AN INVESTIGATION INTO THE EFFECT OF FOREIGN OWNERSHIP ON BANK PERFORMANCE. THE CASE OF STANBIC BANK ZIMBABWE LIMITED.

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DISSertation SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION.

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GRADUATE SCHOOL OF MANAGEMENT
UNIVERSITY OF ZIMBABWE

SUPERVISOR: PROFESSOR T. HAWKINS
DEDICATION

To my three beloved girls
DECLARATION

I, Albert Kulupi declare that this document is my own work undertaken through research conducted by me, and that it has not been submitted to any college or university before.

Student's Signature : ____________________ Date: _________________

Supervisor's Signature : ____________________ Date: _________________
Acknowledgements

I would like to offer my sincere gratitude to my project supervisor Professor Tony Hawkins for his unwavering support and guidance.

I thank my wife Prudence for all the encouragement, support and understanding through the long hours and days spent away from home in pursuit of this programme.

My acknowledgements also extend to all respondents and fellow MBA students. For without their cooperation this study would not have been a success.
ABSTRACT

Foreign bank entrants into developing economies and emerging markets are usually thought to improve the condition and performance of acquired institutions, and more generally to enhance local financial stability (Crystal, Dages and Goldberg, 2001). This study examines the effect of foreign ownership and central control on foreign owned subsidiary banks and financial performance in Zimbabwe during the period 2009-2012. It focuses on a specific case of Stanbic Bank Zimbabwe (SBZ) which is a subsidiary of Standard Bank South Africa (SBSA). To measure and indicate the financial performance, a number of performance indicators were discussed including return on equity, return on assets, EVA, the CAMELS model. The CAMELS model was discussed at length and its factors became the bases of performance evaluation done in the study. The study has used both primary and secondary data. The secondary data was obtained from bank documents, annual reports, and industry performance reports in Zimbabwe. Primary data on the effects of central control on performance was collected using a free response questionnaire. By applying the descriptive data analysis and literature review methods of analysis, the study found that foreign ownership and centralized foreign control has both positive and negative effects on performance but largely the former. The research concludes that SBSA should maintain central control but giving some autonomy to the resident management on matters that require urgent attention and also allow innovation and market specific technological adaptations which will not only make SBZ more competitive but also a market leader.
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</tr>
<tr>
<td>ADB</td>
<td>Africa Development Bank</td>
<td></td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
<td></td>
</tr>
<tr>
<td>BAZ</td>
<td>Bankers’ Association of Zimbabwe</td>
<td></td>
</tr>
<tr>
<td>CBZ</td>
<td>Commercial Bank of Zimbabwe</td>
<td></td>
</tr>
<tr>
<td>CIR</td>
<td>Cost to Income Ratio</td>
<td></td>
</tr>
<tr>
<td>DEA</td>
<td>Data Envelope Analysis</td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
<td></td>
</tr>
<tr>
<td>FMO</td>
<td>Netherlands Development Finance Company</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td></td>
</tr>
<tr>
<td>GNU</td>
<td>Government of National Unity</td>
<td></td>
</tr>
<tr>
<td>LDR</td>
<td>Loan to Deposit Ratio</td>
<td></td>
</tr>
<tr>
<td>LER</td>
<td>Loans to Equity Ratio</td>
<td></td>
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<tr>
<td>MPS</td>
<td>Monetary Policy Statement</td>
<td></td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation &amp; Development</td>
<td></td>
</tr>
<tr>
<td>PAT</td>
<td>Profit after Tax</td>
<td></td>
</tr>
<tr>
<td>PESTEL</td>
<td>Political Economic Social Technological Ecological Legal</td>
<td></td>
</tr>
<tr>
<td>RBZ</td>
<td>Reserve Bank of Zimbabwe</td>
<td></td>
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<tr>
<td>ROI</td>
<td>Return On Investment</td>
<td></td>
</tr>
<tr>
<td>SBZ</td>
<td>Stanbic Bank Zimbabwe</td>
<td></td>
</tr>
<tr>
<td>SBSA</td>
<td>Standard Bank of South Africa</td>
<td></td>
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<tr>
<td>SCP</td>
<td>Structure Conduct Performance</td>
<td></td>
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<tr>
<td>SPSS</td>
<td>Statistical Package For Social Sciences</td>
<td></td>
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<tr>
<td>TER</td>
<td>Total Expenses Ratio</td>
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CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

Foreign bank entrants into developing economies and emerging markets are usually thought to improve the condition and performance of acquired institutions, and more generally to enhance local financial stability (Crystal, Dages and Goldberg, 2001). This trend reflects a range of factors, most notably the need for recapitalization of local banking sectors in the wake of crises, but also broader market trends of consolidation, integration, privatization, and liberalization. In addition it factors in the aspect of foreign ownership which has an impact on the governance of the acquired institutions in the form of foreign control. In Zimbabwe a number of banks like Stanbic Bank, Standard Chartered bank, and Barclays bank are wholly foreign owned whilst part foreign ownership exists in other banks like ABC bank. In some instances such ownership comes with the centralization of control of aspects like operations, decisions making, product offering, information systems, and financing etc. at the distant Head Office in another country. Such control also comes with a string of benefits and costs that may ultimately affect the performance of subsidiaries. It is critical to fully understand the impact this foreign control, on the performance of banks.

This research looks at this aspect of foreign ownership and its effect on the performance of subsidiaries, looking at a specific case of Stanbic Bank Zimbabwe as a wholly owned subsidiary of Standard Bank South Africa. It will add to the already existing literature on this subject by looking at how foreign ownership of banks affect the specific drivers of bank performance and also concentrate on the effect of centralisation of authority brought about by the dynamics of Corporate governance on the performance of subsidiaries. This chapter focuses on Zimbabwe’s banking industry, performance of commercial banks in Zimbabwe, Stanbic Banks’ operations
in Zimbabwe, statement of the problem, research objectives, research questions, scope of the research and structure of the dissertation.

1.1 BACKGROUND TO THE STUDY

Financial intermediaries play a critical role in all economies creating a flow of financing in the financial system (Collins, 2008). A collapse in the financial system spells chaos in the whole economy affecting all economic units. The Zimbabwean economy went through a recession from around 2000. The economy deteriorated dramatically and banks were forced to employ survival strategies through the high inflationary and politically uncertain period. This also meant that banks had to be able to act quickly to the volatile environment and the decision makers had to be on their toes. To compound to this the Central Bank was making policy decisions which needed implementation by banks overnight. Thus decision making had to be fast and timely. The risk status that was attached to the country impacted on the decision of foreign investors who took precaution in their approach to their Zimbabwean operations. Banks which were foreign owned were not spared.

The multi-currency system was introduced in February 2009 ushering in a totally new environment. This brought an end to the economic meltdown and high inflation, bringing in economic stability and economic growth. Banks had to come up with new strategies to get back into the game, attract depositors, regain market share and return to efficiency and profitability. To some extent even until today foreign owned banks still tread on the side of caution when it comes to investment and growth strategies because of the uncertainty resulting from, inconsistent policy announcements by government with regard to issues like indigenisation, elections and other policies and the general macroeconomic environment itself.

There are mixed sentiments to the status of banking institutions that are foreign owned, thus are under the control of foreign governance. Resultantly there is significant debate regarding the implications of the participation of foreign owned banks in developing countries (Cull and Peria, 2010). Supporters of foreign entry argue that foreign banks can bring in much needed capital as well as technical skills, and product innovation to developing countries. They also highlight the potential significant gains in terms of increased competition and improvements in the
efficiency and stability of the banking sector. On the other hand, the critics of this process argue that foreign banks can destabilize the local banking sector due to a number of reasons. Foreign banks can import shocks from their home countries and/or spread shocks from other developing countries in which they operate. Severe competition with foreign banks can threaten the survival and viability of the local banks. In addition, cherry picking of customers by foreign owned banks can lead to reduced access to finance for a majority of domestic firms and consumers if they only concentrate on a top and selected segment of the market. We therefore note that in one hand, there is an element of stability and confidence in those foreign owned institutions and on the other there is proof of loss of market share, slow reaction to market changes, and slower rates of growth as compared to some of their the locally owned counterparts especially in times of crises. Could we attribute these outcomes to the policy making that emanates from the ownership structure of these banks?

Foreign ownership has been defined variably among different authors and studies, many of which define ownership of organisations along the concentration and mix of shareholders. Uche (1998) in his study of Nigerian banks, bases his definition of foreign on whether the head office is located in the home or host country whilst Anyanwaokoro (1996) bases foreign ownership on the full or whole ownership by foreign investors. Claessens et al. (1998) consider a bank to be foreign owned if foreign residents own 50% or more of its capital. Crystal et al. (2002) consider banks to be foreign if foreign shareholders own a majority of voting shares or exercise effective management control. In this study the researcher takes the same approach as Crystal et al. (2002) and defines foreign ownership along the concentration of foreign owned capital in comparison to locally owned capital which enables the shareholder to have control of the institution and influence policies and governance. The researcher takes guidance from the indigenisation statute and adopts a threshold of 51% and above in foreign shareholding, to define foreign ownership.

1.2 MACRO ENVIRONMENTAL ANALYSIS
According to Milne (2005) macro environmental analysis is a review of all the factors that a company is unable to control. Companies conduct this analysis to closely
monitor and forecast these factors to anticipate emerging opportunities and threats and stay abreast of the issues in the current business environment. A common tool for conducting a macro environment analysis is the PESTEL framework, which includes factors from the Political, Economic, Social, Technological, Ecological and Legal aspects in the business environment (Gubah, 2008). This is the model that the researcher used in analysing the Zimbabwean macro-environment.

1.2.1 Political
Though the environment is generally quiet, with the term of the GNU coming to an end and the country will have to hold elections, the results of which will influence the path that the country will take, thus the political environment remains tense. There is no consistence from the authorities with regard to the holding of the elections. The country will be ushering in a new constitution to pave way for the conduct of the elections encompassing the adjustments that have been captured in the new constitution. The GNU was established in 2009 to create political stability in the country and with it came renewed confidence in both local and foreign investors.

1.2.2 Economic
The Zimbabwean economy was dollarized in February 2009. Since then the country has been experiencing liquidity challenges as a result various key economic fundamental. Due to depressed external sector position very little foreign currency is being generated. The Reserve Bank of Zimbabwe is not able to function as the lender of last resort to provide the necessary finance to the financial institutions. Due to a severe limitation of resources, and high cost of capital; uncertainties arising from policy inconsistencies, especially with respect to economic empowerment and indigenisation regulations; dilapidated infrastructure and obsolete technologies The economy continues to experience structural challenges the economy is continually experiencing structural challenges. Adverse commodity price developments combined with limited access to offshore lines of credit, compound the country’s external sector position with alarming implications on bank vulnerability (RBZ, 2013). Deposits have been largely short term affecting the ability of the banks to offer long term loans, situation that has compounded on low circulation of money and business recovery and growth.
Despite the continued political uncertainty, the Zimbabwean economy has continued to grow. Following a decade of contraction from 1998 to 2008, the economy recorded real growth of around 7.5 in 2009 increasing to more than 9% per year in 2010-11, before slowing to 4.4% in 2012, due in part to a poor harvest and low diamond revenues (AFDB, 2013). It is projected to improve marginally to 5.0% in 2013. The projected improvement in 2013 will be based on improvements in mining and agriculture (AFDB, 2013). Average industrial capacity utilisation declined from 57.2% in 2011 to 44.5% by June 2012. Since the beginning of the multi-currency system in February 2009, inflation reduction has been one of the main achievements that Zimbabwe has made. Figure 1.1 below shows that there has Annual inflation declined from 4.3% in February 2012 to 3% in February 2013.

