, the tide of public and expert opinion started to shift against Nedcor. More analysts expressed doubts about the benefits of the merger, and Standard itself seemed like a rejuvenated bank as a result of its efforts to fend off Nedcor. Even some of Nedcor's shareholders were growing anxious that the hostile nature of the bid would hurt the performance of the merged bank, particularly

if talented Standard managers were to quit rather than work for Nedcor. Conversely, Nedcor maintained its confidence that the merger would go through, but within Standard, a public relations campaign was hardly necessary. Workers were fired up by what they saw as the Nedcor threat. Some Standard branch employees wore shirts to work that had the following message "Hands off our bank" and "fight The Greens," green being Nedcor's corporate colour.

Besides media advertisements, the powerful South African Society for Bank Officials (SASBO), a peculiarly stable white-collar union, and one of the nation's oldest, buoyed Standard's offensive. At the time, SASBO already had a close relationship with Standard, representing two-thirds of its staff and even some managers, while Nedcor's workers had their own company union and thus little contact with SASBO. Therefore Standard had little difficulty gaining the staunch support of the union because of the potential post-merger job losses.

3.11 Standard's exoneration²⁹

On June 21 2000, the Minister of Finance announced his decision to reject the merger outright. In so doing, he cited a multitude of mitigating and aggravating factors. But before making this decision, the Minister had previously received reports from both the Competition Commission and the Registrar of Banks, which unanimously recommended against the merger. The Ministry of Finance, by contrast, was thought to be leaning towards Nedcor. For one thing, Nedcor's chairman Chris Liebenberg was the former Minister of Finance. He was thus considered to be still in close contact with his successor in the Ministry, Trevor Manuel, who would ultimately rule on the case.

Secondly, South Africa's Registrar of Banks Christo Wiese had indicated earlier that he was inclined to let the merger proceed. Registrar Wiese was a pivotal figure, because he was charged with considering potential systemic

risks to the banking industry arising from the merger. The Registrar and Competition Commission’s reports formed the foremost reliable evidence that would inform Minister Manuel’s decision. In his conclusion, the Minister had to simultaneously consider the health of the banking industry, the nation's economy, and the broader social context, which in some ways was unique because of South Africa's apartheid past, but was in other ways typical of an emerging market.

Table 3.11: Decision circumstances

Mitigating circumstances	Aggravating circumstances ³⁸
The possibility that much needed consolidation in the rest of the banking system would be jeopardised. ³⁰	The Registrar was compelled to weigh the social costs against the potential benefits of the merger.
The Registrar was concerned that his recommendation would send wrong signal to the global and local banking communities. He had to make a call in the matter though, and subsequently recommended against the merger, even though he had been initially inclined to approve it. For him, the decision was "51-49," indicating that it could have easily gone the other way.	The increased level of moral hazard for the state if the merged bank became too big or failed.
The commissions concerns about the proposed merger related to retail banking services for individual and small businesses. Within the corporate investment and merchant banking sector, the commission found reasonable grounds to believe the transaction “would not substantially prevent or lessen competition.”	The probably high social costs if there were problems in the implementation of the merger, and concerns that Standard's management would resign before Nedcor was ready to take over.
	The legal problem for the Competition Commission was that the Competition Act and the Banks Act appeared to contradict one another. The Competition Act states unequivocally that regulated industries were

	<p>not subject to competition law. This rationale was that certain utilities such as Eskom were legal monopolies, and thus couldn't be faulted for engaging in monopolistic or uncompetitive behaviour. Because banking was technically a regulated industry, it too appeared to fall outside the jurisdiction of the Competition Commission. The Banks Act, on the other hand required that the Commission be consulted before any bank merger was approved, implying that anti-competitive practices were indeed a potential problem within the industry.</p>
	<p>The Competition Commission had decided that: "The proposed transaction should be prohibited on the grounds that it will have significant social costs, primarily abuse of market power in the retail banking market and potential job losses, which would represent a net loss to society. The Competition Commission so recommended that the Nedcor bid for Standard be prohibited, and released their report which was highly critical of Nedcor's expansion programme.</p>
	<p>In the report, the commission argued that a merger would have resulted in increases in the prices of products and services in retail banking, a tightening of conditions for obtaining finance, a lowering of product and service quality, and a lack of product innovation. The negative impact thereof would be high customer switching costs from one bank to another.</p> <p>Additionally, the report referred to Nedcor's current pricing strategy and pointed out that "in terms of bank charges, Nedcor's were the highest of the four major retail banks." While all South African banks had focused on containing their cost-to-income ratios, Nedcor stood out as having the most desirable ratio</p>

	among the first tier banks. One of the methods used to achieve this feat was through concentrating on the sector of the market it viewed as the "right client." It was well known that in its attempts to find the "right client", Nedcor had closed 800 000 accounts in the retail personal banking sector, and re-assigned two million accounts over the past three years.
--	--

Source: Extracted from unpublished confidential reports to the Minister of Finance by the Registrar of Banks and the Competition Commission; completed 2000.

3.11.1 The consequences

Jacko Maree, Standard Bank's CEO and his team had spent eight months and R77 million repelling Nedcor's unsolicited advances. Standard's advisers were J.P. Morgan and Deutsche Bank. The former got paid the same rate regardless of the outcome, while the latter got paid if the deal ended in a board-recommended outcome. On the other hand, Nedcor's adviser was Warburg Dillon Read, which stood to earn a large fee if the merger took place. After the Minister's announcement rejecting the merger, Nedcor was quiet about whether it would approach other banks with merger proposals although they had previously admitted that ABSA was their second choice.³¹ Many stakeholders speculated that the Minister's decision effectively outlawed all mergers among the big four banks. However, both the Competition Commission and the Registrar of Banks indicated that mergers with a failing bank would face less opposition. On the other hand, Standard was unlikely to pursue any major bank acquisitions within South Africa, given the nature of its merger defence.

A few months later and after the Minister's decision was published, the credit rating agency Duff and Phelps reaffirmed the short-term domestic rating of both Standard and Nedcor banks at D1+.³² This rating meant that the banks

had the highest certainty of timely repayment, and that their short-term liquidity was considered outstanding. This role of industry confidence galvanised the bank's to consolidate internally after this hostility, and devoted their efforts towards strengthening their competitive positions.

3.12 Summary: Chapter 3

In this chapter I started with the goal of understanding the possible strategic synergies that could have enhanced or inhibited the success of this proposed merger. What emerged during my research was that both banks were not diametrically opposed to the merger proposal, but rather, Standard's major concerns revolved around the offer price, which was at variance with the inherent and potential value of Standard bank. So were the systemic integration risks, which were considered too high. However, Nedcor's perceived arrogance was the pinnacle of all concerns raised against the merger.

A brief socio, economic and political history of the country was cited, for purposes of setting the context in which both banks were established and eventually plied their trade. This investigation and discussion was followed by a synopsis of the general banking industry, and the formation of both Standard and Nedcor banks. Of great significance was that both banks were founded in the 1800's, within a 26-year interval. Both institutions were successful a century later, and due to prevailing socio-economic and political circumstances, were now entangled in an industry consolidation that was poised to destroy one or both of them. They competed in the same markets, yet through different business strategies. Whereas Standard focussed on organic growth, low margin high volume business, Nedcor chose growth by acquisition, low volume high margin business. Nedcor saw itself as a technological innovator that provided diversified financial services, whilst Standard viewed itself as a diversified global provider of full spectrum banking, with African Roots and Global Reach. These diverse strategies

presented conflicting execution tactics, and presented immense resource and profit implications. In addition, political pressure increased subsequent to the democratisation of South Africa, which created massive consternation for Nedcor, who were vulnerable due to their disproportionately low representation in serving poor Black customers. It emerged later that this was Nedcor's underlying reason amongst others to seek a partner with the correct representation credentials, in order to mitigate against such political and reputation risks

The section covering SADC markets indicated that five South African banks migrated almost simultaneously therein, and again, Nedcor and Standard competed through the same channels as in South Africa. However, the detailed merger arguments, with Nedcor focussing on the losses suffered by Standard, its poor management quality, criticism of Standard's international and continental growth strategies, and comparatively high operating costs received undue prominence. In addition, Nedcor had believed that only the Minister of Finance had jurisdiction over the matter. This opinion had been obtained from Michael Katz, a highly regarded lawyer who was also Nedcor's in-house legal counsel, and headed their legal team. In his opinion, he was adamant that Nedcor had correctly interpreted the law, and was vindicated in February 2000 when the high court ruled that the Finance Minister was solely responsible for approving the merger, and that the Competition Commission's role was purely advisory.

As a result of this ruling, the momentum once more shifted towards Nedcor, because the Competition Commission had been considered the body most likely to reject the deal. It then transpired that the only meaningful intervention by the Commission could have arisen if the combined market share of the merged entity exceeded 35%, or if the merger substantially reduced competition, in which case, the commission could have blocked the merger. The commission also weighed such social factors as potential job losses, and the negative effect on Black Economic Empowerment. The Commission then ruled that the proposed merger would not prevent or lessen competition

substantially, since both financial intermediaries conducted their business in the financial services industry, which was not limited to the business of retail banking only. Part of this rationale was based on substantial public interest grounds in that:

- The merged entity would enhance the ability to provide credit to the under banked mass market.
- It could result in the creation of a regional bank with sufficient scale to enhance trade across South Africa.
- Contribute to the enhancement of SADC and continent wide banking, resulting in sufficient Black Economic Empowerment opportunities. It is against this background that Nedcor decided to implement its takeover strategy.

Standard had based its principal arguments against the merger on public interest issues and systemic risks, and drew parallels with examples of similar proposed mergers that were rejected in both Canada and Australia. They also argued against the potential strength of the merged bank, which could destabilise the economy of South Africa's sovereignty, if it failed. Similarly, a Standard/Nedcor merged bank would marginalise its competitors its competitors to the point where they would have to merge in order to compete on a similar footing. Again, if this merged institution succeeded, it would potentially limit transactional banking to two mega competitors only.

