UNIVERSITY OF FORT HARE

STRATEGIC MANAGEMENT
BEC 323 / E

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Time: 3 hours

Subject: BEC 323 / E

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This paper consists of 9 pages including the cover page

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INSTRUCTIONS

1. Ensure you write the correct subject name and the correct date on the cover page.
2. Ensure that your name is clearly indicated on the cover page.
3. Clearly number each question within your paper.
4. Please attempt to write as neatly as possible as illegible handwriting cannot be marked.
5. Please attempt to answer your questions in the correct order, leave space for questions you wish to answer at a later stage in the examination.

PAPER SPECIFIC INSTRUCTIONS TO CANDIDATES:

ANSWER ALL QUESTIONS.

ALL QUESTIONS ARE BASED ON THE CASE STUDY.

GOOD LUCK!

Battle of the banks: South Africa's big 5 banks compared

There is fierce competition among South Africa's big five retail banking institutions to be the biggest and best bank in the country. Capitec is the biggest bank in the country by customer numbers, but Standard Bank has the biggest income base.

Standard Bank ranks top by core capital, while FNB has some of the happiest customers, and Absa has a wide reach. Looking at the various financial and operational metrics published by the country's biggest banks, almost all of them lead in some metric. BusinessTech looked at the most recent annual financial reports (from 2018/19) and compared the banks on 12 key metrics – from financial performance, to network and reach.

The data below covers both group and South African operations – for example, group data was used for employees, and finances, while South African data was taken for customer numbers. FNB is represented by FirstRand Group, but FNB branches and ATMs were used for the figures. Share prices, market cap and P/E rations were taken from Bloomberg data.

The data covers

- FirstRand – FY 2019
- Capitec – FY 2019
- Absa – FY 2018
- Nedbank – FY 2018
- Standard Bank FY 2018

Market capitalisation and P/E ratio

Two years ago, Capitec had the smallest market capitalisation across the big five retail banks – today, the bank is the third largest, pushing past both Nedbank and Absa on the Johannesburg Stock Exchange. FirstRand and Standard Bank were in a battle for the top spot by this metric, but the former has comfortably surpassed its competitor. When it comes to share price, Capitec, again shines, having hit the R1,000 per share mark in 2018. Capitec also has the highest price over earnings (P/E) ratio, making it quite expensive. The P/E ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

The 'cheapest' stock among the banks is now Nedbank, with a P/E of just over eight.

Bank	Market Cap	Share price	P/E Ratio
FirstRand (FNB)	**R347.1 billion**	R62.10	12.27
Standard Bank	R299.5 billion	R184.79	10.47
Capitec	R137.9 billion	**R1 197.22**	25.55
Absa Bank	R134.6 billion	R159.00	9.11
Nedbank	R114.8 billion	R233.25	**8.13**

Finances

Among the South African banks, Standard Bank is the top earning institution, bringing in total income of close to R100 million. However, while the bank has maintained this leading position with relative ease over the years, FirstRand has caught up. (Income reflects both the interest and non-interest income for the respective banks.). When it comes to headline earnings, FirstRand is already the leader, reporting earnings of R27.89 billion for the 2019 financial year. Standard Bank achieved slightly less – R27.87 billion – in its 2018 financial year. Headline earnings are a measurement of a company's earnings based solely on operational and capital investment activities. It excludes income that may relate to staff reductions, sales of assets, or accounting write-downs. When it comes to headline earnings per share, Capitec leads.