Figure 1.1 Inflation developments
Source: ADB, 2013

The poor performance of the country’s internal revenue inflows against the background of rising recurrent expenditures continues to constrain the fiscus. The ADB, 2013 economic outlook highlights that, the not much change is expected from the monetary policy due to the continued use of the multi-currency regime, Overall, the performance of the economy will be influenced largely by the outcome of the forthcoming 2013 general elections.

1.2.3 Social
The AIDS pandemic remains the greatest challenge to the country’s workforce. Shonhiwa (2012), explain that as a result of this scourge, there has been an increase
in the worker dependency from 1:4 in 2001 to 1:10 in 2011. Banks were also affected by the brain drain with some key personnel leaving the country for greener pastures abroad.

1.2.4 Technological

The population of Zimbabwe is slowly embracing the use of the internet. The percentage of the population subscribing to the internet increased from 6.7% in 2005 to 11.5% by 2011 (internetworldstats.com). Internet service providers and mobile operators are strongly competing for this market. Over and above the traditional technology based products like internet banking, Visa cards and debit cards, the banking industry is slowly embracing the mobile banking and SMS banking to gain competitive advantage for example Eco-cash, One Wallet and other SMS banking and alert SMS alert services like deposit alerts. The banking industry is continuously experiencing growth in information technology enhanced by the consistent growth of communications technology and the deployment of fibre connections which has greatly improved the reliability of telecommunications infrastructure.

1.2.5 Ecological

Weather patterns seem to have gradually changed, signalling effects of global warming. The country has been experiencing lesser and lesser rains with each year affecting the yields from the agricultural sector. Commercial banks that used to also rely on revenue from farmers have also been affected as such as this has dropped from 50% before 2000 to below 10% currently (Chichoni, 2009). The chain of negative effects of the ecological environment stretches from the farms to the manufacturing sector and finally to the banks not ignoring the fact that the people are affected as the country has to import food from neighbouring countries (Chichoni, 2009).

1.2.6 Legal

In response to the folding of banks in the last few years the RBZ revised the minimum regulatory capital requirements for banks to 100million United States dollars, which must be met by the end of 2014. To allow gradual compliance, these will be accumulated assessed in phases with the first of 25 million due in December 2012. Most banks have found this a serious challenge and as at 31 December 2012 only 14 of the 25 banks managed to comply. The proposal to reduce bank charges
and interest rates whilst increasing interest rates offered to clients will definitely have a knock on effect on the revenue base of banks and cost reduction strategies will have to be devised.

1.3 ZIMBABWE BANKING SECTOR OVERVIEW
Banking is a critical and core component of an economy’s financial system which mobilises deposits to provide loans to borrowers, services to customers and boosting economic development. This makes the performance of banks very critical, not only for the economic development but also to investors. There are many factors that determine the performance of banks and among these is the issue of foreign ownership. With foreign ownership comes foreign control.

Zimbabwe’s financial sector consists of a Central Bank, discount houses, commercial banks, merchant banks, finance houses, building societies, the Post Office Savings Bank, numerous insurance companies, pension funds and a stock exchange. The country had 22 operating banking institutions, 16 asset management companies around 150 microfinance institutions in the economy as at 31 December 2012 (RBZ, 2013). The structure of the banking sector is shown in table 1.1 below;

<table>
<thead>
<tr>
<th>Type of institution</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>16</td>
</tr>
<tr>
<td>Building Societies</td>
<td>3</td>
</tr>
<tr>
<td>Merchant banks</td>
<td>2</td>
</tr>
<tr>
<td>Savings Banks</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Banking Institutions</strong></td>
<td><strong>22</strong></td>
</tr>
<tr>
<td>Asset management Companies</td>
<td>16</td>
</tr>
<tr>
<td>Microfinance Institutions</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: RBZ (2013)

1.3.1 COMMERCIAL BANKING SECTOR
As highlighted above Zimbabwe has a total of 16 commercial banks, four of these being wholly foreign owned and the rest having local or a combination of local and foreign ownership structures. Barclays Bank of Zimbabwe, Stanbic, Standard Chartered and MBCA are the foreign owned banks operating in the country.

1.3.2 PERFORMANCE OF COMMERCIAL BANKS IN ZIMBABWE
The banking sector has not been spared from the current indigenisation drive, however analysts have recommended that a cautious approach needs to be adopted.
when dealing with the banking sector given its importance in the economic performance of the country. The ensuing discussion looks at the current performance of the sector.

1.3.2.1 Deposits
Since the introduction of the multicurrency system, Zimbabwe’s banking sector has been on the recovery path and has enjoyed a fairly stable period and improved financial intermediation. The deposit base has gradually been increasing on the basis of this stability induced by the multi-currency system. This is evidenced by the growth in deposit base. The January 2013 RBZ Monetary Policy Statement reported that total deposits for the banking sector appreciated by 30.7% from US$3,376 million in December 2011 to US$4,411 million in 2012. This means the growth rate increased from the 29.7% achieved between December 2010 and December 2011 where the deposit base was US$2.6 billion as shown in figure 1.1 below.

![Figure 1.2: Bank Deposits, Loans and Advances (US$M)](source: RBZ Monetary Policy statement (January 2013))

From Fig 1.4 below, it is evident that the top five banks accounted for 57% of the total bank at the end of 2011 with CBZ bank taking the largest chunk of 23% as at 31 December 2011 a feet it had achieved in the previous year also. The trend continued in 2012 as shown in fig1.5 where CBZ is still dominating the deposits market with over $1 billion in deposits with $172 million coming from lines of credit, 48% and
33% of its deposits being savings and money markets deposits respectively (Stanbic, 2012). Banks such as BancABC and CABS who have been paying for deposits, have registered a strong growth in their deposit base.

![Bar chart showing bank deposits and loans & advances as at 31 December 2011. Source: Stanbic (2012).](chart.png)

**Fig 1.3: Bank Deposits and Loans & Advances as at 31 December 2011**

**Source:** Stanbic (2012)
Fig 1.4: Bank Deposits Market Share as at 31 December 2011
Source: Stanbic 2012

Figure 1.5: Deposits and Current accounts as at December 2012
Source: Stanbic (2012)
1.3.2.2 Loans and advances

The RBZ Monetary Policy Statement for January 2012 indicated that the banking industry experienced a growth in loans and advances by 70% from $1.7 billion as at 31 December 2010 to $2.9 billion as at 31 December 2011. From the 2013 statement we note that the same variable increased by 27.5% from US$2,761 million in 2011 to US$3,519 million in 2012. During the comparative period the loans to deposits ratio, however, marginally declined from 81.79% to 79.79%. The monetary policy goes further to explain that Loans and advances have largely remained short term in nature and channelled towards the financing of working capital with limited funding going towards capital investments.
Table 1.2: Individual Bank’s Loans and advances as at 31 December 2012

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BancABC</td>
<td>350 000</td>
</tr>
<tr>
<td>Barclays</td>
<td>98 000</td>
</tr>
<tr>
<td>Cabs</td>
<td>298 000</td>
</tr>
<tr>
<td>CBZ</td>
<td>788 000</td>
</tr>
<tr>
<td>Ecobank</td>
<td>95 000</td>
</tr>
<tr>
<td>FBC Bank</td>
<td>170 000</td>
</tr>
<tr>
<td>Kingdom</td>
<td>140 000</td>
</tr>
<tr>
<td>MBCA</td>
<td>98 000</td>
</tr>
<tr>
<td>Metbank</td>
<td>100 000</td>
</tr>
<tr>
<td>NMB</td>
<td>140 000</td>
</tr>
<tr>
<td>Stanbic</td>
<td>210 000</td>
</tr>
<tr>
<td>Stanchart</td>
<td>199 000</td>
</tr>
<tr>
<td>ZB Bank</td>
<td>120 000</td>
</tr>
</tbody>
</table>

Source: Stanbic (2012)

Fig 1.8 and table 1.6 show that five banks still accounted for over 50% of total bank loans and advances with CBZ remaining as the largest lender with a 22% market share. Fig 1.9 depicts the general trend of Loans and advances indicating CBZ as having been way above other.
Figure 1.9 above shows that the LDR for the banking sector was at 84% in 2011 with the LER being 538%. The LDRs for FBC Building Society and Kingdom were the highest in 2010 and 2011 at 100%. CBZ, Ecobank and Stanbic had the largest LERs of
932%; 852% and 816% respectively. Fig 1.10 indicates that Ecobank had the highest LDR of around 127% followed by CBZ, Kingdom bank and Banc ABC.

![Loan to deposit ratio graph]

**Fig 1.10: 2011 Individual Bank LDR and LER**
**Source:** Reporting Banks’ FY 2010 and 2011 Financials

### 1.3.2.3 Assets
As per the January 2012 RBZ MPS, bank assets grew by 42% from $3.3 billion in December 2010 to $4.7 billion in December 2011 with 87% being accounted for by Commercial banks. Again CBZ bank had the largest share of the assets with a whopping $1 billion USD in assets representing a 21% of the total and increasing, marginally 20% as of December 2010.
1.3.2.4 Profitability and Return on Equity

Figures 1.12 and 1.13 show that the aggregate industry PAT improved from $50 million for the year ended 31 December 2010 to $107 million for the year ended 31 December 2011 representing a growth of 114%. Of this CBZ accounted for $25 million (43%), up from $21 million (41%) in 2010, showing its domination in the industry. Figure 1.13 shows the distribution of the profitability market share for the year ended 31 December 2012.

In 2012 CBZ had highest PAT in the market of USD31 million which was up by 26% from the 2011 performance driven by the increase in loans and advances. Standard chartered registered a 21% decline in PAT from USD22 million in 2011 to USD17.4 million. Barclays recorded a 51% growth in PAT from USD1.4 million to USD2.1 million as its non-funded income grew from USD26 million to USD30 million and included USD1.4 million custody compensation (received from Barclays PLC to compensate the Bank for loss of income in its custody business as it sold custody business across Africa except Zimbabwe) (Stanbic, 2012).
Fig 1.12: Bank PAT
Source: Reporting Banks’ FY 2011 Financials

Fig 1.13: PAT Market Share for the year ended 31 December 2011
Source: Reporting Banks’ FY 2011 Financials
In 2012 as indicated in figure 1.14 below, Stanbic had the highest ROE of 42% up from 36% in 2011 coming from a significant growth in trading revenue and net interest income after the upward review of our internal ORL limits. CBZ’s return on equity declined from 44% to 36%, whilst Stanchart’s ROE significantly declined from 52% to 29%. Kingdom and Ecobank came from negative figures in 2011 to register positive ROE in 2012.