The primary public interest issues related to massive job losses that would arise as a consequence of the merger. An emerging but stable economy like South Africa just could not afford the instability that would ensue as a result of such mass unemployment due to staff retrenchments by the mega-bank. Similarly, Nedcor's history in the under-serviced low-income sector was poor, and received its deserved share of criticism from the Competition Commission in their recommendations to the Minister. Therefore, it was unthinkable to

even contemplate that the regulators would support such a dis-empowering proposition of national significance, although the regulators reasons were not necessarily aligned to those articulated in this summary.

Secondary reasons were offered as well. They included the lack of synergies between the two institutions, probable denial of banking alternatives to the South African consumers of financial services, the lack of a significant global profile as a consequence of the merger, the poor history of failed bank mergers, an inability to integrate two different information technology systems and their associated costs. Finally, the hostility between the two banks was just too serious to even contemplate a possible resolution in a merged entity.

When the Minister finally pronounced his verdict that prohibited the merger, Standard's management were not surprised, but equally relieved. The reasons promoted for this decision were based on technical issues, but were also dominated by public interest and systematic risks. In the final analysis, this experiment cost both institutions millions of Rand, and the lessons learned are still reverberating throughout both organisations to this day.

In the next chapter, I will review the situation that led to the merger offer, and both offensive and defensive strategies implemented by Standard bank to avoid a recurrence thereof.

CHAPTER 4

4. Results (observations and findings)

4.1 Introduction

This chapter contains an evaluation of all information contained in the preceding chapters, where the strategy development and evaluation processes were adopted as analytical tools. This information will thus be used to assess Nedcor's motivation to launch a hostile takeover bid for a competitor that was significantly larger, technological and financially superior to it. In turn, Standard's defensive strategies will be scrutinised, in order to identify any restrictive actions (offensive and defensive) in strategy formulation and execution. Finally, an investigation into the socio-cultural, economic, and political context that existed during the takeover bid, particularly within the financial sector will be applied in the conclusion. In so doing, answers will be sought to the following questions:

- Why did this proposal deteriorate into a trial by the media, and followed by costly legal suits, which necessitated political intervention for its ultimate resolution? Was political intermediation avoidable? Were there no alternative strategic options within reach to resolve this impasse?
- Evaluate both institutional responses to the final ruling, particularly Standard's defensive strategy, its long-term sustainability, and lessons learnt to avert another hostile takeover bid.

4.2 Observations

On 17 November 2000, Standard's board voted to recommend that its shareholders reject the Nedcor offer. They believed that Nedcor was

attempting to acquire control of Standard bank without due compensation to its shareholders. On the other hand, Nedcor was running out of road and seeking to benefit from Standard's investments. This running out of road charge was based on Standard's belief that Nedcor had achieved its recent success by cutting costs rather than investing in new potential sources of revenue growth.

Any bank take-over bid has to cross the regulatory hurdles, since banking is a regulated business enterprise. Although it is primarily a question for investors to decide, there are also public interest questions of major importance at stake, and on these, the regulators must rule. Having said that, how do you structure such a bid? What is the order in which you go? Do you seek regulatory approval first and then submit the bid to the investors, or do you do it the other way around? Either way would be feasible.

What Nedcor elected to do however, was to go for regulatory approval first. They presumably chose this route believing that they would obtain a speedy approval on the basis of their signals. Of paramount importance was that Nedcor had initiated the first move, and therefore set the negotiating agenda. In spite thereof, they were disappointed because they could not get a quick approval from the Minister of Finance in terms of the Banks Act. Furthermore, they assumed that the Banks Act preceded the Competition authorities, relying on section 3(1)(d), an exemption clause in the Competition Act. This paragraph thus responds to the question posed in paragraph 4.1 earlier. The regulatory framework in which the banks operate unfortunately leads to political intervention in the event of a deadlock between to merging institutions. Therefore, the Banks Act and the South African Reserve Bank Act converge on this point, and leave no other alternative, outside of a consensual merger.

Again, as articulated in paragraph 3.3 above, there were basically two sets of issues, commercial²³ and public interest issues²⁴. On the commercial issue, Nedcor were offering a share exchange with no cash component, and the share exchange was purported to be market related. As Standard's share rating lagged Nedcor's at the time the first proposal was made, the anticipated share distribution ratio started at about:

- 6,3 Standard shares for one Nedcor share.
- When the bid, or more correctly the intention to make a bid was announced on 15 November 1999, Nedcor proposed one Nedcor share for 5,5 Standard shares, provided that this could be improved to
- 5,25 Standard shares if the Standard board went along with the proposal for the merger.
- Standard's response was to draw the line at 4,75 Standard shares for each Nedcor share, asserting that position as the starting point at which the board could consider any proposal. Standard stated that Nedcor had to pay a premium over the market price, and besides that, there had to be a full cash option to allow investors to exit if they did not want to bear the risk of the merger not succeeding. Standard also emphasised that the inherent risks of a hostile takeover bid were enormous, and that such combinations rarely succeeded as the target company's management would by and large be likely to walk out.
- During the nine months while the regulatory stage of the bid was in progress, the market traded the two shares at about 5,3 Standard shares to each Nedcor share. There was speculation in the financial media that Nedcor would mount a knockout bid of 5:1, but this never materialised.

Ultimately, the public interest issues determined the debate, and in making his ruling, Minister Trevor Manuel ruled in favour of and supported the main arguments levelled by Standard against the bid. These main arguments were as follows:

²³ These were price and term specifics.

²⁴ These were issues that affected investors, customers, and banking officials.

4.2.1 The financial services industry

Standard certainly focused much attention on the dominant position that Old Mutual would have created for itself had the merger succeeded. It was not only banking industry questions that were involved, but also insurance industry questions, and the financial services industry as a whole.

4.2.2 Corporate globalisation strategy

Nedcor had argued for creating a national banking champion, and Standard countered that whereas Standard on its own was ranked somewhere around 212 amongst international banks, the combined entity would only be ranked at about 144, hardly a quantum leap. Further, was it the correct strategy to fight competition from the foreign banks by ganging up against them? Would it not be more advantageous to join forces with some of them and to externalise rather than internalise any potential threats?

4.2.3 International experience

Standard further argued that the four pillar policy consciously adopted in Australia and in effect applied in Canada was a sound one, and also pointed to the fact that although a regional Scottish bank had been allowed to take over Natwest in England, it was most unlikely that any of the four major clearing banks in England could merge with each other. In addition, the proposed merger between Deutsche Bank and Dresner Bank in Germany, which was mooted but later failed to materialise, would have resulted in a combined entity with only some 15% of the German domestic market.

4.2.4 Systemic risks

This was basically the sphere for investigation by the Registrar of Banks. How would the proposed merger affect the stability of the South African banking system? On the face of it, a combination of two already strong institutions should result in an even stronger entity. The Registrar, Christo Wiese unfortunately remarked at the outset, that his decision to approve such a transaction should be a "no-brainer." But on further reflection, perhaps the answer was not so simple. What if the merger failed because of a management walkout from the target bank as a result of the hostility? This would create tremendous pressure on the national economic system, with possible catastrophic results. On the other hand, what if the merger succeeded and surpassed all reasonable expectations? The combined entity would be very powerful and might even usurp the very sovereignty of the Reserve Bank. Dr. Iraj Abedian, Standard bank's Group Chief Economist, introduced this subtle argument into the equation.

4.2.5 Competition issues

If the number of the four major banks were reduced to three, and each of the three were of roughly the same size that would have been one matter. But if any two of the four major banks amalgamated and created an entity that was twice the size of the remaining two, an imbalance would emerge. Therefore, considering the diverse product portfolios that would be marketed by this new giant, one could safely conclude that in most instances, the level of concentration would exceed 50%, and in some cases 55% of the market, whereas the international benchmark was more like 35%, beyond which threshold the regulators were unlikely to allow a merger. Besides, the challenge posed by such a merger to the remaining two institutions would most likely force them into a marriage as well. This incidence would effectively reduce the number of competitor banks from four to two, as might have happened in Canada. These factors were

thoroughly considered by the Competition Commission in making their decision.

4.2.6 Job losses

This was an obvious weakness in Nedcor's proposal, and to aggravate matters, their Human Resources Director mismanaged his relations with SASBO in his public statements, which were perceived as lacking in empathy. In response to his unpopular statements, SASBO required very little encouragement to instigate a successful publicity campaign against Nedcor and the merger.

4.2.7 Information technology (IT).

The two banks operated from different IT platforms, which would need integration to accomplish the proposed cost reductions. Standard's IT experts calculated that it would have needed every computer programmer in the country to work on the project for more than two years to achieve this, and even then, unforeseen delays could have occurred, as was the case with ABSA's merger process.

4.2.8 The mass market proposition

Standard bank made great capital out of its thrust into the mass market through the E-plan product, and later, the joint venture announced with African Bank. By contrast, Nedcor had chosen to shrink the SA Perm by shedding customers at a great rate, in order to become an up market, elitist bank, and thereby achieve its illustrious cost reduction programme. Standard therefore argued convincingly that the merger proposals would not be beneficial to either of the two banks, the banking industry in general, or to the country as a whole.

4.2.9 Potential conflict of interest

At the beginning of June 2000, when the approval for the bid was still under consideration, the media reported that Nedcor's Chairman and CEO had been to Nedcor's game lodge in the Limpopo Province. They were spotted viewing game, and in the company of the Finance Minister and the Reserve Bank Governor. This accusation not only compromised their impartiality, but also created an impression of grave conflict of interest and poor judgement on their part, considering that they would later adjudicate this proposed merger.

4.3 Standard's intelligence networks

Standard was said to have invoked its own effective networking capacity through highly efficient means of reaching the decision makers. Their Group Chief Economist, a former professor at the University of Cape Town had previously undertaken research and consulted to the Ministry of Finance, particularly on evolving the GEAR Policy. He had then developed professional relationships with the Director-General, Ms. Maria Ramos. In addition, Saki Macozoma, Standard's Deputy Chairman was a personal friend of the Deputy Minister of Finance. Hence, when Standard were required to present orally to the Finance Ministry, they harnessed the talent of Tesula Mohindra of J P Morgan Bank, who according to rumours, and beside being brilliant, was also very attractive and a power dresser.