Bank	Income	Headline Earnings	HEPS (cents)
Standard Bank	**R98.9 billion**	R27.9 billion	1 748
FirstRand (FNB)	R94.1 billion	**R27.9 billion**	497
Absa Bank	R75.7 billion	R16.1 billion	1 910
Nedbank	R54.8 billion	R13.5 billion	2 793
Capitec	R19.0 billion	R5.3 billion	**4 577**

Core capital

The Banker's top 1000 banks report is based on a measure of a bank's Tier 1 Capital – known as core capital, which consists of shareholders' equity and retained earnings. Standard Bank retains the top spot in the 2019 rankings with $9.8 billion. FirstRand retained its second position in the Africa table (and its 173rd position in the global rankings) despite a 2.3% drop in Tier 1 capital during the review period. Absa and Nedbank retained their respective third and fourth positions in the Africa rankings, despite both experiencing double-digit falls in their Tier 1 capital positions over the period. Absa fell 14 places to 184th in 2019's global ranking, with Nedbank down 23 places to 240th. Capitec ranked 588th overall, and showed some growth in its Tier 1 Capital over the past year, recording a 1.7% improvement.

Bank	Tier 1 Capital
Standard Bank	**$9.75 billion**
FirstRand (FNB)	$8.23 billion
Absa Bank	$6.85 billion
Nedbank	$5.71 billion
Capitec	$1.51 billion

Reach and network

With news of the legacy banks scaling down their bricks and mortar networks, it's no surprise to see a reduction in overall branch numbers across the banks. However, Capitec has increased its reach to include 840 branches and 5,011 ATMs. Standard Bank still has the biggest branch network and the biggest ATM network. Absa says it has "over 1,000 branches" and "close to 8,000" ATMs, making it a strong second place. Standard Bank also has the highest employee count, recording over 53,000 workers across the group.

Bank	Employees	Branches	ATMs
Standard Bank	**53 178**	**1 200**	**9 321**
Absa Bank	40 856	1 000	8 000
FirstRand (FNB)	48 780	619	5 780
Nedbank	31 277	702	4 242
Capitec	13 774	840	5 011

Customers

Tracking customer numbers at the big South African banks has become more challenging over the years, with actual figures not being as forthcoming as before. Banks like Capitec, which continues to show strong growth, will happily point out the hundreds of thousands of new customers being signed on each month, while banks that have lost ground over the years are less likely to report their customer numbers. While BusinessTech included the latest customer numbers available in the table below, the key metric is satisfaction levels. The latest South African Consumer Satisfaction Index for the country's retail banks showed that Capitec and FNB customers are the happiest with their services, while Absa and Standard Bank lag behind.

Bank	Active retail customers (FY2018/19)	Customer Satisfaction (2019)
Capitec	11.4 million	84.9
FirstRand (FNB)	±8.2 million	81.5
Standard Bank	8.1 million	77.0
Nedbank	7.9 million	79.3
Absa Bank		

https://businesstech.co.za/news/banking/339319/battle-of-the-banks-south-africas-big-5-banks-compared/

Standard Bank Mobile now offers smartphones

Standard Bank Mobile has expanded its service offering to allow customers to purchase Apple, Samsung and Huawei smartphone devices. The bank said that consumers can purchase a smartphone, while financing the device over 24 months using an extended payment facility on Standard Bank credit card accounts. This facility is offered at an interest rate of 11% per annum. Customers can call in to request a limit increase if required. "This convenient alternative to securing a 24-month contract with a Mobile Network Operator will also enable Standard Bank customers to enjoy the benefit of free voice and data to the value of their monthly banking fees," the bank said. The bank said it has integrated several benefits into the Standard Bank Mobile operating structure that include:

•10% discount on handsets

•Free voice and data to the value of a customer's monthly account fees

•1MB of data for every R10 swipe

•Ucount tiered points and up to 2GB of free data

Stephen Bailey, Standard Bank Mobile CEO, said: "Our integrated propositions support and reward customers by ensuring that we offer the most comprehensive and affordable mobile experience on the market. Our customers get rewarded for carrying on with their daily lives, be it grocery purchases, fuel, stationary or school fees. Standard Bank said its mobile division will also introduce flexible payment options – 12 to 36 month contract structures, and handset insurance options in the near term.

https://businesstech.co.za/news/banking/337103/standard-bank-mobile-now-offers-smartphones/

Standard Bank Mobile expands its services to offer smartphones

DURBAN - Standard Bank Mobile, has expanded its service offering to allow customers to purchase Apple, Samsung and Huawei smartphone devices with a convenient financing option. The bank has introduced an innovative way to acquire a smartphone by financing devices over 24 months using an extended payment facility on Standard Bank credit card accounts. This facility is offered at a special interest rate of 11 percent per annum. Customers can call in to request a limit increase if required. This convenient alternative to securing a 24-month contract with a Mobile Network Operator will also enable Standard Bank customers to enjoy the benefit of free voice and data to the value of their monthly banking fees.