![Return on Equity](image)

**Figure 1.14: Return on Equity for banks – December 2012**  
*Source: Stanbic (2012)*

1.3.2.5 Capital Adequacy  
As highlighted below, a total of 14 banking institutions met the 31 December 2012 minimum threshold of USD 25million set by the RBZ in the 2012 midterm monetary policy review. This is enroute to the USD100million which must be met by 31 December 2014.
<table>
<thead>
<tr>
<th>Bank</th>
<th>Level of Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBZ</td>
<td>$111.79 million</td>
</tr>
<tr>
<td>Standard Bank</td>
<td>$56.50 million</td>
</tr>
<tr>
<td>Stanbic bank</td>
<td>$45.62 million</td>
</tr>
<tr>
<td>BancABC</td>
<td>$38.42 million</td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>$34.30 million</td>
</tr>
<tr>
<td>ZB Bank</td>
<td>$32.34 million</td>
</tr>
<tr>
<td>Kingdom Bank</td>
<td>$28.79 million</td>
</tr>
<tr>
<td>Ecobank</td>
<td>$28.18 million</td>
</tr>
<tr>
<td>FBC Bank</td>
<td>$27.97 million</td>
</tr>
<tr>
<td>MBCA Bank</td>
<td>$27.14 million</td>
</tr>
<tr>
<td>TN Bank</td>
<td>$26.90 million</td>
</tr>
<tr>
<td>CABS</td>
<td>$26.76 million</td>
</tr>
<tr>
<td>Tetrad</td>
<td>$25.19 million</td>
</tr>
<tr>
<td>NMB Bank</td>
<td>$25.01 million</td>
</tr>
<tr>
<td>Agribank</td>
<td>$22.64 million</td>
</tr>
<tr>
<td>FBC Building Society</td>
<td>$18.97 million</td>
</tr>
<tr>
<td>Trust Bank</td>
<td>$18.70 million</td>
</tr>
<tr>
<td>Metbank</td>
<td>$17.70 million</td>
</tr>
<tr>
<td>ZB Building Society</td>
<td>$14.56 million</td>
</tr>
<tr>
<td>Allied Banking Group</td>
<td>$15.80 million</td>
</tr>
<tr>
<td>(formerly ZABG Bank)</td>
<td></td>
</tr>
<tr>
<td>Capital bank</td>
<td>$ 7.50 million</td>
</tr>
</tbody>
</table>

*Source: RBZ (2013)*

### 1.4 PORTER’S FIVE FORCES MODEL

Porter (1979) outlines a framework that models an industry as being influenced by five forces which are thus used by a strategic business manager who wishes to develop an edge over rival firms to better understand the industry context in which the firm operates. These forces include threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and intensity of rivalry.
1.4.1 Intensity of rivalry

Economist measure the level of rivalry by indicators of industry concentration, commonly using the Concentration Ratio. The CR measures the %age of market share held by the largest N firms, with N usually standing for 4, a high concentration for example over 40% and closer to 100% where N is equal to 4 indicates that a high concentration of the market share is held by the largest firms. Thus the industry is less competitive and closer to monopoly. As the concentration ratio approaches 0% it means the industry is characterised by many rivals none of which has significant market share.

Based on the CR discussion above and using deposit and current account figures in figure 1.3 as the basis for market share we find that the four largest banks account for 49% of the total deposit base. These are CBZ (23%), BancABC (10%), Stanbic (8%), and CABS (8%). The major players in the industry include Standard Chartered (7%), Barclays (5%) and FBC Bank (5%). From this analysis we can conclude that there is moderate and stable competition in the industry since the market share held by the four largest firms is around 50%. Factors to note though include the fact that there is high competition for deposits and there are high costs associated with exiting the industry because of its sensitivity. As a result players are forced to remain and compete for survival. Sluggish growth of the economy fuels the fight for market share as firms are not able to increase revenues from the expansion of the market. There are low switching costs for depositors thus they are able to easily change from one bank to another greater struggle to capture and retain customers.

CBZ Bank is leading in terms of balance sheet and profitability (monetary policy statement, 2013). Differentiation of bank’s products and services to gain competitive advantage has been the key to retain customers. Cost reduction and containment has been of great importance with banks needing to find new revenue sources after the mandatory reduction of charges and interest rates by the Central bank. Thus diversification of income sources and increasing the volume of transactions and loans is paramount to the performance of the institutions.
1.4.2 Threat of new entrants
The banking industry is a highly sensitive sector of the economy. Given the recent demise of a few banks a couple of years ago, the RBZ has raised the capital outlay to a whooping US100 million which must be achieved by all banks by end of 2014. This has strongly acted as a strong barrier to new entrants. The banking sector is facing competition though from quasi banking products like Eco-cash from Econet which offer consumers easy and convenient money transfer services.
1.4.3 Threat of substitutes
Threat of substitutes is very high. Depositors have access to international banks and can move their funds across borders. In addition, there are many Micro Finance Organizations operating in the country. These offer quick loan with less strenuous processes and requirements as compared to banks. Their turnaround time is also high, making them more appealing to customers. Econet’s Eco-cash product is strongly giving the banking institutions serious competition in Mobile banking. Through Eco-cash consumers can now make money transfers between banking accounts, send money to other individuals, pay bills and also purchase airtime and broadband data. This has taken over some of the banking business on the mobile and SMS platform.

1.4.4 Bargaining power of suppliers
Banks that have been able to pay for deposits have subsequently managed to increase their market share signalling the power of suppliers. The MoU signed between banks and the RBZ factors in a bargaining position for suppliers as banks have to increase interest rates paid on deposits. Because of the shortage in deposits and lines of credits both locally and offshore due to country risk, the industry is also characterised by corporate depositors who negotiate for high returns on their deposits, taking advantage of the situation. In addition offshore suppliers advocate for higher margins to cater for the high country risk attached to the country. Major banking customers also negotiate strongly for banking concessions for the reduction or completely non levying of bank charges on their accounts in exchange for sustained deposits.

1.4.5 Bargaining power of buyers
There are many buyers of bank products, which reduces their concentration. Resultantly their bargaining power is weakened. Buyers of bank products are currently subject to the same products across the financial institutions with minor differentiation in the quality of service. As a result they can easily switch from one between banks at low costs, which gives them bargaining power. Whist this is true for other products, it is not necessary the same with loans and advances as retail customers and most corporates cannot bargain for better terms in the loans they get. They have to get the terms as prescribed by the RBZ in MoU or as prescribed by their banks and banks cannot go out of their way to accommodate borrowers as that
would eat into their profits. Compounding to that is the nature of the deposits that banks are getting, which are mainly short term.

1.5 STANBIC BANK OPERATIONS IN ZIMBABWE
Stanbic Bank Zimbabwe is a registered commercial bank, which is wholly owned by Standard Bank of South Africa (SBSA) which is listed on the Johannesburg Securities Exchange. With its roots centred in Africa and with representation in strategic sub-Saharan markets, Standard Bank is a leading regional banking force. With total assets of about US$202 billion and employing about 53,000 people worldwide, Standard Bank has the largest presence in Africa of any African bank (Stanbic Bank, 2012). SBSA’s network spans across 18 sub-Saharan countries and extends to 21 countries on other continents, including the key financial centres of Europe, the United States and Asia. In addition to banking, SBSA has a strategic interest in the insurance through its subsidiary, the Liberty Group, one of Africa’s leading life insurance offices and financial services groups. The group has one of the biggest single networks of banking services in Africa. Through this network it offers a wide range of banking products and services which are delivered through more than 1,000 points of representation in 17 African countries (including Zimbabwe). SBSA is active in international and cross-border transactions and in those areas liaise closely with Standard Bank Corporate and Investment Banking and Standard Bank London (Stanbic, 2012)

SBZ’s origin can be traced back to 1992 when the Standard Bank Group of South Africa acquired the African operations of ANZ Bank. The wide ranging span of products and services offered by the bank current and savings account for both individual and corporate clients, loans, internet banking, and mobile banking in the areas of retail, wholesale and treasury services across a network of network of 18 branches, 3 executive suites and 24 ATMs. The Bank aspires to be a leading emerging markets financial organization and its mission is to make a real difference to financial services in Zimbabwe by providing banking technologies and products that enhance customer service delivery.
The structure of Stanbic Bank is made up of solid reporting lines which are headed by a Chief Executive who reports to a regional Head sitting at SBSA. The Heads of functional Units have solid reporting lines to the CE and dotted reporting lines to regional Heads who also sit at SBSA. Therefore, decisions that are made within the organization come from both lines, but all guided mostly by policies, standards and guidelines that emanate from SBSA and applied to all subsidiaries in most cases regardless of the difference in economic conditions within the countries.

1.5.1 STANBIC BANK SWOT ANALYSIS
The following section discusses the strengths, weaknesses, opportunities and threats of SBZ.

1.5.1.1 Strengths
SBZ is 100% owned by SBSA and is part similar entities across Africa that are also wholly owned by SBSA. The group centralises control and authority and the majority of shareable services at the Head Office. As a result subsidiaries including SBZ benefit synergies from centralisation which include cost reductions. As a subsidiary of SBSA, SBZ also enjoys external support for capital adequacy, liquidity support, and better risk management policies thus reducing the risk of solvency and creating customer confidence in the institution. Standard Bank has a strong brand standardized across all operating regions and this extends to the subsidiaries like SBZ. In Zimbabwe SBZ thrives on a loyal and sound deposit base of major mining firms like Zimplats and Non-Governmental Organisations like UNDP.

1.5.1.2 Weaknesses
The bank is lagging behind the major competitors in terms of products offering. Currently internet banking is not working and the bank is still far from providing mobile banking to its customers, a service which is fast becoming a necessity. This creates competitive advantages for other banks that are fully utilising the growing technologies in the country to offer e-banking products, SMS banking and credit cards etc.

Major policies, standards, processes and procedures are designed and authored at Standard Bank Level which leaves country with mostly the implementation
functionality. To add to those major decisions on all key strategies have to be approved at the SBSA level and any implementation of changes has to go through a governance process of approval. Adoption and usage of information systems and any changes thereto have to go through rigorous governance processes before implementation in the country. The ultimate effect of this centralisation of control is the inefficiency of operations induced by many layers of decisions and processes. This affects turnaround times thereby affecting the quality of service offered to clients. Lastly, certain strategic decisions have taken a long time to implement. These include the opening of new branches in key strategic areas and towns like Masvingo and Beit-Bridge.

1.5.1.3 Opportunities

There is an opportunity to identify the Bank’s targeted sectors of the economy which can be supported through offering facilities and in turn benefit is derived from high volumes of transactions processed. Stanchart has benefitted from the same in the manufacturing and distribution sector have contributed positively to the growth in its non-funded income. The bank can explore external lines of credit like FMO, to improve the earning assets. Some banks like Barclays have benefitted from account sales, thus the bank needs to rigorously grow the number of accounts and increase account sales. To aid to this the bank can implement the opening of the Beitbridge and Hwange branches and other key areas.

1.5.1.4 Threats

The indigenisation bill presents the biggest threat to the operations of SBZ. This is advocating for 51% local ownership of all institutions which means if it comes to pass, SBSA would be forced to part with 51% of SBZ to local owners. It is not clear as to how SBSA is approaching this issue but the bank has not shared any of its subsidiaries with other shareholders and the researcher is not certain if SBSA will diverge from this position with regard to SBZ. The state of the economy presents another threat in that there is no certainty in the political environment. Any form of instability may see the country slipping back into recession and the gains of the past few years will be lost. Whilst the quasi-banking products like Eco cash also present opportunities for integration of services in enhancing mobile banking, they also present a threat in that they keep on taking all the mobile baking and sms business.
1.5.2 STANBIC BANK PERFORMANCE 2009-2012
In the period under review and Following the introduction of the multi-currency regime performance is now easy to track due to the stability of the currencies in use. During this period a review of nominal financial figures show that SBZ’s financial performance has been on an upward trend. PAT rose from USD 6.733 million in 2009 to 17.2 million in 2012 averaging USD 10.1 million.