Conversely, Nedcor had the benefit of at least a year's head start before executing their acquisitive strategy but were constrained to changing their public relations company twice during the course of the battle. Standard also initiated a legal battle to erect regulatory obstacles to the merger. The legal dispute was over which regulators had jurisdiction to approve the deal. Standard contended that the merger required the approval of the Minister of

Finance as well as separate approval by the Competition Commission, a new and untested body set up under the Competition Act of 1998.

Although Standard started from a long way behind, their public relations outfit excelled. Therefore Standard's strategic engagement and widespread communication entailed the proliferation of free and intense debate from all affected disciplines, directed by a seasoned campaigner with the necessary intellectual wherewithal. By contrast, Nedcor seemed to rely on the admittedly considerable skills of their three key leaders²⁵, the Chairman, CEO, Executive Director and Head of their legal department. Unfortunately, they were collectively unavailable to provide the requisite high-level economic input where it mattered, and therefore Standard won the war not at the top level where they seemed to be directing themselves, but at the lower levels through the people who were charged with making vital recommendations.

4.4 SWOT analysis

Table 4.1: SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none">➤ Clearly defined and diversified business strategy➤ Strong balance sheet and sustainable profits➤ Well established global delivery network, and largest presence in Africa➤ Strong history and corporate culture➤ Possesses cutting edge technologies, and innovative wholesale product range➤ Respected and best performing wholesale bank (SCMB)➤ Sound relations with the labour organisations➤ Successful market segmentation strategy, and enviable low cost delivery channel➤ Dedicated multidisciplinary teams➤ Strong social commitment	<ul style="list-style-type: none">➤ Lack of strategic focus➤ Thin dispersal of management capability➤ Heavy losses suffered➤ Lethargic management➤ Low value-high volume strategy➤ Poor communication with stakeholders➤ Higher input costs above industry norms

²⁵ Chairman Chris Liebenberg; Chief Executive Officer; Richard Laubscher, Executive Director and Head of their legal department; Michael Katz.

Opportunities	Threats
<ul style="list-style-type: none">➤ Leverage off delivery infrastructure both locally and abroad➤ Reduce input costs below industry norm➤ Develop and recruit a larger base of competent executive management➤ Outsource communications function to external experts	<ul style="list-style-type: none">➤ Forays into local markets and customer base by global banks➤ Exogenous market forces

4.4.1 Response to strengths

Contrary to market perceptions, Standard had evolved a comprehensive business strategy, and Nedcor were well aware thereof. It is partly this reality, which motivated Nedcor to seek a merger with Standard bank, and not consider another full spectrum competitor bank. In terms of recurring profitability and strong local and foreign reserves, Standard’s performance was regarded as the industry benchmark, and the effectiveness of its wholesale bank and product innovation, made it the envy of its competitors.

Figure 3.2 and 3.3 graphically represented Standard’s international and SADC representation. This investment in physical infrastructure is the most comprehensive of all South African banks. Standard were thus able to leverage off this investment, and these opportunities were evident in the profit contribution, particularly of the global segment.

During this merger process, Standard’s sound labour relations record became handy, when SASBO supported Standard’s defence and job security arguments. Not only did this support fortify Standard’s position, it also exposed Nedcor’s poor judgement in this matter. Finally, Standard had leveraged successfully from their alliance with African Bank, but also invested heavily on the E-Plan product. These delivery mechanisms presented Standard with immense capacity to penetrate and service the under-banked, lower end market segment. Again, during their defence, they exploited to good effect the demonstrable commitment to this market. On the other hand, Nedcor had unilaterally closed 800 000 accounts belonging to this market,

hence their offer to maximise banking benefits to the under-banked communities in their offer was baulked at.

4.4.2 Response to weaknesses ³³

Nedcor had argued that Standard's management were lethargic and inept. This was verified by Standard's pursuance of a global leadership strategy, at the expense of consolidating their domestic and African operations. Hence, the losses incurred in Russia, and other local exposures were allegedly a direct consequence of this lack of focus. These management weaknesses were attributed to the thin management dispersal to a wide focus area²⁶, and high input cost structures. Furthermore, their under-banked strategy, coupled with the low value-high volume strategy were regarded as a signal of bad strategic formulation, that also contributed to the relatively higher than normal input costs²⁷. Standard agreed with the above sentiments, but argued that the context was different, as would be explained in paragraph 4.5 below.

4.4.3 Response to opportunities

Standard considered both its strengths and weaknesses as the springboard from which to launch its future business efficiencies. Standard argued that they held sufficient internal resources, which were supported by a well-established global branch delivery network and intellectual capacity, a respected merchant bank that is able to product innovate, considering Standard's critical mass and clearly segmented customer base. In the end, Standard offered that it's above average input costs will reduce concomitantly; given new markets opening and business growth, and the extra capacity will be applied over this enlarged customer. Indeed, this situation is confirmed in paragraph 4.5.2 below.

²⁶ Profit contribution by Stanbic Africa 10%, and Standard International 15%. Source: Published Standard bank interim results June 2000.

²⁷ Cost to income ratio reduced from 60% - 58% in 2001

4.4.4 Response to threats

Market threats were considered external evolutions, the biggest being foreign banks coming into the South African market, and local financial market players migrating, or diversifying into mainstream banking. However, Standard felt that they were not overly exposed to these threats, because they were a vertically integrated business entity, with a well-diversified portfolio. Therefore, any form of market turbulence could be mediated using its internal capacity and experience.

4.5 Standard bank's performance against objectives

What was informative and emerged from the SWOT analysis are Standard bank's objectives, their comparative strengths to Nedcor, and Standard's accomplishment. In all five objectives, the results are quite impressive, as illustrated in table 4.2 hereunder.

Table 4.2: After the skirmish...how they shape up

	Standard	Nedcor
Earnings	+26% to R1, 646bn	+27% to R1, 23bn
Assets	+9,2% to R261.6bn	+4% to R131, 9bn
Advances	+4,3% to R119, 2bn	+5,2% to R105, 3bn
ROE	22,1% (20,2%)	24,2% (20,6%)
Cost -to-income-ratio	60,3% (61,4%)	52,1% (54,1%)

Source: Finance Week; 25/8/2000; "Stanbic back in the game."

- Objective one was to maintain a +20% growth target, and Standard achieved compounded year on year growth of 22%. These results were published in their financial statements for the year ending 31 December 2002, and analysed in table 3.10, where operating income grew by 29% 2000 (43% in 1999) to R4, 522bn (R3, 496bn 1999). However, Nedcor achieved a phenomenal 27% growth in earnings immediately after the merger, with standard following at 26%, as noted in table 4.2 above. These results substantiate Standard's sustainable growth assertion, as confirmed by the sterling asset and ROE performances in table 4.2 above.
- Objective two was to reduce operating costs. Standard achieved a 1,1% reduction in their cost structures as reported in table 4,2, but were beaten by Nedcor who achieved a 2% reduction in the same costs.
- Objective three was to establish a niche investment bank in London. This office was established in 1994, and by 1999 was contributing 15% of Standard Bank's annual before tax profits.
- Objective four was to expand into the rest of Africa. It was reported in Standard bank's published annual financial statements for 2002 that Standard achieved the largest representation in Sub-Saharan Africa, relative to its competitors. Standard bank now boasts of a physical retail branch network that spans 17-African countries, excluding its South African operations. This infrastructure also supports Standard's wholesale and institutional operations in those countries.
- Finally, objective five was to seek out low-income customers, and provide them with essential banking and financial solutions. Standard established a joint venture with African Bank, a third tier bank that specialised in the lower income markets. The purpose of this alliance was to cooperate at both the upper and lower end of the personal markets. Standard would use African banks expertise to penetrate the lower end of the market, while

transferring the requisite capacity to African bank, so they could enter and service the upper end of the personal market as well.³⁴

In addition, Standard had rolled out its Auto-E network, targeting the lower market segments with special purpose yet simply presented banking solutions. This approach became the darling of the lower market segments because of its innovation, and was regarded as the benchmark for servicing this market successfully. Numerous foreign government's including the United Nations sent emissaries to Standard, in order to explore avenues for transferring this model to other third world countries. Through this solution, Standard achieved the highest global market penetration, and also became the envy of its competitors.

4.6 Summary: Chapter 4

Table 4.3: Characterisation of the relative strengths of each bank

Nedcor's strategy	Standard strategy
<ul style="list-style-type: none"> ➤ Focus on getting core business right ➤ Low risk appetite ➤ Process improvements to lower costs ➤ Utilising leading edge technology ➤ Working with top-class partners in new markets ➤ Focus on high profit customers ➤ Low-cost base driven by narrow business focus ➤ Domestic bank ➤ High technology profile, but narrower on-the- ground delivery ➤ Sudden interest in mass market expedient ➤ NIB lower rated than Nedcor and trading at a substantial discount to offer price ➤ No meaningful African presence ➤ No emerging market international presence ➤ No bancassurance model ➤ A successful niche bank 	<ul style="list-style-type: none"> ➤ Revenue-driven strategy of investment for growth ➤ Expansion of international presence ➤ Higher risk appetite (domestic and internationally) ➤ Largest banking group by profit, capital and asset ➤ Broadest product and customer reach ➤ Balancing growth, costs and business diversity ➤ Diverse sources of earning ➤ Recognised leader in banking and allied technology ➤ Dominant in the mass market ➤ The leading SA corporate and merchant bank ➤ Strongest African presence ➤ International emerging markets franchise building on African expertise ➤ Functioning profitable bancassurance relationship with Liberty ➤ An acute awareness of South Africa's banking needs

Source: Adapted from internal Standard bank documents

Banks in general are a national asset that wants to be good corporate citizens, and are desperately keen to lend money and grow their advances. The principal role of banks is to become custodians of the nation's savings, which are invested in the form of capital and deposits. These savings are accumulated from the economic endeavours of ordinary citizens in the form of pension funds, insurance policies and other savings products. Individuals, companies, and institutions all invest their savings with commercial banks that then on-lend these savings in the form of capital and deposits in the market.

Table 4.3 thus summarised the competitive strategies of both banks as discussed in previous chapters. This comparative representation confirms their strategic diversity, a situation that undermined the proposed merger. It also held tremendous competitive potential, had the merger been consummated. Therefore, a collision of strategy is not necessarily a bad execution, particularly when there is rational and effective strategic management to mediate disputes.