Standard Bank believes that the only way to enter a crowded telecommunications market is by offering additional value to consumers. As a result, the bank has integrated several benefits into the Standard Bank Mobile operating structure that include:

1. A 10 percent discount on handsets

2. Free voice and data to the value of a customer's monthly account fees

3. 1MB of data for every R10 swipe

4. Ucount tiered points and up to 2GB of free data

Stephen Bailey, Standard Bank Mobile Chief Executive said, "Our integrated propositions support and reward customers by ensuring that we offer the most comprehensive and affordable mobile experience on the market. Our customers get rewarded for carrying on with their daily lives, be it grocery purchases, fuel, stationary or school fees". He added, "We are significantly enhancing the value that our customers receive based on the choices that they make, and rewarding them with real connectivity, value and superior banking and mobile services. Our customers are at the heart of everything we do, and we want to make sure that they are connected when they do so".

Standard Bank Mobile will also be introducing flexible payment options that is 12 to 36 month contract structures as well as handset insurance options. Standard Bank Mobile is only available to Standard Bank customers and it was launched in November 2018. "Standard Bank is also driving digitalisation of its services, and being able to provide customers with smartphones and connectivity supports this. We further want to offer our customers the best value for their money and providing customers with free airtime and data to the value of their bank fees is part of how we do this. Customers need no longer purchase their airtime separately, they can access these products free with their Standard Bank account," concluded Bailey.

https://www.iol.co.za/business-report/companies/standard-bank-mobile-expands-its-services-to-offer-smartphones-31431350

Standard Bank targets small shop owners in fintech deal

Standard Bank has taken a stake in local fintech firm Nomanini to offer credit to potentially millions of small shop owners and other informal retailers across Africa that have limited access to banking services. Africa's biggest bank by assets has invested $4m (about R61m) in Nomanini, which connects informal merchants with distributors via an e-wallet, and aims to roll the service out across 14 African countries by early 2021. Nine out of 10 retail transactions in Africa are conducted in cash or via informal channels like kiosks and open-air markets, according to a 2017 report by audit firm Deloitte.

Using Nomanini technology, Standard Bank will collect and analyse data on the retailers. Adrian Vermooten, Standard Bank's head of digital in Africa regions, said data on just one primary product line, such as pre-paid airtime, was enough to proxy the risk associated to that shop, build up a financial profile and understand its ordering patterns. This will allow the bank to pre-empt the trader's re-stocking needs and send them alerts offering to arrange and underwrite its next order, for instance.

This could be done via Nomanini or Standard Bank devices supplied to the traders or by leveraging other existing networks or devices from third parties, whatever fits best in each market. Vermooten pointed to tens of thousands of informal traders who currently act as mobile money agents in African countries. "Those are all small little businesses that we find really attractive," he said. At a later stage, the bank will look to help those retailers offer financial services, like cash deposits and withdrawals, to their customers. Vahid Monadjem, founder and CEO of Nomanini, said even just 100,000 retailers could reach 50-million to 150-million people.

Standard Bank hopes that its licences to lend and offer other products, such as insurance, will give it the edge over mobile operators that dominate financial services in markets like Kenya. Kenyan telecom company Safaricom has pioneered offering Kenyans without bank accounts a network to transfer cash via mobile phones with its M-Pesa mobile payment service platform. Standard Bank will also face competition from traditional rivals such as FirstRand, which has also teamed up with a fintech firm to target informal businesses.