![Profit for the year (USD’000)](chart)

**Fig 1.16 Bank Profit after tax (2009-2012)**
*Source: Stanbic Bank (2012)*

<table>
<thead>
<tr>
<th>Financial Results &amp; Ratios</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year (USD’000)</td>
<td>6 733</td>
<td>7 768</td>
<td>11 146</td>
<td>17 200</td>
<td>10 711.75</td>
</tr>
<tr>
<td>Net interest margin</td>
<td>3.13%</td>
<td>6.30%</td>
<td>7.23%</td>
<td>8.47%</td>
<td>6%</td>
</tr>
<tr>
<td>Non-interest income to total income</td>
<td>82%</td>
<td>59%</td>
<td>55%</td>
<td>55%</td>
<td>63%</td>
</tr>
<tr>
<td>Credit loss ratio</td>
<td>2.00%</td>
<td>0.88%</td>
<td>2.63%</td>
<td>2.54%</td>
<td>2%</td>
</tr>
<tr>
<td>Cost to income ratio</td>
<td>64.62%</td>
<td>74.36%</td>
<td>65.64%</td>
<td>58.95%</td>
<td>66%</td>
</tr>
</tbody>
</table>

*Table 1.4: Summarized Financial Performance*
*Source: Stanbic Bank (2012)*

The data in table 1.10 above shows that the Bank’s NIM is generally going up indicating that funded income is increasing. This has been attributed to the increase in loans and advances to customers and the continued deployment of liabilities into
earning assets (Stanbic, 2012). The composition of non-interest income to total income has largely remained stable between 55% and 60% although the non-funded income increasing, recording a 30% increase in 2012 attributable mainly to the increase in the level of business activity and account sales. The fall from 82% in 2009 came with the changeover to the multicurrency system which resulted in deposits increasing and loans and advances also going up, pushing interest income on an upward trend.

Credit impairment charges

Fig 4.2 shows that the bank’s credit impairment charges grew by 38% from USD4.2 million to USD5.8 million largely because of the increase in the loans and advances book from USD161 million to USD229 million compounded by the increase in specific provisions arising from the downgrading of stressed facilities which was offset by recoveries from previously downgraded facilities. The Bank’s non-performing loans ratio increased from 2.89% to 5.01% following the downgrading of stressed facilities during the year compounded by the increase in interest suspended on non-performing facilities.

Fig 1.17: Non performing loans
Source: Stanbic Bank (2012)
A comparative analysis on the Deposits market share indicates that SBZ’s market share has been declining since 2009. As Fig 4.3 indicates, this has been the general trend in the industry with only BancABC realizing an increase in its market share, this is attributed to the fact that Banks that have been paying for deposits have registered a strong growth in their deposit base. CBZ is still dominating the deposits market with over $1 billion in deposits with $172 million coming from lines of credit, 48% and 33% of its deposits being savings and money markets deposits respectively (Stanbic, 2012a)

### Table 1.5: Camels Rating

<table>
<thead>
<tr>
<th>Year</th>
<th>CAMELS Rating</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Unavailable</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>1</td>
<td>The Bank has a strong position as measured by the CAMELS rating.</td>
</tr>
<tr>
<td>2011</td>
<td>1</td>
<td>The Bank has a strong position as measured by the CAMELS rating.</td>
</tr>
<tr>
<td>2012</td>
<td>1</td>
<td>The Bank maintained its strong position as measured by the CAMELS rating</td>
</tr>
</tbody>
</table>

Source: SBZ Annual Reports
Capital Adequacy
During the period under review the Bank consistently complied with all externally imposed capital requirements, mainly, but not limited to, the relevant requirements of the Banking Act consistent with the Basel II guidelines. In addition to the regulatory requirements of the Zimbabwean regulators, the Bank also complies with the capital adequacy requirements in terms of South African banking regulations as required by it being a subsidiary of Standard Bank Group. The following Capital adequacy ratios have been achieved. Total Tier 1 capital was USD42.2 million as at 31 December 2012, whilst total capital was USD46.4 million. The Bank’s capital adequacy ratio of 17.62% at 31 December 2012 was comfortably above the minimum ratio of 12% set by the RBZ (Stanbic, 2012).

1.6 PROBLEM STATEMENT
The issues surrounding foreign ownership of banks are vast and the element of control of operations, products, policies, standards and procedures, human resources management to name a few is paramount to the success of the local subsidiaries. Foreign ownership of banking institutions brings in elements of foreign governance and in the case on multinationals it creates a situation of centralised foreign control of managerial decisions, operations, product offering, policies, standards and procedures and human resources management. These are some of the key success factors of subsidiary institutions. Whilst centralized control results in massive stability, synergies and standardization within the group (Wang and Bayraktar, 2004; Havrylchyk and Jurzyk, 2010), it also creates decision making loopholes that lead to operational inefficiency, lack of flexibility and ineffectiveness of effort (Wang and Bayraktar, 2004). Foreign owners tend to apply the same standards on subsidiary countries yet the social and economic dynamics in these countries are different. In essence we need to understand if banks really benefit from foreign ownership and foreign control. If so can the downside to foreign ownership and foreign control be identified and measures to mitigate the negative impacts are implemented.

Given that SBZ’S primary goal is to become the leading bank in Zimbabwe, it is critical that its business operations are enhanced. The bank aims to maximize shareholder equity and ensure business continuity with a leading market share.
Stanbic Bank’s performance since dollarization has generally been improving (Stanbic Bank, 2012) but its strategic goal has not yet been achieved. This study will explore the benefits deficiencies that the bank is experiencing from being a subsidiary of SBSA identify and mitigatory measures for the shortcomings within the relationship to create sustained performance.

1.7 RESEARCH OBJECTIVES
The following are specific objectives of the study:

i. To establish the reasons why Standard Bank centralises the control of its foreign subsidiaries including Stanbic Bank Zimbabwe.

ii. To evaluate the extent to which centralisation has been implemented in the various Functional units of Stanbic Bank Zimbabwe.

iii. To analyse the benefits brought about by foreign ownership, and centralisation of control and Standardization of operations and their effect on the performance of the bank.

iv. To assess the operational deficiencies that have come out as a result of foreign ownership and centralisation of control and decision making at SBSA and their effect on the performance of the bank.

v. To finally conclude on a position regarding foreign ownership of SBZ and offer advice on ways to deal with the deficiencies it creates.

1.8 RESEARCH QUESTIONS
SBSA are the 100% shareholders of banking subsidiaries in 17 countries including Zimbabwe. The holding company operates centralised model of authority where management at the Head Office in SA create policies and standards that are adopted by subsidiary countries. The research questions emanating from this view are as follows,

i. What are the reasons for SBSA Bank in centralizing control of subsidiaries at the Head office?
ii. To what extend are decisions being made at SBSA as a result of the governance emanating from the ownership structure of the bank?
iii. What benefits have accrued to SBZ as a result of foreign ownership and centralization of control at SBSA and what effect have they had on the performance of the bank?

iv. What challenges have been experienced by SBZ in operations, enabling functions and service as a result of foreign ownership and centralization of control at SBSA and have they affected the efficiency and performance of these functional units?

v. How can Stanbic Bank attain better growth in performance and market share in the current position as a subsidiary of SBSA?

1.9 RESEARCH PROPOSITION
The dynamics of foreign ownership and centralisation of authority and control at foreign Head Offices of banks have both negative and largely positive impact on the performance of the subsidiaries.

1.10 JUSTIFICATION OF RESEARCH
The importance of this study is enshrined in the benefits that will accrue to the bank and its stakeholders as enunciated below

As a result of this study, SBZ will be able to;

i. Identify the significant benefits that have accrued to Stanbic Bank as a result of being a subsidiary of SBSA and the centrality of authority and control at SBSA. Build competitive advantage around these benefits.

ii. Identify the challenges and weak positions that have been created within Stanbic Bank Zimbabwe as a consequence of being a foreign subsidiary of Standard Bank and the resultant centralization of control and decision making at SBSA.

iii. In light of the above challenges, Innovate for solutions that enhance performance with the aim to achieve the long term strategic goals whilst and maintain the sound relationship with SBSA.

Other stakeholders within the industry and in general benefit in that:

i. Shareholders’ wealth will grow as a result of improved performance.

ii. Clients will enjoy improved service and keep coming back for more knowing that their funds are secure.
iii. Analyses carried out in this study will benefit the banking industry and other studies that may be carried out in the future.

iv. Other foreign owned banks with the same situation may also benefit from the study if they choose to implement recommendations to be made within this study.

v.

1.11 SCOPE OF THE RESEARCH
The scope of the research is limited to the study of the performance of Stanbic Bank Zimbabwe in conjunction with other banks in the period from 2009 to 2012. The research is limited to SBZ Harare locations as this is where all the head office units operate and branch operations are also represented.

1.12 DISSERTATION STRUCTURE
The structure of the dissertation is outlined as follows;

Fig 1.19: Outline of the dissertation

1.13 CHAPTER SUMMARY
This chapter presented the background to the study and elaborated on the statement of the problem which led to the research. The objectives of the research were clearly spelt out in this chapter as these help to focus the research. There was also the highlighting of the research questions that will contribute to the success of the
research. In addition this chapter also contained assumptions to the study, definition of key terms and the structure of the dissertation. This in summary represented the introduction to the study.
LITERATURE REVIEW

2.0 INTRODUCTION
Literature review discusses the literature on which the foundation of the study is premised. The primary focus is descend on the dynamics of foreign ownership, to identify the major bank performance measurement models, review literature relating to the drivers of bank performance, bank ownership models and structures, and the effect of foreign ownership has on various functions of the organisation, that culminate in the overall performance of banks.

2.1 FOREIGN OWNERSHIP DYNAMICS
The past two decades have seen an unprecedented degree of globalization, especially in financial services (Wang and Bayraktar, 2004). Many banks from both advanced and developing countries, have ventured abroad and established presence in other countries (Havrylchyk and Jurzyk, 2010), by opening a new branch or a subsidiary either as a new operation or by acquiring a domestic bank (Clark, Cull, Peria and Sanchez, 2003). This process is called Foreign Bank Entry. Literature identifies that foreign bank entry is as a result of broad market trends of consolidation, integration, privatization, and liberalization (Crystal, Dages and Goldberg, 2001) and driven by, local profit opportunities, the absence of barriers to entry, and the presence of mechanisms to mitigate information problems (Cull and Peria, 2010). Across developing countries, on average, the share of bank assets held by foreign banks rose from 22% in 1996 to 39% in 2005 whilst foreign bank claims on developing countries, which together with the loans extended by foreign bank branches and subsidiaries include cross-border loans, increased from 10% of GDP in 1996 to 26% in 2008 (Cull and Peria, 2010). In terms of loans, deposits and profits, in 2010, market shares of foreign banks average 20% in OECD countries and close to 50% in emerging markets and developing countries (Havrylchyk and Jurzyk, 2010). As a result, foreign banks have become important in domestic financial intermediation and economic stability (Wang and Bayraktar, 2004).
**How do we define foreign ownership?** Foreign ownership has been defined variably among different authors and studies. According to Magri *et al.* (2004) foreign bank presence can be categorised into three main divisions of foreign bank presence, which are, foreign subsidiaries, minority shareholdings and foreign branches. A foreign subsidiary is a legally autonomous entity that is controlled through the ownership of the majority of votes, by a foreign holding company. A branch has no legal autonomy and exists as part of the foreign corporate. Anyanwaokoro (1996) looks at a bank as foreign if it is wholly owned by foreign investors. Claessens *et al.* (1998) view 50% or more of a bank’s ownership by foreign residents to constitute foreign ownership. In a more familiar view, Crystal *et al.* (2002) takes the definition of ownership as the owning by foreign shareholders of enough voting shares to exercise effective management control. This is the definition of foreign ownership that prevails in most studies.