The next chapter builds on this suggestion, and concludes with recommendations.

CHAPTER 5

5 RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter is to evaluate both institutional responses to the final ruling, and in particular Standard's defensive strategy as implemented, its sustainability in the long-term, and lessons learned to avert a similar hostile takeover bid from recurring. I will enquire into the strategic and management interventions that have since been implemented to fortify Standard's competitiveness. This investigation will conclude by making certain industry specific recommendations, which I trust could assist other organisations that may contemplate hostile mergers, or avoid becoming potential takeover targets.

5.2 The arguments reviewed

It had transpired that the adjudicating protagonists in this merger were unanimous on the potential benefits of a friendly merger between Standard and Nedcor. They collectively agreed with the proposed merits thereof, and further submitted that a merger of these institutions made both business and strategic sense. However, they were also unanimous in rejecting the execution plan and tactical approaches employed by Nedcor. In particular, they referred to Nedcor's alienating practices, antagonism, covert arrogance towards Standard, and the potential threats to the banking sector's labour force, which sector had until then been relatively stable, without the adversarial employer/employee tensions that characterised other industry sectors. It was enlightening to compare the two banks' different focus areas, as profiled in table 1.1 and 4.3 respectively. This diversity emphasised the potentially formidable competitive synergies that would have arisen had these two entities concluded merger successfully, given their strengths in different

target markets, strategic focus and execution. These were but some of the strategic and tactical errors committed by Nedcor, which contributed to their loss of a well-orchestrated merger proposition that could have succeeded, had it been managed with circumspection.

After the rejection of the initial merger offer, Nedcor still seemed to have the upper hand as it decided to bypass Standard's board, and elected to directly approach Standard's shareholders with a 9% premium offer of one Nedcor share for every 5.5 Standard shares. At the time, Nedcor declared that it had already secured the support of 36% of Standard's shareholders (including Nedcor's parent Old Mutual, which also held a 21% stake in Standard). Nedcor persistently persuaded Standard's shareholders to sign irrevocable letters of support for its bid, in order to obtain the 50.1% it needed, further creating a false impression that it had secured written commitments from shareholders owning 48% of the banking group.

If Nedcor were to secure the desired support of 50.1% of Standard's shareholders, it could hire a new board, and thus force the sale of the roughly 20% of shares held within the Standard and Liberty group, thereby ultimately securing 100% control of the company. Hence Nedcor tried to coerce Standard's board by stipulating that the offer ratio would be improved to a 14% premium, if only the board recommended the merger to its shareholders. While Nedcor maintained that the new bid was friendly, it had become to all intents and purposes a hostile one to both outside observers, as well as to Standard management. Nedcor had always insisted that the primary objective of the merger was to realise:

- Long term financial stability and soundness of the sector, maintain its capacity to finance economic growth, and facilitate domestic and international commerce.

- Substantial enhancements of the sector's ability to provide appropriate and effective access to financial services for a greater segment of the population, and
- Promote diverse organisational cultures to cater for a wide range of customers, and reflect the principles of completeness. As a consequence, the financial sector will invest in human resource development across the full compendium of essential skills, with special emphasis on increasing the participation of Black people in skilled, strategic, and operational leadership of the sector, and would:
 - Establish programs in the secondary education sector, through South African student support programs, including bursaries and scholarships that were oriented towards hard sciences, and thus promote the sector at both secondary and tertiary education levels.
 - Establish more undergraduate and postgraduate diplomas and degrees in financial services, in partnership with institutions of higher learning.
 - Support the development of customer and community financial education programs, savings, and financial literacy campaigns, again in partnership with communities and co-operative institutions.
 - Become more efficient in the delivery of financial services, which would promote the accumulation of savings that would be directed towards developmental causes.

5.3 Nedcor's haughtiness backfires

In pursuit of merger proposals after Nedcor's initial offer to Standard bank, Nedcor failed to substantiate their case with essential documentation to the Competition Commission. They had correctly opined that the Commission was powerless in this matter. As a result, the Commission relied heavily on Standard's more comprehensive submissions. One Commissioner commented that if the two banks had agreed to the merger, and then collectively approached the Commission, it would have been impossible for the Commission to accumulate the necessary evidence to recommend against the merger. Nonetheless the commission's report reflected crucial information gaps, and seemed to have insufficient evidence to validate the supposed merger benefits.

Sadly though, Nedcor's failure to motivate their case to the commission inadvertently enhanced Standard's defensive strategy, which then influenced the agenda by providing influential information that was in their favour. It came as no surprise when the commission found that the proposed merger would be highly anti-competitive, a conclusion that was based on invalidated Standard Bank facts. The only argument of Nedcor's that might have reversed the Commission's recommendation was Nedcor's claim that the merger would allow it to better serve the under banked mass market. However, the Commission was unconvinced anyway, because of Nedcor's previous track record, and because Nedcor had not provided convincing details about how specifically they intended to improve this customer service to under banked communities.

In its report, the Commission further argued that a merger would have resulted in increased product and service fees, a tightening of conditions for obtaining finance, a lowering of product and service quality, and a lack of product innovation in retail banking. The negative impact of this approach on a wide range of customers would be aggravated by the high costs of switching

from one bank to another, as their report referred to Nedcor's current (then) pricing policies, and inferred that in terms of bank charges, Nedcor's were the highest of the four major retail banks. Furthermore, while South African banks had focused on containing their cost-to-income ratios, Nedcor stood out as having the most desirable ratio among the four major banks. This was achieved through concentrating on the sector of the market it had viewed as the "right client." Moreover, it was well known that in its attempts to find the "right client", Nedcor had closed 800 000 accounts in the retail personal banking sector, and re-assigned two million accounts over the past three years.

The commission also referred to international trends towards consolidation in the banking and financial services industry, but felt that the parallels were not essentially persuasive. On the contrary, convincing arguments had been presented where rivalry in the domestic market rather than national dominance was more likely to foster internationally competitive business practices. As a result, Old Mutual, which controlled Nedcor then lost an incredible opportunity to rationalise its banking interests, which the merger would have provided. Since their Standard bank investment was now clearly not strategic, Old Mutual's policyholders probably needed no more than a 10% stake therein.

5.4 Standard's industrious defence

It was also rumoured that Nedcor wanted to reduce 10,000 to 15,000 employees from the 50,000 that would comprise the combined Nedcor Standard banking group. As a result, bank officials were concerned that these job cuts would most probably come from Standard bank, which was Africa's largest bank by assets, rather than from Nedcor, the fourth largest. Standard thus won the battle simply because of its meritorious and sustainable employment practices that were aligned to their considerably sound labour relations with SASBO. In the final analysis, Nedcor's proposal was a pretty

poor one when subjected to proper scrutiny. This position thus emphasised the importance of ensuring that influential stakeholder perceptions, particularly those who could affect Standard's independent destiny were favourably disposed towards them. This strategy execution necessitated the:

- Selection of appropriate strategic and tactical methods to gain precious opportunities for launching an efficient defence, both psychological and legal.
- Effective communication, which arose from changing leadership structures, and the deployment of highly effective public relations consultants. In essence, all of this required professionalism of the highest order from a multi-disciplinary team. It also entailed the proliferation of free and intense debate from all affected disciplines, directed by a seasoned campaigner with the necessary intellectual wherewithal.
- The effective deployment of an old bargaining and negotiating principle of always having an alternative strategic plan, the proverbial "Plan B" was effectively demonstrated in Standards' defence. It was apparent that preparations for a hearing before the Competition Tribunal on the substantive merits of the challenge could take about six weeks or more. In preparation for a drawn out defence, Standard's advisors had thus undertaken substantial research, and were in possession of relevant legal opinions that were obtained from leading international counsel, academics, and legal scholars. This defence was intensely validated by equally competent South African legal experts, who resolved to invoke the SRP Rules²⁸.
- After a detailed examination of Nedcor's three-stage structured offer, it was considered to have violated those rules, and in terms thereof, deemed unlawful. Moreover, it was still possible to attack the lawfulness of effecting

²⁸ The SRP rules require that a takeover offer should be made in the same fair terms to all shareholders.

a takeover through the scheme of arrangement process at appeal court level, and there were substantial grounds for seeking to upset precedents established by the high court. In effect, these alternatives culminated in a full set of heads of argument, together with the final court papers, which were ready for signing.

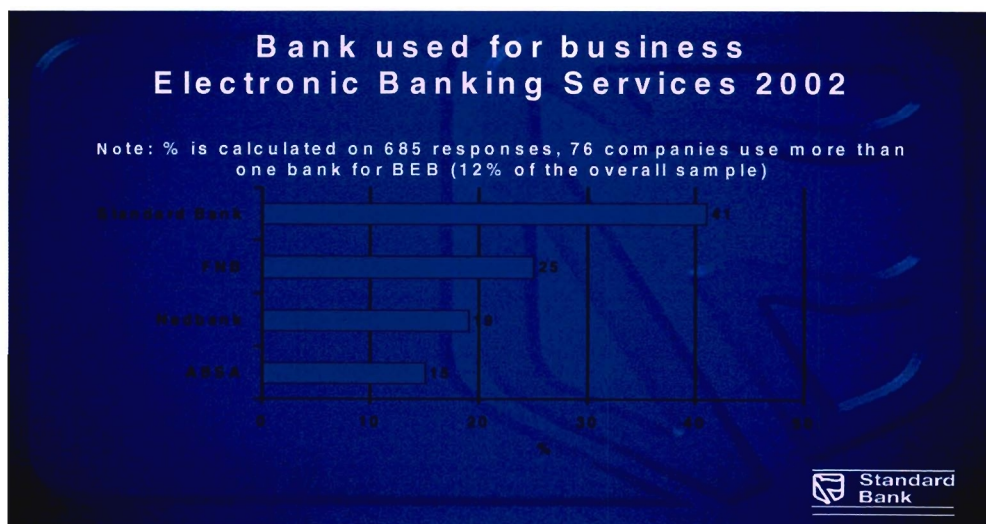
5.5 Standard's firm achievements

To confirm the effectiveness of Standard's defensive strategy, they immediately instituted the following changes:

- Nedcor had been planning this takeover for over a year, and when they pounced, a slumbering Standard was caught off guard. As luck would have it, this shock was ephemeral though, since during November 1999, Standard was suddenly re-energised and galvanised into action. Their CEO retired immediately, and was replaced by his deputy. This strategic leadership change inculcated a new operating culture of urgency and desperation, and within weeks, a new young and energetic executive management team was introduced. This team was mandated to produce a fresh defensive approach, and a sustainable corporate strategy. In support thereof, they launched the biggest marketing and communications campaign with the following creed: "simpler, better, faster".³⁵ This effort was to consolidate staff and customer support after the gruelling defence of the Nedcor's takeover bid.
- A new tactical management team was carefully selected and introduced for its blend of youthfulness, technical ability, and experience, reflecting an ethos that recognised intellect, energy, teamwork, and results orientation. These executives then introduced significant leadership concepts and energy to critical operating structures of the Bank.