New players are entering the fray too. Digital-only lender TymeBank, which launched in 2019, is planning to offer business accounts, while a bank set up by money transfer service Hello Paisa and lender Sasfin is specifically targeting informal retailers. Hello Paisa's MD Ahmed Cassim said that the bank, launched in June, would offer retailers point-of-sale devices in order to collect data that would allow it to sell them products like loans and insurance — a strategy similar to Standard Bank's. "I think the penny has dropped that the opportunity exists," Cassim said, adding that moving a retailer away from cash also allows its customers to shift towards other methods of payment, further expanding the addressable market for financial services.

Africa is the world's second-fastest growing banking market, according to a 2017 McKinsey report. Standard Bank and Nomanini will roll out their service in SA, Zambia, Mozambique, Malawi, Angola, Zimbabwe, Namibia, Ghana, Nigeria, Kenya, Tanzania, eSwatini and Lesotho. Other products it will offer the retailers include short-term savings and insurance. Nomanini is open to partnerships with other banks elsewhere, but says its partnership with Standard Bank alone will give it substantial geographical reach and product range. "The scale of the opportunity for Nomanini within Standard Bank's footprint can keep us busy for a very, very, very long time," Manadjem said.

https://www.businesslive.co.za/bd/companies/2019-08-27-standard-bank-targets-small-shop-owners-in-fintech-deal/

Standard Bank will only invest in coal in 'certain circumstances' - CEO

Standard Bank - which earlier this year made headlines for withdrawing funding from coal IPP projects - says it will only invest in coal project only in "certain circumstances", and such decisions will be taken in consultation with affected communities, Chief Executive Sim Tshabalala said on Thursday, during the presentation of the company's interim financial results. Tshabalala stressed that the bank's position on the matter was influenced by its position on playing a responsible role in countries where it operates.

"Our balance sheet exists to serve the needs of our continent," he said, adding that the bank will support gas projects and mineral exploration, and "will in certain circumstances fund coal projects". "We will do so in the right way and in consultation with affected communities," said Tshabalala. In April, Standard Bank said it supported the adoption of higher efficiency, lower-emission coal-fired power plants to reduce the environmental and social impact of coal-fired power generation. The bank said it had set up a strict set of parameters that would guide all future financing decisions as they related to new coal powered stations. According to Tshabalala, there has been a growing interest from shareholders and stakeholders to play a responsible role.

"Climate change is the biggest global issue of our time and the financial sector should and could play its part in mitigating the factors of climate change." In January this year, Nedbank announced its decision to withdraw funding of the Thabametsi and Khanyisa coal-fired power stations, saying that its decision is in line with its commitment to "green" funding, responsible lending and supporting sustainability initiative, as Fin24 reported. Standard Bank, the continent's largest lender by assets, is set to withdraw its investment from Argentina to focus on African operations.

https://www.fin24.com/Companies/Financial-Services/standard-bank-will-only-invest-in-coal-in-certain-circumstances-ceo-20190808

Standard Bank CEO: SA stands ashamed

Over the last few days, South Africa has been deeply saddened by a wave of violence against our fellow Africans. We stand ashamed before our African brothers and sisters and before the world. On behalf of all of us at the Standard Bank Group, I offer our deepest sympathy to all who have suffered and lost. We stand in solidarity with our fellow Africans. We stand in solidarity with the great majority of South Africans who live by the values of our Constitution, which commands us to defend the rights and dignity of everyone who lives here.

Like many other South African companies, our businesses throughout Africa are essential to our success and enable us to tackle unemployment, inequality and economic exclusion. When South Africans attack their fellow Africans, we are hurting ourselves. We call on all South Africans to support the authorities and civil society in their efforts to restore law and order and to ensure that all perpetrators answer for their actions in a court of law. I am very sad that this is the second time during my tenure as group CEO that I have had to write to the group about xenophobic violence in South Africa. I hope and pray that I will not have to do so again. The underlying causes of most violence are poverty, inequality and unemployment. Let us, therefore, recommit ourselves to doing all we can to promote social solidarity, sustainable economic growth, and human development in South Africa and throughout this great continent that is our home. Africa is our home, we drive her growth.