Many studies that have looked at the effect of foreign ownership of banks on the domestic economy have predominantly focused on these main areas: the implications of foreign bank entry on the efficiency and degree of competition in the banking sector, the impact on banking sector and general economic sector stability, the effects on access to finance, and the performance of foreign subsidiaries (Cull and Peria, 2010). This study will add to the already existing literature by looking at the effect of foreign ownership on the specific drivers of bank performance and also concentrate on the effect of centralisation of authority brought about by the dynamics of corporate governance across borders.

According to Cull and Peria (2010) a series of cross country empirical studies show that the existence of foreign owned banks in an economy may result in greater efficiency and competition in a host country’s banking sector. In particular, foreign bank presence has been linked to lower net interest margins, profitability, cost ratios, and non-interest income for domestic banks in developing countries (Claessens *et al.*, 2000, 2001; Claessens and Lee, 2003; Bayraktar and Wang, 2004, Demirguc-Kunt, Levine, and Min (1998). Hasan and Marton (2000) conclude that banks with higher foreign ownership are associated with higher efficiency. Foreign bank presence in emerging market financial systems is said to contribute to an improved financial system infrastructure by encouraging higher standards in auditing,
accounting and disclosure, credit risk underwriting and reserving, and supervision (Havrylchyk and Jurzyk, 2010). Demirguc-Kunt, Levine, and Min (1998) show that foreign bank participation lowers the possibility that a country will experience a banking crisis. Goldberg, Dages, and Kinney (2000) as cited in Wang and Bayraktar (2004) studied the role of foreign banks in determining the health of domestic financial systems in Argentina and Mexico. They concluded diversity in ownership tends to contribute to greater stability of credit in times of crisis and domestic financial system weakness. The knowledge, skill, and technology transfer that accompany foreign bank entry are expected to contribute to a stronger control and risk management environment.

There are also costs associated with foreign bank entry. If foreign banks attract the most profitable portion of domestic markets, this may give pressure to domestic banks, giving them an incentive for more risk taking (Wang and Bayraktar, 2004). The altered competitive environment may, on the other hand exert pressure on domestically owned banks, as documented in Martinez-Peria and Schmukler (1999). By selectively picking lower risk clients, from the domestic banks, the overall asset quality and earnings of domestic banks could decline (Havrylchyk and Jurzyk, 2010). This can undermine overall access to financial services, since cherry picking worsens the remaining credit pool, and lower financial development, especially in low-income countries where relationship lending is important (Claessens and van-Horen, 2012). The implications of such to domestic bank financial strength presumably will depend on initial conditions, the overall regulatory environment, and the extent to which domestic banks take measures to retain competitiveness.

According to Claessens and van Horen (2012), Detragiache, Tressel and Gupta (2008) show the presence of foreign banks in low income countries to be associated with less credit being extended. A number of studies show that funding shocks to parent banks can be transmitted to their foreign subsidiaries with negative consequences for their lending (Cetorelli and Goldberg, 2011) Some though find that global banks support their foreign affiliates during times of financial stress through internal capital markets (De Haas and Van Lelyveld, 2010). In addition, De Haas and Van Horen (2011) show that during the global crisis foreign banks continued to lend to those countries that were geographically close and with whom they have
established long-term lending relationships, suggesting that foreign banks do differentiate between countries during times of stress.

2.2 BANK FINANCIAL PERFORMANCE
Performance can be defined as an approach to determining the extent to which set objectives or goals of an organization are achieved in a particular period of time (Oladele, Sulaimon, & Akeke, 2012). The objectives or goals can be in financial or non-financial terms; therefore, performance can also be financial or non-financial. The European Central Bank (2010) looks at bank performance as the capacity to generate sustainable profitability. Bank performance evaluation is traditionally based on the analysis of financial ratios (Hunjak and Jakovčević, 2001). “However, regardless of how many ratios are being used, a model that would fully satisfy the analysis of needs and bank operations efficiency evaluation has not been developed yet. For this reason, the financial ratio analysis is complemented with different quality evaluations, with features such as management quality, equity structure, competitive position and others to be included into the final evaluation” (Hunjak and Jakovčević, 2001). The soundness of financial institutions is founded on a strong balance sheet and strong management; significant deficiencies in either element generally suggest vulnerability (Crystal, Dages and Goldberg, 2001).

According to the European Central Bank (2010), although banking institutions have become increasingly complex, the key drivers of their performance remain earnings, efficiency, risk-taking and leverage. While it is clear that a bank must be able to generate sustainable earnings, it is also important to take account of the composition and volatility of those earnings. Efficiency refers to the bank’s ability to generate revenue from a given amount of assets and to make profit from a given source of income. Risk-taking is reflected in the necessary adjustments to earnings for the undertaken risks to generate them. Leverage might positively improve results in the way it functions as a multiplier but, conversely, it can also make it more likely for a bank to fail, due to rare and unexpected losses (European Central Bank, 2010).

2.3 BANK PERFORMANCE MEASUREMENT
There are a multitude of measures used to assess bank performance, with each group of stakeholders having its own focus of interest (European Central Bank,
2010). For example, depositors are interested in a bank’s long-term ability to look after their savings; their interests are safeguarded by supervisory authorities. Debt holders, on the other hand, look at how a bank is able to repay its obligations. Equity holders focus on ensuring a future return on their current holding. Managers, too, seek profit generation, but are subject to principal-agent considerations and need to take employee requests into consideration. The following discussion looks a few of the models of performance.

Among the large set of performance measures for banks used by academics and practitioners alike, a distinction can be made between traditional, economic and market-based measures of performance (European Central Bank, 2010). Some have resorted to the use specific models like CAMEL, EVA and ADN. This discussion will give an overview of a few of the models used and in detail look at the CAMEL model for bank performance measurement. The Central Bank of Zimbabwe has employed this model in measuring bank performance (Monetary Policy Statement, January 2013).

2.3.1 Traditional measures of performance
Traditional performance measures are similar to those applied in other industries, with return on assets (RoA), return on equity (RoE) or cost-to-income ratio being the most widely used. In addition, given the importance of the intermediation function for banks, net interest margin is typically monitored (European Central Bank, 2010).

**Return on Assets (RoA)** - This ratio indicates how much net income (NI) is generated per dollar of assets. It shows the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments (Ahmed, 2009). The higher the RoA, the more the profitable the bank.

\[ \text{RoA} = \frac{\text{net income}}{\text{average total assets}}. \]

**Return on Equity (RoE)** - According to Ahmed (2009), RoE is the rate of return to shareholders or the %age return on each dollar of equity invested in the bank and is the most important indicator of a bank’s profitability and growth potential. It is by far the most popular measure of performance (European Central Bank, 2010), since:
(i) It proposes a direct assessment of the financial return of a shareholder’s investment;
(ii) It is easily available for analysts, only relying upon public information; and
(iii) It allows for comparison between different companies or different sectors of the economy.

\[ RoE = \frac{\text{net income}}{\text{average total equity}} \]

**Cost to Income Ratio** - The cost-to-income ratios shows the ability of the institution to generate profits from a given revenue stream. Impairment charges are not included in the numerator.

\[ \text{Cost to Income Ratio} = \frac{\text{operating expenses}}{\text{operating revenues}} \]

**Net Interest Margin (NIM)** - NIM is a measure for the income generation capacity of the intermediation function of banks.

\[ \text{Net interest margin} = \frac{\text{net interest income}}{\text{assets (or interest-bearing assets)}} \]

### 2.3.2 Economic measures of performance

The economic measures of performance take into account the development of shareholder value creation and aim at assessing, for any given fiscal year, the economic results generated by a company from its economic assets, as part of its balance sheet. These measures mainly focus on efficiency as a central element of performance, but generally have high levels of information requirements. Two sets of indicators can then be identified.

i) **Indicators related to the total return of an investment** – These are based on the concept of an opportunity cost. The most popular one is **Economic Value Added (EVA)**.

EVA was developed by Stern and Stewart in 1991 and it takes into account the opportunity cost for stockholders to hold equity in a bank, measuring whether a company generates an economic rate of return higher than the cost of invested capital in order to increase the market value of the company (Fogelberg and Griffith, 2000). Fogelberg and Griffith (2000) explain that EVA differs from conventional
earnings in two important ways. First, Net Profit After Tax (NOPAT) reflects operational profits adjusted to minimize accounting conventions that misrepresent economic flows or that distort the proper matching of revenues and expenses. Second, EVA assumes that management must generate sufficient revenues to cover operating expenses, interest charges, and provide the return that shareholders require as compensation for assuming risks. Prior studies traditionally used net income (NI), earnings per share (EPS), return on equity (ROE), or return on assets (ROA) of which all are accounting measures of performance. None of these performance measures tells us how much management has increased shareholders wealth. EVA can lead to management decisions that are different from those based on traditional measures. Traditional measures do not reflect risk and therefore promote behaviour that aims to maximize earnings or prevent the dilution of returns.

\[
EVA = \text{return on invested funds (NOPAT)} - (\text{Weighted Average Cost of Capital} \times \text{invested capital}) - (\text{weighted average cost of debt} \times \text{net debt})
\]  

(European Central Bank, 2010)

ii) **Indicators related to the underlying level of risk associated with banks’ activity.** According to Kimball (1998), for a bank to be successful in its operations, managers must weigh complex trade-offs between growth, return and risk, favouring the adoption of risk-adjusted metrics. He further identifies that probably the most commonly used measure of risk adjusted return is the RAROC. Risk-adjusted return on capital (RAROC) is the expected result over economic capital. It is a risk based profitability measurement framework for analysing risk-adjusted financial performance (Herring, Diebold and Doherty, 2010) and providing a consistent view of profitability across businesses and business units and allows banks to allocate capital to individual business units according to their individual business risk. As a performance evaluation tool, it then assigns capital to business units based on their anticipated economic value added. This measure shares in common with the EVA that it takes into account the bank’s cost of capital. RAROC goes further because it adjusts the value-added in relation to the capital needed (European Central Bank, 2010).

\[
RAROC = \frac{\text{Expected Return}}{\text{Economic Capital}}
\]  

(Prokopczuk, Rachev and Trauck, 2004)
2.3.3 Market-based measures of performance

Market-based measures of performance characterise the way the capital markets value the activity of any given company, compared with its estimated accounting or economic value. The most commonly used metrics include, total share return (TSR), price earnings ratio (P/E), price-to-book value (P/B), which relates the market value of stockholders’ equity to its book value, and the credit default swap, which is the cost of insuring an unsecured bond of the institution for a given time period. (European Central Bank, 2010)