- Technical enhancements were effected to their ATM-issued cheques, which were part of Standard's commitment to reducing cheque fraud. The tamper-proof cheques were immediately available from more than 400 Auto Plus machines nationally, were printed on watermark paper, and certified good for 14 days for amounts of up to R5 000 from date of issue. This execution further reinforced Standard's technological superiority, which was effectively leveraged off their extensive distribution (branch) infrastructure.
- Figure 5.1 below demonstrates this capability, and reflects a comparative 41% utilisation of Standard bank's electronic banking system.

Figure 5.1: Market share of electronic banking utilisation



Source: BMI Techknowledge

In addition, Standard bank was recognised by many local and overseas organisations for its ethical and steadfast defence of Nedcor's takeover bid. Some of these accolades are as follows:

- PriceWaterHouse Coopers surveyed 30-banks immediately after the Nedcor takeover bid was rejected by Minister. Among the four leading South African banks, Standard was voted first in five categories and

second in seven categories.³⁶ Nedcor was voted top bank in one category and second best bank in two categories in the same survey.

- In its inaugural awards for outstanding quality and innovation in Financial Services around the world, the authoritative British magazine *The Banker*, chose Standard bank as its first South African winner.³⁷ This decision was based not only on hard statistics, but also on the subjective views of its global editorial team, and on the findings of questionnaires sent to banks and other institutions in more than 80- countries. Standard bank's citation read thus "Standard Bank was named South Africa's Bank of the year for it's imaginative and constructive defence against rival Nedcor's hostile take-over bid." The magazine made 71-country, eight regional, six key investment-banking activities and global custody, and four banking and technology awards respectively. Furthermore, the *Banker* reported that Standard focused on increasing its average return on equity from 18.1% to 21.8%, while taking action on the technology front, perceived as Nedcor's main advantage. Standard also took a major step forward in its strategy of seeking to expand its business in the mass market by setting up a joint venture with the leading micro-lending organisation in the country (African Bank Investments), which will lower its credit and operational risk, while expanding its client reach.
- Bancassurance, another arm of its activity, the *Banker* reported, was boosted through its Liberty Life unit, while Standard Corporate and Merchant Bank forged ahead. The pinnacle of Standard's post takeover achievements were articulated by CEO Maree outside Parliament, and immediately after the merger was turned down. He responded as follows to a media question: "We really have done so much to develop our business that I would really think our job over the next two or three years is around optimising infrastructure, and doing well what is already in place, as the income streams are there." Both Standard executives and outside observers noted that the bank seemed re-energised and unified. Several Standard managers said the bank should "put up a plaque to Nedcor" to

thank it for Standard's renewed vitality. To confirm this statement, Standards share price responded positively by moving from R21.50 in May 2000 to R28.00 in August 2000²⁹.

5.6 Recommendations

Ironically and whilst Standard was perceived as a rudderless vessel by the greater investment community, nothing could have been further from the truth. Judging by the body of facts, which refuted this controversy during Standards defence, over and above the subsequent acknowledgements, the following recommendations as reviewed in this chapter become all the more pertinent.

The competition commission's concerns regarding the proposed merger were primarily related to retail banking services for individuals and SME's. Within the wholesale banking sector though, the commission found reasonable grounds to believe the merger would not substantially prevent or lessen competition, and so its consequences to retail banking ensured that there was absolutely no chance of the commission approving the transaction. It is critical therefore to understand the profile of the adjudication committee, whenever one is involved in similar circumstances. Moreover, it is of paramount importance to respect their authority, however questionable it may seem, and regardless of their official role in the process. This strategy will avoid cannibalising or alienating a key decision maker, and will increase sympathetic support from their colleagues in your favour.

5.6.1 Understand your audience profile

It is imperative to balance, understand, and anticipate the idiosyncratic aspirations of the diverse stakeholders of any organisation. The ability and foresight to anticipate the requirements and desires of the different

²⁹

Source: JSE daily share price close; Standard archived documents.

stakeholders under such circumstances is vital. Having achieved that, institutions must convince their stakeholders to support their economic goals and objectives. Therefore, well-motivated and considered opinions must be presented to them, to gain their confidence, and to win as many decision makers to your position.

5.6.2 Exploit competitor differences

The inherent polarity of diverse decision makers in competitive situations ought to be recognised early, and appropriate strategies generated to respond thereto. This may sometimes entail increasing polarity levels, or alternatively, reduce competitiveness for the actualisation of institutional objectives.

5.6.3 International best practice

Globalisation has rendered international precedents more crucial in arguing and validating competitive or defensive policies, standards, and conventions. These benchmarks are becoming all the more acceptable in mediation, and their influence cannot be over emphasised. Therefore, in similar circumstances, seek as many comparable incidents, and factor their details in both offensive and defensive positions. Standard used that offensive tactic to good effect, and cited the Canadian and Australian precedents extremely well. This strategy effectively cast doubts on Nedcor's considered underlying principles.

5.6.4 Consult widely

Nedcor's disregard for the competition commission proved to be an imprudent manoeuvre. Therefore, always strive to give everyone the benefit of doubt, and consult extensively wherever possible. It is much easier to be corrected

during such a process than to be found wanting for errors of commission or omission, or for simple neglect of a key strategic stakeholder.

5.6.5 Communicate openly

Communicate own intentions in an open and transparent manner. The South African business conditions have undergone radical transformation. This scenario demands openness from most quarters, and any communication that is perceived to be at variance therewith invites needless criticism and suspicion, effectively compromising the realisation of institutional goals.

5.6.6 Save face

In most if not all interactive endeavours, exercise extreme humility and avoid aggressive signalling. In Nedcor's disadvantage, their signals were interpreted as arrogant, demeaning and belligerent. This disposition earned them the wrath of most regulators who were ultimately going to influence the adjudication process. Evidently, Nedcor's loss was attributed largely to their unbecoming behaviour within financial markets, particularly during their takeover offensive. The merits of their proposal contributed to a lesser extent to this loss. Therefore, simply respect both the letter and spirit of the law.

In validation thereof, the Chinese have an incisive idiom that visibly explains this notion. They advise that you should endeavour to save the face of your opponent. Fight an honest battle, with intent to win gracefully, and always avoid humiliating or disparaging your opponent, even in defeat. Regrettably, Standard's management perceived their Nedcor counterparts as disparaging toward them. This view was informed by remarks made at merger meetings, which were largely interpreted as personal affronts, and resulted in a hardening of attitudes. In addition, as the fierceness intensified, Nedcor was perceived as motivated by power grabbing, and not commercial endeavours.

This contention was also extended to their principal, Old Mutual and Nedcor's CEO. Therefore, in any conflict situation, fight honestly and ethically, win or lose with integrity, and remember that perceptions inform reality. Ethical behaviour in victory and defeat is a prerequisite for the preservation and enhancement of institutional integrity. Whilst individuals are expected to fall on their swords when they have infringed societal norms, institutions rise and fall on their integrity. Their ethos must be upheld under all circumstances, as any infringement thereof is frowned upon in the business environment, with fatal consequences for their future commercial goals.

5.6.7 The Audi Alteram Partem principle

Exercise the "Audi Alteram Partem" principle (hear the other side). This principle is so poignant in business transactions, as it is often easier to prescribe a solution, before even understanding the actual problem. In Nedcor's case, they initiated the merger with a closed mind. In their view, there was a foregone conclusion that Standard would roll over and allow Nedcor's hegemony to run roughshod over them. Hence, when Standard registered their initial rejection to the merger, Nedcor were oblivious thereto allegedly due to their arrogance, and instead persevered even when the tide was turning against them. At some stage, even their executives and organised labour began to secretly question the conventional wisdom of proceeding with this execution. Unfortunately, their decision makers were selectively blind and deaf to this reality.

5.6.8 Potential job losses

Nedcor's executive director for human resources did not endear himself to their detractors either. He infuriated the industry by stating that it was likely to shed 10000 – 15000 permanent jobs through natural attrition anyway. His statement implied that job losses that would result from the merger should be welcomed. He then invited needless attention to Nedcor, and his utterances were interpreted by both Nedcor and Standard employees, organised labour

and the government as insensitive to the plight of the unemployed. Organised labour immediately mobilised its membership and rallied behind Standard's defence, effectively sending a strong message to both Nedcor and the regulators of potentially grave consequences should the merger be approved.

Therefore it is important to exercise extreme sensitivity in every company initiated communication and public pronouncements. These statements could potentially enhance or inhibit the actualisation of its overall objectives. It is precisely for this reason that most organisations engage and retain professional communications specialists, or spin-doctors. This costly but worthy exercise helps companies avoid unnecessary negative publicity.

5.6.9 Service delivery

Both banks had argued differently on service delivery aspects. Nedcor used the mega bank ploy and its self-imposed role as the protector of access to international markets. In addition, they mobilised for the self-sustainability and global competitiveness of the sector, the benefits of which would ultimately accrue to the customers. On the other hand, Standard countered that the merger was a needless and costly experiment, considering that Standard were already servicing the three different market segments namely, the personal and SME sector, the commercial and institutional markets respectively. Given Standard's responsible track record, accumulated experience, and large capital investments, they were suitably prepared to enhance their product offering, while supporting their existing competitive undertakings.