* Sim Tshabala is the CEO of Standard Bank.

https://www.fin24.com/Opinion/opinion-standard-bank-ceo-sa-stands-ashamed-20190904

Standard Bank ends its Argentine adventure

Africa's leading bank, the Standard Bank Group, will sell its remaining stake in ICBC Argentina to its Chinese partner, the Industrial and Commercial Bank of China (ICBC) for $181-million, thus completing its refocus on Africa that began in 2011. Standard Bank Group will exercise a put option on its 20% stake in ICBC Argentina in favour of the Industrial and Commercial Bank of China (ICBC), which had assets worth $4,000-billion at the end of 2018. The transaction represents a value of $180.75m.

By 2011, Standard Bank Group had sold 80% of the Argentine bank – the country's fifth-largest private operator according to Moody's – for $600m to its capital and strategic partner, ICBC.

- In 2007, the Chinese giant had invested $5.46bn to buy 20% of Standard Bank, which at the end of 2018 had $147bn in assets.

Standard Bank Group entered the Argentine market by acquiring Bank Boston Argentina as part of a wave of international expansion, which also saw the South African leader establish itself in Turkey and Russia. At the turn of the decade, however, the Group refocused its activities on the continent, reducing its non-African portfolio. Standard Bank Group CEO Sim Tshabalala said in a statement on 8 August "since the change of control, ICBC Argentina has performed very well financially.

- However, Argentina remains outside the group's strategy in terms of geography, and there is little overlap in the customer bases" of Standard Bank and the Argentine bank.

Capital to invest in Africa

The put option between Standard Bank and ICBC in 2011 expires at the end of November 2019.

- The move comes in times of high macroeconomic and financial volatility in Argentina, following the results of the presidential primaries on 11 August. These were unfavourable to the outgoing president, and the peso immediately lost 22% against the US dollar.

The sale "frees up capital that the South African financial conglomerate can invest in its banking activities in Africa", say Ceres Lisboa and Akin Majekodunmi of Moody's. They also point out "the turnover of Standard Bank Group's African activities outside South Africa has grown faster than that of its main operating company, Standard Bank of South Africa Limited". According to the ratings agency, at the end of June 2019, "the rest of the continent represented 23% of Standard Bank Group's net asset value compared to 18% in 2016".

- At the end of 2018, 31% of the group's ordinary profits were African, compared to 28% in 2017. Angola, Ghana, Mozambique, Nigeria, and Uganda were the main contributors.

Standard Bank Group is present in 19 African countries, including Côte d'Ivoire, Kenya, and the DRC. The return on equity for these African operations was 24% in 2018, up two points year-on-year from 18.8% in South Africa.

https://www.theafricareport.com/16368/standard-bank-ends-its-argentine-adventure/

QUESTION ONE **[25]**

1.1 Explain the key industry drivers of change that are affecting an organisation such as Standard Bank within the South African market. (10)

1.2 Briefly conduct a competitive industry analysis utilising Porters Five Forces framework for the banking industry in which Standard Bank operates (only use information available in the case). (15)

QUESTION TWO **[25]**

2.1 Comment on the different business and corporate level strategies that Standard Bank has been using or is currently using. Analyse the success of these strategies and be ensure to incorporate an organisational structure discussion in this answer. (15)

2.2 You have been hired as a consultant for Standard. Suggest why evaluating strategic choice is important and how this can be done using the steps in the strategic control process (10)

QUESTION THREE **[25]**

3.1 Discuss the concept of business sustainability and suggest three aspects through which Standard Bank can achieve business sustainability. What role does leadership play in all this? (15)

3.2 Identify and explain the reasons why Standard Bank would want to invest on the African continent. Based on the information in the case study, how can this be done? (10)

Total: 75 marks