2.4 THE CAMEL FRAMEWORK

Crystal, Dages and Goldberg (2001) identified the five main aspects of the CAMEL framework as Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity. In some instances the framework is extended to include other performance aspects like Sensitivity to market risk and becomes the CAMELS framework. In a CAMELOT framework Operational Controls and Technology are included. Under these frameworks, individual components are typically evaluated on a rating scale. These individual ratings are then aggregated to arrive at a composite ranking of the institution. Table 2.1 below provides a summary of factors that are considered in undertaking a CAMEL analysis and the possible implications of foreign ownership for individual CAMEL components.
Box 1: CAMEL Ratings

<table>
<thead>
<tr>
<th>Components of Ratings</th>
<th>Possible Implications of Foreign Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy</td>
<td>Improved access to and increased diversification of bank capital, leading to stronger and more stable capital levels.</td>
</tr>
<tr>
<td>Asset Quality</td>
<td>Improved credit underwriting and administration leading to lower non-performing loan levels and higher reserve coverage of NPLs.</td>
</tr>
<tr>
<td>Management</td>
<td>Secondment of management from head office, coupled with risk management and internal control practices closer to international norms, leads to better corporate governance.</td>
</tr>
<tr>
<td>Earnings</td>
<td>Wider variety of products and services, stronger corporate governance, and potentially lower funding costs, leads to higher and more stable bank earnings.</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Foreign bank access to parent bank liquidity and international funding markets, in combination with a higher credit standing of the parent and more sophisticated balance sheet management techniques, leads to better liquidity management.</td>
</tr>
</tbody>
</table>

Fig 2.1: Camel Rating Aspects

Source: Crystal, Dages and Goldberg (2001)

As noted by Siems and Barr (1998) the CAMEL framework was developed by federal regulators in USA to help structure the bank examination process. In 1979, the Uniform Financial Institutions Rating System was adopted to provide federal bank regulatory agencies with a framework for rating financial condition and performance of individual banks (Siems and Barr, 1998). Since then, the use of the CAMEL factors in evaluating a bank’s financial health has become widespread among regulators. Most writers note that currently, financial ratios are often used to measure the overall financial soundness of a bank and the quality of its management, but mostly as part of the CAMEL system.

Financial institution strength is usually thought of both in quantitative and qualitative terms (Crystal, Dages and Goldberg, 2001). Quantitative aspects look at the bank’s intrinsic financial condition as reflected in its capital, reserves, asset quality, earnings and liquidity. Qualitative terms are identified in the underlying quality and
effectiveness of bank management, internal controls, and risk management policies and practices (Crystal, Dages and Goldberg, 2001). They further elaborate that soundness of financial institutions is founded on a strong balance sheet and strong management; significant deficiencies in either element generally suggest financial vulnerability. The CAMEL framework provides a fitting platform for measuring both the quantitative and qualitative aspects of performance.

2.4.1 Camels Composite Ratings
Each bank is accorded a composite rating that is predicated upon the evaluation of the specific performance dimensions. The composite rating is based upon a scale of 1-5 in ascending order of supervisory concern (Babar, Zeb & Lions, 2011). The CAMELS rating components, usually taken into consideration by the monetary authorities have the following weights: capital adequacy 20%, asset quality 20%, management 25%, earnings 15%, liquidity 10% and sensitivity to market risk 10%. The weightings are subjective and based on various regulative variables which include past experience. The numerical ratings assigned to the criteria are as shown in table 2.2 below.

<table>
<thead>
<tr>
<th>Rating Scale</th>
<th>Rating Range</th>
<th>Rating Analysis</th>
<th>Rating Analysis Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.0-1.4</td>
<td>Strong</td>
<td>Sound in every respect, no supervisory responses required.</td>
</tr>
<tr>
<td>2</td>
<td>1.6-2.4</td>
<td>Satisfactory</td>
<td>Fundamentally sound with modest correctable weakness, supervisory response limited.</td>
</tr>
<tr>
<td>3</td>
<td>2.6-3.4</td>
<td>Fair (watch category)</td>
<td>Combination of weaknesses if not redirected will become severe. Watch category. Requires more than normal supervision.</td>
</tr>
<tr>
<td>4</td>
<td>3.6-4.4</td>
<td>Marginal (some risk of failure)</td>
<td>Immoderate weakness unless properly addressed could impair future viability of the bank. Needs close supervision.</td>
</tr>
<tr>
<td>5</td>
<td>4.6-5.0</td>
<td>Unsatisfactory (high degree of failure evident)</td>
<td>High risk of failure in the near term. Under constant supervision/cease and desist order.</td>
</tr>
</tbody>
</table>

Figure 2.2 Camels Composite ratings and their interpretation
Source: Sarker (2007)
2.4.2 CAMEL(S) MODEL COMPONENTS
The following discussion looks at the various CAMELS aspects of performance.

2.4.2.1 Capital Adequacy
Capital Requirement is the amount of capital a bank or other financial institution has to hold as required by its financial regulator (Crystal, Dages and Goldberg, 2001). This is in the context of fractional reserve banking and is usually expressed as a capital adequacy ratio of liquid assets that must be held compared to the amount of money that is lent out. These requirements are put into place to ensure that institutions are not participating or holding investments that increase the risk of default and that they have enough capital to sustain operating losses while still honouring withdrawals. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. The most widely used indicator of capital adequacy is capital to risk-weighted assets ratio (CRAR). According to Bank Supervision Regulation Committee (The Basle Committee) of Bank for International Settlements, a minimum 9% CRAR is required. Thus, it is useful to track capital-adequacy ratios that take into account the most important financial risks, foreign exchange, credit, and interest rate risks by assigning risk weightings to the institutions assets. The higher the CRAR, the stronger is considered a bank, as it ensures high safety against bankruptcy.

\[
\text{CRAR} = \frac{\text{Total Assets}}{\text{Total Risk Weighted Credit Exposure}}
\]

2.4.2.2 Asset Quality
Asset quality is one of the most critical areas in determining the overall condition of a bank (Fogelberg and Griffith, 2000). The primary factor affecting overall asset quality is the quality of the loan portfolio and the credit administration program. Loans typically comprise a majority of a bank's assets and carry the greatest amount of risk to their capital. Securities may also comprise a large portion of the assets and also contain significant risks. Sarker (2007) identifies other items which can impact asset quality to include, off-balance sheet items and, to a lesser extent, cash and dues from accounts, and premises and fixed assets. Popular indicators include non-performing loans to advances, loan default to total advances, and recoveries to loan default ratios.
2.4.2.3 Management

Saker, (2005) and Babar, Zeb & Lions (2011) look at management as one key success factors for organizations. It is expanded to include five main elements which are Governance, Human Resources, Process controls and systems, Information Systems, and Strategic planning and budgeting. Governance looks at how well the institution’s board of directors functions, including the diversity of its technical expertise, its independence from management, and its ability to make decisions flexibly and effectively. Human Resources evaluates whether the organization provides adequate systems for recruitment, training, staff welfare and performance management among other things. Processes, controls and audit assess the degree to which the organization has put in place proper controls for efficient operations, risk management and general compliance to rules and regulations. Information Systems provide the platform for informing flow, decision making, service provision and revenue collection, thus the need for them to be operating efficiently and effectively. Strategic planning and budgeting looks at a comprehensive and participatory process for generating financial projections and whether the plan is updated as needed and used in the decision making process.

2.4.2.4 Earnings

Earnings quantify the performance of the institution to increase and maintain the total worth through earnings from operations. It also assesses the interest rate policy, management examine and adjust the interest rate on microfinance loans and evaluate the adjusted return on assets that how well the assets are utilized (Sarker, 2005)

2.4.2.5 Liquidity

Liquidity scrutiny is based on mainly four aspects (Crystal, Dages and Goldberg, 2001). These are;

(i) liability structure, which reviews the composition of the institution’s liabilities, including their tenor, interest rate, payment terms, and sensitivity to changes in the macroeconomic environment,

(ii) Funding, which looks at the degree to which the institution has delivered credit in a timely and agile manner,
(iii) Cash flow projections, which evaluate the degree to which the institution is successful in projecting its cash flow requirements and lastly
(iv) Productivity of other current assets like cash, bank accounts, and short-term investments by investing in a timely fashion and at the highest returns, commensurate with its liquidity needs.

2.4.2.6 Sensitivity to market risk
Market risk refers to the risk that changes in market conditions could adversely impact earnings and/or capital (Sarker, 2005). The diversified nature of bank operations makes them vulnerable to various kinds of financial risks. Sensitivity analysis reflects institution’s exposure to interest rate risk, foreign exchange volatility and equity price risks, which are summed up in market risk. Risk sensitivity is mostly evaluated in terms of management’s ability to monitor and control market risk.

2.5 KEY DRIVERS OF BANK PERFORMANCE

2.5.1 Internal Factors
These are factors that the bank managers have control over and are influenced by policies and decisions of a bank’s management (Nassreddine, Fatma, and Anis, 2013). They basically reflect differences related to policies and decisions of a bank’s management with regard to sources and uses of funds, capital, liquidity and expense management etc. Thus, the impact of internal factors on bank profitability can be analyzed by looking at the balance sheet and income statement of the concerned bank (Rao and Lakew, 2012).

i. Capital Adequacy
ii. Liquidity
iii. Net Loans to total Assets
iv. Operational Efficiency
v. Degree of Diversification
vi. Bank Size
vii. Credit Quality
viii. Ownership and Management Control
ix. Technology
2.5.2 External Factors

External factors are those that are related to industry specific and macroeconomic scenarios that reflect the economic and legal environment within which the commercial banks operate (Vong and Chan, 2010). They are beyond the control of the management of a bank. Within that context of external factors, is also the industry to which it belongs, which would be expected to have an impact on performance (Rao and Lakew, 2012). Listed below are some of the factors that emanate from the external environment.

i. Real GDP growth rate
ii. Inflation Rate
iii. Market Share
iv. Market Concentration

2.6. FOREIGN OWNERSHIP AND THE KEY DRIVERS OF SUBSIDIARY PERFORMANCE

The following section discusses the key drivers of bank performance and in relevant instances elaborate on how foreign ownership and foreign control influence these factors, which in turn have direct or indirect bearing on the performance of subsidiaries.

2.6.1 Internal Factors

i. Capital Adequacy

Capital adequacy reflects the capital strength or capital structure of a bank (Rao and Lakew, 2012). In the banking literature equity to asset ratio is often used as a proxy for capital adequacy. **Capital to adequacy ratio (CAR)** is the basic measure of the ability of bank to cover the decrease in its assets impacted by the bank loss resulted from the decrease of risky assets (Dendawijaya, 2001 as cited in Sarita, Zandi and Shahabi, 2012). As this ratio is a measure of capital strength, commercial banks with high equity to asset ratio are relatively assumed to be safe in the event of loss or liquidity. This is so because if a bank faces a serious asset quality problem and its loan loss reserves are not sufficient to write off the bad loans, the bank will be able to write off the balance using shareholders’ equity (Rao and Lakew, 2012). As cited in Sarita, Zandi, and Shahabi (2012), Bourke (1989) and Berger (1995) try to summarize the main explanations that a high level of capital reduces the risk of
bankruptcy incurred by banks. They can therefore afford to maintain the same level of risk of investing in riskier assets whose expected return is of course higher. This results in better performance. Having a high level of equity is a very positive signal sent to the market on the solvency of the bank and its very low credit risk. Accordingly, such banks are able to reduce their financing costs, for example by paying low interest rates on their debt and have lower needs to solicit for external funding (Rao and Lakew, 2012).