On the governance front, Nedcor's board was inherently weak, as it was heavily weighted with executive management. Conversely, Standard bank's board complied with the recommendations of King two's corporate governance principles. In essence, good governance must be reflected in the structural organs that represent the company. Having achieved this feat, industry norms dictate the available competitive advantages to its

constituents. However, when the company competes in the service industry, as is the case with Standard and Nedcor, a clearly defined and well-communicated customer centred strategy, which is supported by an appropriate infrastructure is key for differentiating innovative industry leadership positions.

5.6.10 Scorched earth policy

The threatened scorched earth policy from Standard bank's management, and the globalisation of professionals posed the greatest threats to this merger. As articulated in all the cases researched by Thomas Peters, the most important asset in any organisation is its intellectual capital, which resides in its people.¹⁵ The mass resignation of specialised corporate, investment and merchant banking teams if it occurred would have destabilised the entire sector. Competitors were eagerly awaiting the self-destruction of both Nedcor and Standard, in order to absorb key personnel and clients alike, would have absorbed most of these skills. Another possible risk was the probability of these entire teams breaking away and forming competitive niche banks or advisory services, and in return contracting their services to the merged group, which would have no option but to comply. In the final analysis, the mooted cost savings would be negated by the contractual obligations arising from this arrangement.

Finally, the likelihood of losing these skills to international markets was a possible reality. These are some of the disadvantages of knowledge economies and virtual industries such as banking, where competent professionals are exposed to boundless networking opportunities at the local, regional and international levels. Therefore these professionals can ply their trade anywhere in the world, and countenance attractive occupational alternatives daily. Standard argued therefore that it was imperative for its officials to be integrally embedded in the overall strategic business plans so as to create an enabling and satisfactory operating context. Similarly, there are alternative strategies for offensive or defensive approaches. They are

sometimes referred to as go or no go strategies, and are discernible as follows.

5.7 Recommended defensive strategies for competing in maturing industries¹⁶

There are numerous defensive options that are open to in these situations, the mostly considered being the following for their generic use and significant success:

- Emphasise value chain innovation and quality outcomes.
- Maximise the efforts to reinvent industry value chains, which can have four fold payoffs, which are:
 - Lower costs
 - Better products or services
 - Greater capability to turn multiple or customised versions
 - Shorter designs to market cycles

5.7.1 Increase sales to present customers

This is the most appealing strategy, and certainly the most cost effective, given that the customers are already familiar with the products and services of the seller. It is simpler to convince them to move from being single product consumers to multiple portfolio customers.

5.7.2 Purchase rivals at bargain basement prices

Nedcor attempted this approach, and faced a fierce battle that they did not contemplate.

5.7.3 Expand internationally

All four first tier banks attempted this strategy particularly within the SADC region, albeit at different focus areas. This expansion was bold, and derived profitable outcomes for the incumbents. On the other hand, Standard's differentiated strategies effectively produced its competitive edge through the deployment of creative and innovative teams, particularly at the wholesale sector.

5.7.4 Consider joint ventures or alliances

Furthermore, Standard's strategic alliance with African bank was efficiently executed to enhance its presence in the mass-market segment. Standard had concluded long ago that simultaneously running both races was effective in more diverse and expansive skills, thereby stretching resources and competitive capabilities than they can manage alone. Hence this competitive attraction of alliances enabled Standard to bundle competencies and resources that are more valuable in a joint effort than when kept separate.

5.7.5 To compete or not compete⁹

Once the decision to grow is made, how does one go about executing the strategy? Most experts of competitive tactics preach the concept of attacking a competitor's weaknesses, and some have been wrong. Therefore General Patton's strategy shows promise in this regard, and is quoted thus: "I have studied the enemy all my life. I have read the memoirs of his generals and leaders. I have even read his philosophers and listened to his music. I have studied in detail the account of every damned one of his battles. I know exactly how he'll react under any given set of circumstances. And he hasn't the slightest idea what I'm going to do. So when the time comes, I'm going to

whip the hell out of him³⁰. He then suggested the following competitive rules, that he claims will produce better results against your competitors.

5.7.5.1 Control the “Sandbox”

The mark of a successful strategy is that it allows you to control, or at least influence, the terms of play in the “competitive sandbox.” If you are not controlling or at least influencing the conditions of play in the competitive arena you have proactively chosen, your strategy is not working! Change it quickly rather than suffer a long, painful death.

5.7.5.2 Identify which competitors your strategy will attract

Once your strategy has been developed, look around to see which organisation will be attracted to it. If your strategy represents a change from the one you pursued in the past, the competitors it will attract will not be the same as the previous ones. Once you understand your strategy, and the sandbox you will be in, new potential competitors can easily be identified.

5.7.5.3 Anticipate each potential competitor’s future strategy

The next step is to anticipate each competitor’s driving force and business concept. At this point, some might say that this cannot be done because we do not sit on our competitor’s strategy sessions. However, the strategy of any company ends up translating itself into physical evidence such as products, geographic markets, customers, buildings, technologies, facilities, people, skills, and so forth.

By looking at the actions of a competitor in these areas, one can identify what has driven the competitor to do what he has done. In other words, identify what was the driving force behind that competitor’s strategy. In the same

³⁰ Michel Robert; Page 88; Strategy pure and simple.

manner, by looking at a competitor's current actions, announced actions, or anticipated actions, one can identify the strategic heartbeat of that competitor's business. This can be done for each competitor that you think your strategy will attract.

5.7.5.4 Draw competitive profiles

You can now anticipate where each competitor will put its emphasis and de-emphasis in terms of products, users, and geographic markets. Therefore, you can now draw "pictures" of what each competitor will look like from the pursuit of such a strategy. One misconception exists however, about competitive behaviour. Many people assume that all competitors in one industry behave the same way. Not necessarily so. Usually, each competitor's strategic heartbeat is different, so each competitor will act differently under a similar set of circumstances.

However, if you detect what is at the root of a competitor's strategy, you can anticipate the various behaviours and put into place a different set of actions to deal with each competitor. For example, although Toyota and Honda are both in the motor vehicle industry, each will react very differently under a similar set of circumstances, because each is pursuing a strategy that has a different driving force at its root. Toyota wants to become "the world's largest car company"; whereas Honda's driving force is its engine technology. It is in the car business only because of Mr Honda's concept of producing "engines for the world."

5.7.5.5 Manage the competitor's strategy

Not so long ago, we had the opportunity to work with one of the best-known manufacturers of buses. When we arrived, one competitor was identified as pursuing a "copycat" strategy. In other words, whatever bus contract our client bid on, a few weeks later its competitor would enter a similar but lower-price bid. If our client chose not to bid, neither would the competitor. The

pattern repeated itself all over the world. Once the competitor's strategy was recognised, a plan was developed to "manage" that strategy. A very large project emerged in Asia involving some 4000 buses. Because of a previous bad experience in that part of the world, our client did not want the project. However, to lure the competitor, the company put in a bid that included more services than required and at a price well below cost. Sure enough, the competitor submitted a bid and was awarded the contract. Two-thirds of the way into the project, the competitor ran into major cost overruns to the extent that the company announced it was looking for a merger partner to help it out of financial difficulties. A little later, our client bought out its competitor for a song, took over its market, and eliminated it from others. All actions were put into place two years before!

If one wants to identify a competitor's strategy, one needs to understand two elements about that competitor. These two elements are the competitor's driving force (strategic heartbeat), and the business concept that the competitor is practising in that mode.

5.7.5.6 Neutralise the competitor's areas of excellence

A proactive strategy is one that allows you to control or influence the rules of play in the competitive sandbox. Some experts will tell you that the way to do this is to analyse each competitor's strengths and weaknesses and then to exploit those weaknesses. Time and again, this was not appealing, as many corporate leaders were not interested in spending money to strengthen competitors. Attacking a competitor's weakness makes the competitor a long-term advantage. You now need to attack another weakness and the whole cycle starts over. If you carry this scenario to its logical but somewhat absurd end, eventually you will have strengthened your competitor so much that it might put you out of business.

A better way of dealing with competitors is to anticipate each competitor's strategy and then manage that strategy, which will put you in a stronger

competitive position. This as mentioned earlier, is not achieved by attacking a competitor's weakness or by attacking the driving force of the competitor's strategy, and accompanying areas of excellence.

5.7.5.7 Choose your competitors: Do not let them choose you

To be proactive, each company must consciously choose in which competitive arena, or "sandbox" it wants to be. The first step is to delimit the sandbox. You can make the sandbox as large or as small as you want. In order to "control" the sandbox and the terms of play, two decisions must be made. The first is to choose which competitor to invite into the sandbox, because you are confident that you can attack that competitor's strategic heartbeat and areas of excellence. Against this competitor, you now want to devise "offensive" tactics to accomplish this objective. The second class of competitors to include in your sandbox are those that are in a position of attacking your areas of excellence. You will want to monitor these competitors very carefully because they could give your strategy difficulty. The rest of the competitors are probably not in a position to do much damage. If you do not disturb them, they will probably not disturb you. If any attack you, they will probably attack your weaknesses and only make you better.

Therefore, one should practice the concept of single target competition. In other words, go after one competitor at a time. We all know what happens to someone who starts a war on two fronts.

5.7.5.8 Changing the rules of play

A Chinese General, Sun Tzu, wrote in the fourth century "what is of supreme importance in war is to attack the enemy's strategy. And the best way to neutralise a competitor's strategic heartbeat, in our view, is to change the rules of play.

5.8. Summary: Chapter 5

Seemingly both institutions had discounted the verdict judging by their muted responses. Standard sighed a big relief, because they were geared for a lengthy high court battle. Their legal team had prepared all the necessary court documents, which were ready for signature and lodgement with the respective juridical authorities. On the other hand, Nedcor accepted the judgement, and stated that they will continue to pursue their inorganic growth strategy, and mutually beneficial technology partnerships. They further stated that they were poised to become a diversified information processing specialist company, and thus will improve their technological expertise and offering, which they will on-sell to whichever corporate desired these services.

However, Nedcor's failure to constructively engage with the Competition Commission was reviewed in this chapter, which strategic blunder proved to be the forerunner which undermined Nedcor's efforts, an oversight which emerged repeatedly, and haunted Nedcor's negotiators due to their failure to provide substantive arguments that could have influenced the Commissions' opinions otherwise. Because of this information gap, the commission relied solely on Standard's comprehensive submissions in their analysis of both arguments, and instead, Nedcor was chastised for their perceived fleecing service charges and fee structures. Their subsequent loss of 800,000 customers was attributed to their relatively high pricing strategy, which weakness was opportune for Standard bank, and they used it to launch their successful defensive programme.

An almost clinical strategic textbook theory, executed with committed precision ensued. It started with executive and operational management changes, where new leadership blood was introduced, thus reinforcing the strategic leadership structures. This was followed by technological enhancements, new product innovations and introductions, and underpinned by the launch of a new marketing and communications campaign. In return, Standard was rewarded by numerous organisations for their robust defence of the merger, and sustainable strategic framework.

They were showered with prestigious local and international accolades, in recognition of this almost impossible feat, which in most sectors was a foregone conclusion that they were going to be acquired. In conclusion, certain recommendations were advanced which represent lessons learnt and pitfalls to be avoided in similar circumstances. These are generic recommendations that would apply whether one is an aggressor or defender of unsolicited merger proposals. In the next chapter, I will deal specifically with the causes and effects that were discussed, followed by a consolidated summary and conclusions.

CHAPTER SIX

6. Conclusion

6.1 Introduction

This chapter contains the consolidated summary of the entire research study. The research purpose was to examine the objectives of the proposed merger, and respond to Nedcor's motivations for pursuing this amalgamation at all costs. Their disregard for the ensuing squander of significant and valuable resources in what was regarded as a futile takeover effort, which precipitated a fierce and profitless battle for industry domination invited this scrutiny. Therefore, as already discussed in the previous chapters, Nedcor announced their proposed offer to acquire Standard bank on 15 November 1999 by offering one Nedcor share for 5,5 Standard bank shares. During this time, and largely due to the efficient information flows within this sector, there was a foregone conclusion that Standard was going to be acquired by Nedcor. This view was reinforced by primary research studies, which originated from the investment analyst community.

The comparative resource strengths of both competitors were presented in table 1.2, and further examined in the SWOT analysis and in subsequent chapters. Their contents clearly demonstrated the capacity differences of both banks. Standard's comparative superiority was undoubted, which begged the question, did Nedcor expect a stronger company to simply submit to be acquired by a comparatively weaker competitor? It goes without saying therefore that no financially sustainable and successful company would accept the conditions proposed by Nedcor, unless its future viability was in question. Standard's response is thus viewed in this context, and can be justified in its fight to the bitter end to avert what it perceived as an attempted hostile takeover.

At the time, Standard was regarded as a rudderless vessel that was plagued by management ineptitude. This perception was evident in a myriad of bad commercial decisions that culminated in significant financial losses. These execution flaws thus signalled to Nedcor that it was opportune to launch their offensive. After making their initial offer, Nedcor then argued that their primary motivation for the merger was to protect and preserve the banking sector's integrity, considering that Standard had lost its strategic focus.

Standard bank's failure was thus imminent. Therefore, negative consequences of this failure were too ghastly to contemplate for the industry, and hence Nedcor deemed it appropriate to intervene for the benefit of national pride, and for the South African economy at large. In essence, Nedcor's attempt to combine its banking operations with those of Standard could potentially unlock significant strategic value, and thus enable the merged entity to undertake mega projects that the prior independent companies could not even contemplate. Moreover, the merged entity would acquire cutting edge technologies, superior competitive capabilities, an innovative product portfolio, and a stronger balance sheet. Consequently, economies of scale and scope would emerge, the optimisation of which would present other opportunities for leveraging off this capacity.

Nedcor also argued strongly in favour of related diversification as both an offensive and defensive strategic option, whose combined value chain could potentially resonate throughout the new banking group. This was so, due to the rapid globalisation of nations, which presented endless business opportunities and alternatives. The financial sustainability of households and corporations alike continued to be tested. Hence, single product focussed companies found it increasingly difficult to maintain their relevance.

Standard bank was not convinced though, and suspected that Nedcor and its principal Old Mutual were motivated by factors beyond those stated in the merger proposals. Standard reasoned quite eloquently on a range of strategic issues, and effectively argued about the absence of a strategic fit between the

two banks, which approach ultimately swung the decision in their favour. The strategic divergence of both institutions was confirmed in paragraph 1.2.4, and equally frustrated the successful conclusion of this merger. On second thoughts however, the same strategic reasons that were advanced about the lack of strategic convergence were conversely strong points in favour of the merger concept. These strategic differences would have enabled the merged entity to specialise and compete efficiently in different niche markets, while sharing a rationalised back office and tactical support infrastructure. This approach would have presented the merged company with exceptional competitive prospects, and comparatively low input costs, whilst also creating sufficient space for their present management structures to continue without interfering in each other's affairs. This observation supports the suggestion made by Dr. Abedian regarding the potential success of the merged entity as discussed in chapter four.

Interestingly though, Standard's arguments concerning the poor historical record of South African banking mergers did not hold either, because history informs the future, and has been known to repeat itself, but the past cannot predict the future. Emergent and modern leadership philosophies and forecasting techniques would have confirmed this hypothesis. So, visionary leadership would have been deployed successfully to mitigate against these systemic risks that were given prominence in Standard's defence.

Nevertheless, Standard was dogmatic and clearly articulated their fierce opposition to this potential takeover. They even threatened serious retaliation, but Nedcor demonstrated its resilience, leading to fierce competitive rivalry. The real potential for a scorched earth policy was thus imminent, as Standard's management threatened to walk out en masse, which Nedcor simply disregarded as mere posturing. This attitude further reinforced the prevailing notion of Nedcor's arrogance and overconfidence.

After examining Standard bank's strategic focus, and contrary to popular lore, it was understandable that Standard had in fact developed and was executing

cohesive and sustainable commercial goals. However, their business case and strategy execution were poorly communicated to their stakeholders, as already discussed and efficiently exploited by Nedcor. To reiterate, Standard's objectives were to:

- Maintain a 20+% growth target through strategic and business diversification.
- Reduce their cost to income ratio, grow revenue, and segment the market accordingly.
- Establish a niche investment banking operation in London, and specialise in trading financial instruments from emerging markets.
- Expand into the rest of Africa.
- Seek out South Africa's low-income groups, and provide relevant financial and banking products and services that are appropriate for their specific requirements.

After a thorough analysis of their objectives, and having extracted the essential evidence to substantiate the robustness of Standard bank's strategy executions, Nedcor's motivation for the merger became clearer. By using the balanced scorecard measurement system, this evaluation confirmed that not only did Standard bank achieve all these objectives, they actually surpassed most as discussed in paragraph 4.5 earlier.

6.2 The Old Mutual equation

At the time of this conflict, rumours permeated the financial industry that Nedcor's CEO was a candidate to replace Old Mutual's incumbent. With hindsight, this allegation confirmed Old Mutual's eagerness to sustain the

merger, regardless of the consequences. Old Mutual obviously stood to benefit from the merger in several ways, including the rationalisation of their banking holdings. It also transpired that both Standard bank and Liberty Life's strategic alliance was a major competitive threat to Old Mutual's future ambitions. In 1999, Old Mutual was listed on the London Stock Exchange. It held 54% in Nedcor, and 23% shares in Standard. Most of Old Mutual's stake in Standard was held on behalf of Old Mutual's policyholders, while its Nedcor shares were in shareholders funds. According to English company law, any shareholding above 20% was regarded as a controlling stake. So here was a life insurance company holding controlling interests in two competing banks, a situation that caused raised eyebrows within London's financial markets. The same markets now suspected that the incentive for Old Mutual to force this Standard-Nedcor merger at the expense of Standard were the secondary benefits that would flow directly to Old Mutual's shareholders.⁴⁰

Another flaw in this saga was that contrary to good corporate governance, Nedcor's board consisted largely of Nedcor management. There was no strong outside voice of reason to mediate or modify their strategic approach, particularly during the merger. This observation thus explains their intransigence to pursue this merger to its logical conclusion, even when the odds were evidently against them.

Therefore, had this merger been successful, Old Mutual would have probably removed the merged bank from its consolidated balance sheet, because it would thus own less than 50% thereof. Old Mutual would then be in a better position to define itself as an international asset management company, rather than a holding company of South African banks. Paradoxically, one of its biggest competitors was Standard bank owned Liberty Life, whose fate it would have eventually controlled.

Against this background, one can safely conclude that Standard's defensive strategy was indeed successful. Standard bank surpassed all the yardsticks that were set for its objectives, which included the successful defence of

Nedcor's hostile takeover. Furthermore, these efforts were recognised and rewarded by numerous organisations both domestic and international, which bestowed coveted accolades in recognition of Standard bank's efficient strategy execution in fighting off the proposed merger.

6.3 Conclusion

Why did Nedcor decide to merge with Standard bank? This question was answered by analysing industry characteristics. The discussions referred to the financial sector as having exhibited most if not all attributes of a maturing industry. Nedcor then elected to exercise its first mover offensive because mergers and acquisitions are another attractive strategy for strengthening a firm's competitiveness. They allow a company to fill resource gaps or correct competitive deficiencies, as combining operations can result in lower costs, stronger technological skills, more or better competitive capabilities and capacity to expand into new areas. Similarly, they had considered vertical integration, as vertical integration makes sense if it strengthens a company's position via cost reductions, or the creation of differentiation based advantage. This strategy was consistent with Nedcor's strategic intent, which was market domination of a particular niche, by becoming the industry's lowest cost producer. Therefore, when Nedcor chose to launch its offensive strategic move to secure its competitive advantage, they deliberately aimed at Standard bank's competitive weakness. This aggressive pre-emptive strike caught Standard bank napping, with Nedcor exploiting its first mover advantage, an area in which Nedcor was sufficiently skilled, and where they demonstrated better structural and executional cost drivers.