Based on their multinational nature, foreign owned banks are in a better position to raise capital from international sources as compared to locally owned banks. (Claessens, Demirguc-Kunt, and Huizinga, 1998). Because of this, aided by their high capitalization, foreign owned banks are seen by depositors as highly sound and solvent thus enhancing loyalty and performance (Hull, 2002). Some researchers on a supporting hand find that global banks support their foreign affiliates during times of financial stress through internal capital markets (De Haas and Van Lelyveld, 2006 and 2010; and Barba-Navaretti, Calzolari, Levi and Pozzolo, 2010) thus reducing the chances of bank failure. As a result of the above, foreign owned banks are usually adequately capitalised and thus able to enhance their performance capabilities, more so compared to their local counterparts.

ii. Liquidity

Bank liquidity is measured by the ratio of liquid assets (which include cash on hand, cash at bank, reserve account with the central bank, deposits with foreign banks and treasury bills etc.) to deposits (Rao and Lakew, 2012). The ratio shows the capacity of a bank to meet payments as and when its depositors and other suppliers of funds require. The lower the ratio, the more difficult it is for the bank to meet payments in the right time and hence its liquidity is low. An extremely high ratio on the other hand means that the bank is losing out on interest income by holding large amounts of excessive idle liquid resources.

In all countries except for high income countries, foreign banks have significantly more liquid assets than domestic banks (Dinger, 2007). The difference is especially high in OECD countries, and less so in emerging markets. On one hand, this
suggests that foreign banks operate more conservatively compared to domestic banks, as they have greater liquidity buffers enhanced by foreign support. On the other hand, since this liquidity measure also includes tradable securities, varying from government bonds to asset-backed securities, it probably also reflects the foreign banks’ general greater activity in capital markets (Demirguc-Kunt and Enrica, 1998). Foreign bank ownership influences the choice of liquidity position of the banks because transnational banks can reshuffle reserves among the parent institution and subsidiaries located in different countries. Doing so, they can better diversify idiosyncratic liquidity shocks (Enrica and Gupta, 2004). Moreover, they can choose to refinance in that country where the refinancing interest rate is at lowest. As a result they will choose to hold less liquid assets than banks operating in a single country (Dinger, 2007). This means that foreign owners of financial institutions have a better dimension to exploit in dealing with liquidity issues and are able to support their subsidiaries in times of distress to make sure that performance is impacted positively.

iii. Net Loans to total Assets

The ratio of net loans to total assets, which represents the proportion of assets that encompass the loan portfolio, is an important financial ratio that may indicate how well a bank is financially operating to enhance its interest income (Nassreddine, Fatma, and Anis, 2013). They note that authors such as Miller & Noulas (1997) and Naceur & Omran (2010) interpret the ratio of loans to assets as a measure of credit risk. The higher the ratio, the higher the number of loans granted by the bank and therefore the higher the risk of default. This increases credit risk. To pay the higher credit risk, banks will increase their margins on interest on loans, which increases the NIM and performance. Though a high ratio of this may mean that the bank is making use of its assets productively and hence doing well owing to increases in interest income, an extremely high ratio of this may hamper the liquidity of the bank as well in its ability to meet demands when they fall due (Rao and Lakew, 2012).

Loan to deposits ratio is a proxy for the degree to which banks are active in traditional forms of financial intermediation (Mian, 2003). It also shows the importance of wholesale funding relative to traditional deposits. The ratio is on average higher for domestic banks compared to foreign banks, consistent with the
notion than foreign banks are relatively less active in lending and much more conservative especially in times of crises. This is especially so for the group of developing countries. The hierarchical structure of foreign banks may give them a comparative disadvantage versus private domestic (Mian, 2003). They are less likely to lend based on soft information and more likely to lend to hard information firms. Effectively, management is controlled from a distance through a system of well-documented hierarchy, rules, regulations and policies centrally well-defined so that employees can be monitored and incentivized. The individual manager’s control and discretion is limited. However, in emerging markets, foreign banks tend to have high loan to deposits ratios (Rao and Lakew, 2012). This suggests that they are relatively more active in lending and are also able to attract non-deposit sources of funding including funding from their parent banks.

iv. Operational Efficiency

Literature identifies that either the ratio of overheads to total assets or cost to income ratio is used as a proxy for bank’s operational efficiency or expense management (Rao and Lakew, 2012 and Nassreddine, Fatma, and Anis, 2013). The cost to income ratio is considered as an explanatory variable since it shows how a bank’s management is operationally cost efficient in managing the affairs of the bank which will eventually have an impact on the bank’s profitability (Nassreddine, Fatma, and Anis, 2013). Since cost to income ratio measures the cost of running a bank as a percentage of income, a high ratio of this reflects that the management of the bank is operationally inefficient in controlling costs. This will eventually have an undesirable effect on the profitability. Literature presents differing findings between foreign owned banks in transition and developing markets and those in developed countries, where in the former, higher efficiency is observed than in domestically owned banks and the reverse being true in developed countries (Berger et al. 2000).

According to the global advantage hypothesis as explained in Berger et al (2000) foreign banks have competitive advantages compared to locally owned entities. Foreign owned banks use more advanced technologies and information systems instituted from a more developed home country and due to heightened home country corporate control standards, their competitiveness may be enhanced. Access to a highly skilled and well educated workforce from the home country is an added
advantage and enables adaption to new technologies, enhances efficiency in information flow and revenue collection (Lensink, Meesters, and Naaborg, 2008). In support of this view, Havrylchyk (2006) makes the suggestion that foreign owned banks capitalise on improved risk management, modern information technologies. The homefield advantage hypothesis explores the negative side highlighting that foreign owned banks may experience certain disadvantages compared to locally owned banks (Berger et al, 2000). This is supported by Hymer (1976) who notes that the same may suffer informational and competitive disadvantages which may include heavy handedness by Government e.g. through indigenisation laws and affirmative actions by consumers and suppliers.

The model on institutional distance between home country and host country as developed by Mian (2006) points out that the greater will be the informational and agency costs for foreign banks. The differences in corporate culture coupled with the legal environment and regulatory framework increases the level of information asymmetry and may present difficulties for the foreign Owners in coming up with policies tailor-made for the host country (Mian, 2006).

v. Degree of Diversification
Diversification looks at how well the bank has spread its sources of income. Literature on diversification in the banking industry suggests that there exists several type of diversification including, geographical, source of income, product/services, and economic sectors etc. (Tabak et al., 2011; Pennathur et al., 2012). These studies are particularly concerned with discussion as relates to income diversification into non-interest income sources. Traditional banking theory for example argues that credit diversification reduces the probability of default (Tabak et al., 2011). In this case less diversified banks are seen as more vulnerable to economic downturns by exposing themselves to fewer sectors. This suggests that credit portfolio would yield benefits if it is diversified. Among other reasons, it is argued that concentration strategy (lack of diversification) is highly related to risk because of the general belief that diversification by firms reduces risk (Lin et al., 2012; Smith et al., 2003). Many studies use non-interest income to total income as measure of diversification. The bank’s income other than interest income is scaled to the bank’s total income. A high ratio of this would mean that the bank is performing better in terms of diversifying its...
activities to boost its income and thereby affect the profitability of the bank favourably. Thus, the variable is expected to have positive relationship with bank performance (Nassreddine, Fatma, and Anis, 2013). In contrast to this reasoning, they also note that studies generally conclude that more diversified banks are less likely to be successful and more likely to provide poor performance and also do not improve the stability of the banking system. As a result foreign owned banks tend to be more restrictive to traditional banking practices.

vi. Bank Size
The size of bank as measured by the quantity of bank assets, accounts for size-related economies and diseconomies of scale (Harker and Zenios, 1998). Size is a result of a bank strategy, but the variable alone does not guarantee the earning of excess returns. Larger banks could reap more profits due to scale or scope economies. However, there is no consensus as far as the relationship between bank size and bank profitability is concerned. Boyd and Runkle (1993), in their banking performance study, conclude that an inverse relation exists between size and profitability. Similar results are obtained by Miller and Noulas (1997) in the USA, Naceur (2003) in Tunisia and Jiang et al. (2003) in Hong Kong, implying that larger banks achieve a lower level of profits than smaller ones. However, findings from other researches like, Sinkey (1992) and Staikouras and Wood (2003) show mixed results where the former shows that firm size impacts banking profitability negatively for large banks but positively for small ones and the latter concludes that medium-sized banks earn the highest return followed by small banks.

vii. Credit Quality
Credit quality, fairly close to the concept of credit risk, is usually measured by two ratios: the ratio of provisions for credit losses to total loans and the ratio of provisions for doubtful debts on total loans (Nassreddine, Fatma and Anis, 2013). Deterioration of the credit quality reduces RoA and RoE. The impact on the net interest margin seems positive as banks seek to increase their margins to compensate the one hand the risk of default, and other additional costs necessary to monitor these credits.
viii. Management and Control

Saker, (2005) and Babar, Zeb & Lions (2011) look at management as one of the key success factors for organisations. It is expanded to include five main elements which are Governance, Human Resources, Process controls and systems, Information Systems, and Strategic planning and budgeting. **Governance** looks at how well the institution’s board of directors’ functions, including the diversity of its technical expertise, its independence from management, and its ability to make decisions flexibly and effectively. **Human Resources** - Human Resources evaluates whether the organization provides adequate systems for recruitment, training, staff welfare and performance management among other things. **Processes, controls and audit** - assess the degree to which the organisation has put in place proper controls for efficient operations, risk management and general compliance to rules and regulations. **Information Systems** - provide the platform for inform flow, decision making, service provision and revenue collection, thus the need for them to be operating efficiently and effectively. **Strategic planning and budgeting** looks at a comprehensive and participatory process for generating financial projections and whether the plan is updated as needed and used in the decision making process.

**Corporate Governance** - Corporate governance can be broadly defined as the system by which companies are directed and controlled (Cadbury, 1992). Governance looks at how well the institutions board of directors functions, including the diversity of its technical expertise, its independence from management, and its ability to make decisions flexibly and effectively. The principal – agent relationship between shareholders and managers is not necessarily harmonious mainly because of conflicts of interest between the two stakeholders. Agency theory suggests that managers are less likely to act in the best interests of equity holders (Henderson, 1986), engage in strictly profit maximizing behaviour in the absence of strict monitoring by shareholders (Prowse, 1992; Agrawal & Knoeber, 1996). Disciplinary effects can come from internal and external corporate control mechanisms (Shleifer and Vishny, 1997 - lance). This tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship.