However, when Standard bank recovered from the initial takeover shock, they usually mobilised their defensive resources and proceeded to place effective obstacles in Nedcor's, and thus fortified their present position. Nedcor was given strong signals that the resulting battle will be more costly, and Standard bank implemented defensive actions that foreclosed on Nedcor's options for

initiating competitive attacks. Through effective signalling and publicly announcing their pending management changes, Standard committed to maintain their market share, organically grow their business, launch new ATM technological products, a new advertising campaign, and publicly announced to defend this merger in the courts. If all else failed, they threatened unleash their scorched earth policy of mass management walkouts. This defensive line of attack was consistent with Standard bank 's strategic intent, namely industry leadership on a national and global basis.

Standard went on and changed their CEO, and introduced a new cadre of strategic managers, who were talented, young, and energetic, and proceeded to turn the strategies and company focus around. Not only was this execution effective, it protected the status quo, buttressed Standard's present competitive position, bought Standard precious time to adjust its strategic defences to changing industry conditions thus blocking Nedcor's aggressive first mover advantage. Furthermore, all the abovementioned signals were also actualised. Standard bank therefore set the scene for an integrated approach to mergers and acquisitions within the financial sector, but also across sectors, which will present a good learning case in the future for effective strategy setting and execution.

One of the fundamental doctrines of contributing to a sustainable financial sector is to achieve continuous improvements by ensuring the provision of basic financial services. They must achieve:

1. Sustainable and affordable banking services.
2. Contractual savings schemes.
3. Provide credit for small and micro enterprises.
4. Sophisticated and cutting edge banking technological systems for commercial and institutional markets.
5. Support the establishment of third tier community based financial organisations, or alternative financial institutions, and develops sustainable institutions to serve poor communities.

The financial sector's regulators, who then achieve these obligations through the establishment of an enabling regulatory environment and architecture of the financial sector, must actualise these objectives. This infrastructure is expected to promote the lowering of barriers to entry, whilst facilitating healthy competition. Relevant aspects of the regulatory environment include, but are not limited to the national payments system, deposit-taking rules, licensing requirements, corporate governance practices, disclosure practices, the Pension Funds Act, and prudential investment guidelines. On the other hand, competition law, some aspects of the Companies Act, and the residual pool of intellectual capital must be improved by focusing on attracting new entrants, continually investing in the skills development of existing and a new professional and management cadre.

However, disparities of the South African workplace resulting from past discriminatory practices and laws were not only unjust, but also had direct negative implications for economic efficiency, competitiveness, and productivity. In addition, the South African education system and the labour market did not produce an adequate number of qualified professionals, with the relevant skills required by the financial sector.

Finally, the underlying reasons for the revolution that succeeded a conventional merger proposal, which then degenerated into a hostile takeover bid, were examined. Evidently, the two banks were not diametrically opposed to an amalgamation. In fact, they both agreed on the strategic importance and business wisdom thereof. The fundamental differences arose from Standard's perception of Nedcor's deep-rooted arrogant intents, which were to gain its assets at bargain basement prices. These views were extended to Nedcor's principal Old Mutual as well, who were accused of harbouring sinister designs to actualise the obsessions of Nedcor's CEO, who sought to preside over the largest bank in the country, if not in the sub-continent.

In the final analysis, a significant fortune and precious time were wasted in waging and defending a fruitless effort. This culminated in enriching the consultants and professional advisors alike, at the expense of both Standard and Nedcor shareholders, and their legitimate stakeholders.

7.

REFERENCES

1. Alan Mabin and Barbara Conradie; 1987; *The confidence of the whole country, Standard Bank reports on economic conditions in Southern Africa 1865-1902*; Standard Bank Investment Corporation; Johannesburg; Pages 1-35. HBS N9-701-034; 3/4/2001; The Standard bank of South Africa and Nedcor Ltd.; *two strategies collide*. USA
2. Alec Pienaar; Completed 2000; *The Nedcor / Stanbic Saga, the art of a hostile defence*; Internal Standard bank document, unpublished.
3. Banking council policy documents; <http://www.banking.org.za>
4. Bodie Z, Kane A, and Marcus AJ; 2002; *Investments*; fifth edition; McGraw-Hill Irwin; New York. Chapter 12.
5. Businessmap Foundation update 039; 24/7/2003; *A Banker's view of BEE*; Electronic medium; Ref. No. 2003/039/BEE/CR; 039; page 1-3; Online available at [http://www. Businessmap.co.za](http://www.Businessmap.co.za).
6. Buzzell Robert D. and Gale Bradley T; 1987; *The PIMS Principles, linking strategy to performance*; Free Press; New York; Pages 31-47.
7. Economics Division; 2002 and 2003; *An Economic Profile of South Africa*; 2002 and 2003; Standard Bank Group, Economics division; Johannesburg.
8. Michael E Porter; 1980; *Competitive strategy, Techniques for analysing industries and competitors*; Collier Macmillan; London; Chapters 1; 3; 4; 5 & 7.
9. Michel Robert; 1993; *Strategy pure and simple*; McGraw-Hill, Inc.; USA; Pages 87-102.
10. Online access at <http://www.pm-express.com>; *Performance management system*.
11. SADC Finance and Economic Sector Co-ordinating Unit (FISCU); 2000; *Regional Economic Review; Southern Africa Economic Summit, World economic forum*; Department of Finance; Cape Town, South Africa; Pages 163-170.
12. South African Institute of Race Relations; 1999; *South Africa Survey 1999 – 2000*; Millennium edition; SAIRR; Johannesburg; Pages 4-5, 109, 149, 298, 311-312.
13. Standard Bank Group; 2001 and 2002; *Audited Annual Financial Statements*; 2001 and 2002; Standard Bank; Johannesburg.
14. The Registrar of Banks and the Competition Commission; completed 2000; *Reports to the Minister of Finance on the proposed Nedcor and Stanbic merger*; Unpublished confidential reports.
15. Thomas J. Peters and Robert H. Waterman, Jr.; 1982; *In search of excellence, Lessons from America's best-run companies*; Warner Books Inc., New York; Pages 103-109 and 206.
16. Thompson Arthur A. Jr., and Strickland A.J.; *Strategic Management Concepts and Cases*; 13th edition; McGraw Hill Irwin; New York; Pages 68-69, 76-94; Chapters 3; 5; 6; & 8.
17. Allister Sparks; 1990; *The Mind of South Africa*; Heinemann; London.

NEWSPAPER AND MAGAZINE REFERENCE SOURCES

18. The Banking Council; August 2000; There were 21 registered foreign banks and branches and 58 foreign representative offices; *The South African Banking Review* 1999. p. 16.
19. Nedcor's Annual Report; 1999; Nedcor also refurbished its Permanent branches, making them more upscale in appearance than Peoples branches.
20. Business Report; 1/9/98; Standard bank's share price dropped from R23.00 in February to R13.50 in August 1998.
21. Jacko Maree; 29/9/2000; Standard ended up recouping its losses in Russia the following year, making it, according to Maree, the only bank in the world to recover all of its money out of Russia; *Standard bank internal documents*.
22. Alec Pienaar; Completed 2000; Australian and Canadian competition regulators became concerned whenever the top three participants in an industry had combined market shares above 75% and 65%, respectively. Standard argued that the merger would mean that the top three South African banks would have market shares above 65% in almost every market and above 75% in more than half the markets (whether defined geographically or by product; The Nedcor / Stanbic Saga, the art of a hostile defence; *Internal Standard bank document*, unpublished.
23. Business Report; 12/12/1999; Standard goes to court over which regulatory authority should rule on threatened hostile takeover bid by Nedcor.
24. Standard bank archives 1/1/SBIC; 26/10/1999; Board rejects offer as not in the best interests of its shareholders. *Standard bank internal communication Fanout No 1160/99*.
25. Marcia Klein; 17/11/1999; Stanbic Says No to Hostile Nedcor Offer; *Business Day*.
26. Nedcor press release; 28/10/1999; *Opportunity to Create Real BEE*.
27. South African Press Association; 29/9/1999; Nedcor Moves to Create National Champion.
28. Mail and Guardian; 23/6/2000; Manuel decides: size does matter.
29. Business report; 22/6/2000; Nedcor makes unsolicited approach re merger with SBIC, Manuel sinks bank merger.
30. The Registrar of Banks; 5/6/2000; Report to the Minister of Finance on an Application in Terms of Section 37 of the Banks Act, 1990; pp. 76-7.
31. Business Day; 12/11/1999; The Bottom Line, *Perhaps Nedcor Should Go Right Back to Square One*. p. 2.
32. Business report; 25/7/2000; *Standard and Nedcor re-rated*.
33. Angus McMillan; 10/8/2000; Results to show wisdom of Maree's ways; *Business Report*
34. Richard Stovin-Bradford; 14/9/2000; Standard says its ready to break into the micro loan market; *Business Times*.
35. Madeleine van Meeker; 7/9/2000; Standard bank to launch a new ad campaign; *Business Day*.

36. Amanda Vermeulen; 20/8/2000; Like a phoenix from the ashes, Standard comes out flying; *Business Times*.
37. Business Times; 10/9/2000; *Pat on the back for Standard*.
38. Ann Crotty; 9/7/2000; Report raps Nedcor over failed takeover bid; *Business Report on Sunday*.
39. Hilary Joffe; 7/7/2000; The bottom line, Pyrric victory; *Business Day*
40. Standard bank corporate advertisement; 22/11/1999; Nedcor let go hundreds of thousands of accounts held mainly by 'lower income' customers. In sharp contrast, Standard Bank has already successfully opened over 2,6 million E Plan accounts and is now opening 50 000 new accounts each month. So perhaps Nedcor should be careful of claiming, "No single financial institution can currently reach and cater to the need of millions of South Africans who are deserved by the banks." We know at least 2,6 million customers who may disagree. *Business Day*. Source: All Media Product Survey -South African Advertising Research Foundation -1996-1998.
41. Alec Pienaar; (unpublished, completed September 2000); According to British law, any holding of 20% or greater was considered a controlling interest; The Nedcor/Stanbic Saga: *The Art of a Hostile Defence*. pp. 9.

8.

BIBLIOGRAPHY

1. Cooper Donald R. and Schindler Pamela S.; 2003; *Business research methods*; 8th edition; McGraw Hill; USA
2. Rudestam Kjell Erik and Newton RR; 2001; *Surviving your dissertation*; 2nd edition; Sage publications, California, USA