The impact of good governance on a firms’ reputation cannot be over emphasized. Good corporate governance promotes goodwill and confidence in the financial
system and improves economic efficiency and growth as well as enhances investor confidence (Fatimoh, 2012; OECD, 2004). It also increases access to external financing by firms, lowers cost of capital and increases operational performance (Claessens, 2003). According to Coombes & Watson (2000) investors are willing to pay large premiums for companies with effective corporate governance. Hence, it can be argued that good corporate governance will lead to increase in firm value as well as better firm performance. Recent studies from academic researches shows that good corporate governance lead to increased valuation, higher profit, higher sales growth and lower capital expenditure (Wolfgang, 2003 as cited in Fatimoh, 2012). Fatimoh, 2012 goes further to assert that this view was supported by Gompers et al (2003), Klapper and Love (2004), that sound corporate governance, enhances corporate performance, value as well as providing meaningful and reliable financial report on firms operations. In support of this view, Wilson (2006) notes that poor corporate governance can lead market to lose confidence in the inability of a bank to properly manage it assets and liability, including deposits which could in turn trigger a bank liquidity crisis. Oluyemi (2005) considered corporate governance to be of special importance in ensuring stability of the economy and successful realization of bank strategies.

As explained by Bris, and Cabolis, (2008) literature observes that through cross-border mergers and acquisitions, target firms will adopt better corporate governance systems from the acquiring firms. In support, Sarala and Vaara, (2009) note that international mergers and acquisitions have an impact on cultural integration in the form of cultural convergence and adoption of good corporate governance practices. In an empirical study, Douma, George, and Kabir (2006) find that the documented positive effect of foreign ownership on firm performance is substantially attributable to foreign corporations with longer term management involvement. In addition Kang and Kim (2010) put forward the argument that post acquisition governance activities with fewer information asymmetries is most likely to be instituted by the foreign owners. Therefore, foreign bank entry into developing countries through mergers and acquisitions is expected to increase the governance quality of foreign owned banks.

Foreign owned banks, while being relatively similar to private domestic banks in terms of incentives and regulation, differ in their organizational structure. The main
structural and organizational makeup identifies who owns the cash-flow and control rights of the banks (Mian, 2003). Foreign banks are privately owned and managed, but differ with private domestic banks in that the cash-flow and control rights rest with foreign rather than domestic shareholders and also, foreign banks are typically part of a larger chain of multi-national banks spread in different parts of the world. The longer distance between shareholders and bank managers for foreign banks implies that foreign banks have more layers of bureaucracy between top management and local bank managers and a tall decentralised hierarchical structure with the top management and policy makers often sitting in a distant home country (Mian, 2003). This can lead to some important effects on the performance of subsidiaries as described in the following discussion.

The hierarchical structure of foreign banks may give them a comparative disadvantage (Mian, 2003). They are less likely to lend based on soft information and more likely to lend to hard information firms especially where the decision to lend sits with Head office. Soft information refers to information that cannot be easily publicly verified by a third party such as a loan officer’s subjective evaluation about a small firm’s future outlook. Hard information on the other hand refers to credible and publicly verifiable information, such as a foreign firm’s authentically audited balance sheets, or government guarantees (Cull and Peria, 2010). As noted earlier, due to their multi-national nature, foreign banks have a large hierarchical structure implying greater distance between ownership and management. Effectively, management is controlled from a distance through a system of well-documented hierarchy, rules, regulations and policies centrally well-defined so that employees can be monitored and incentivized. The individual manager’s control and discretion is limited. Decision makers generally base their actions on estimates formulated at other points in the organization” (Cyert and March, 1963), In centralized organizations these estimates must “flow up” through more decision-makers before reaching the final decision-maker than in decentralized organizations (Robbins, 1990). Thus, the information flow in centralized organizations resembles that of hierarchies. In sum information must pass more filters in centralized than in decentralized organizations, thus delaying important decisions and affecting the speed of operations.
Stein (2002) argues that organizations with more hierarchical structures are more likely to rely on hard information as opposed to organizations with flatter structures. The reason is that flatter organizations have better control and information on their managers, and thus can afford to give them more discretion. This discretion allows the managers to use soft information such as subjective evaluations, which managers in hierarchical organizations are not allowed to use. This trend generally applies to most subsidiary operations where major decisions have to be made at the central Head Office, thus delaying important activities that may impact on the subsidiary’s ability to satisfactory service its customers and compete with local banks.

Foreign owned banks may be more tightly supervised than private domestic banks in an economy because, in addition to the domestic regulatory authority, foreign banks are also subject to their “shareholder” country regulatory authority (Mian, 2003). They could therefore have stricter monitoring thus may endogenously adopt more conservative banking policies than domestic banks (Claessens and van Horen, 2012). They often have a large network of branches outside the emerging economy under question. If the bank takes too much risk through imprudent banking in the subsidiary country, leading to a bank failure or default, it can have large negative reputational consequences on its operations worldwide. Hence, anticipating such higher cost of risky behaviour, foreign banks may end up devising internal monitoring mechanisms to curb their level of risk thereby raising agency costs. Another reason for a more prudent behaviour by foreign banks can be understood in the context of the agency problem of bank owners trying to monitor the level of risk taken by their managers (Mian, 2003). To that end, heightened supervision results in inefficient operations and reduced performance.

Being a special type of firm, corporate governance of banks deserves special attention (Mambondiani, Zhang & Arun, 2010). The uniqueness of banks extends to their capital structure and the related information asymmetry. Banks tend to have far less equity than debt in their capital, with the bulk of the funding from depositors. This creates more complicated agency problems where conflict in interests and risk perception among more than two parties exists simultaneously. Depositors are small entities and are also dispersed. Due to the free-riding problem, they have little
incentive to monitor the managers and equity owners in operating the bank (Mambondiani, Zhang & Arun, 2010). It is difficult for them to know the true value of a bank’s loan portfolio as such information is incommunicable and very costly to reveal (Bhattacharya et al., 1998). Severe information asymmetry gives bank managers and equity holders an incentive to invest in risky assets. In the presence of the agency problems between managers and shareholders and those between depositors and managers (sometimes in collusion with shareholders), it is more appropriate to adopt a broader view of corporate governance for banks to encapsulate depositors as well as shareholders (Macey and O’Hara, 2001).

2.6.2 External Factors
External factors are those that are related to industry specific and macroeconomic scenarios that reflect the economic and legal environment within which the commercial banks operate (Vong and Chan, 2010). They are beyond the control of the management of a bank but Multinational enterprises (MNEs) are able to shift investments between the Head office and subsidiaries’ countries to minimize the negative effects of changes in the macroeconomic environment (Selin, 2009). Within that context of external factors, is also the industry to which the bank belongs, which would be expected to have an impact on performance (Rao and Lakew, 2012). Discussed below are some of the factors that emanate from the external environment.

ix. Real GDP growth rate
GDP is one of the primary macroeconomic indicators used to measure the health of the economy of a country, and it is a measure of the overall economic output within a country’s borders over a particular time, usually a year (Rao and Lakew, 2012). GDP has a positive impact on the performance of banks. A period of high growth leads to higher investment and consumption, which increased the credit, and hence increase the performance of banks (Nassreddine, Fatma and Anis, 2013).

x. Inflation Rate
In general, high inflation is associated with high interest rates and high incomes (Vong and Chan, 2010). They however, stress that the effect of inflation on banking performance depends on whether inflation is anticipated or unanticipated. If inflation
is fully anticipated and interest rates are adjusted accordingly, a positive impact on profitability will result. Alternatively, unexpected rises in inflation cause cash flow difficulties for borrowers, which can lead to premature termination of loan arrangements and precipitate loan losses (Perry, 1992). Nassreddine, Fatma and Anis (2013) provide another dimension as presented by Revell (1979), that the impact of inflation on performance is dependent on the rate of growth in operating expenses. If these expenses are rising faster than inflation, there is a negative impact on performance. If, however, the growth rate is lower, there is a positive impact on performance.

xi. Market Share
The market share of each individual bank is captured mostly by the value of deposits (Vong and Chan, 2010). Empirical evidences shows that this variable has a combined effect on profitability. Liu and Wilson (2010) show that, at least in Japan, a negative relationship between market share and performance. Banks with low market share seek to grow and to do this; one of the few resources at their disposal is the granting of loans to risky people. Because these loans are riskier, they will have higher interest rates, which will in turn increase their performance and their net interest margin (NIM). We can with Peria and Mody (2004), adopt the point of view of banks with a significant market share. They can use their market share and size to eliminate existing or potential competitors by reducing their margins on interest rates. In the short run this will reduce the NIM of these large banks.

xii. Market Concentration
Concentration is the proportion of an industry’s total assets controlled by its largest firms (Rao and Lakew, 2012). According to the structure-conduct performance (SCP) hypothesis, as highlighted in Harker and Zenios (1998) banks in highly concentrated markets tend to collude and therefore earn monopoly profits. Concentration is usually calculated as the total assets held by the three largest commercial banks in the country divided by the total assets of all commercial banks in the country. There seems to be conflicting results from studies carried out on the subject. Work by Molyneux & Thornton (1992) show that bank concentration ratio has a positive and statistically significant impact on the performance of banks. Other studies such as
those by Kunt & Huizinga (1999) and Staikouras & Wood (2004), as cited in Nassreddine, Fatma and Anis (2013), the opposite is observed.

2.7 CHAPTER CONCLUSION
This chapter has looked at the dynamics of foreign ownership, including meaning, drivers of performance of foreign owned institutions and how foreign governance affects these key drivers of performance. The researcher also deliberately went through what constitutes bank performance and discussed a few models used in measuring bank performance, the aim being, to link the literature on performance measurement with the drivers of performance and the dynamics of foreign ownership.
CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION
This section looks at the research methodology used in this study. Research methodology refers to the way to systematically solve the research problem (Dawson, 2002). It looks at the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them (Kothari, 1985). Research methodology does not only talk of the research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by others. It is therefore necessary for the researcher to design his methodology for his problem as the same may differ from problem to problem.

3.1 Research Design
A research design is the conceptual structure within which research is conducted (Kothari, 1985). It outlines in detailed, how an investigation will take place, typically how data is to be collected, what instruments will be employed, how the instruments will be used and the intended means for analysing data collected.

3.2 Research Philosophy
There are two main forms of research approaches (Kumar, 2005). These are, qualitative also known as Phenomenology and quantitative research (positivism). A researcher needs to understand the distinguishing features between the two. The qualitative approach is used as a vehicle for studying the empirical world from the perspective of the subject, not the researcher (Duffy, 1987). Benoliel (1985) expanded on this aspect and described qualitative research as modes of systematic enquiry concerned with understanding human beings and the nature of their transactions with themselves and with their understandings. A weakness of this can be suspicion that the researcher could have been influenced by a particular predisposition, affecting the generalizability of the small scale study (Bryman, 1988).
This suggests that qualitative research has low population validity. However, the strength of this approach is seen when the sample is well defined, for then it can be generalized to a population at large (Hinton, 1987). Quantitative research is the numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena that those observations reflect (Creswell, 1994). Numerical data is collected and analysed using mathematically based methods.

This research adopted a positivist philosophy. The researcher feels that there are different perceptions with regard the connection between foreign ownership of banks and their performance. Consequently, a quantitative research design was adopted as a descriptive survey. This was meant to clearly obtain the numbers of respondents sharing particular view regarding the performance of foreign owned financial institutions. The quantitative data gathered from the selected bank staff through a questionnaire was tabulated and analysed and presented as percentages in tables and graphs. This formed the basis of generalisations on the SBZ population with general support from the existing theories and literature, enabling the researcher to come up with conclusions and recommendations.

### 3.3 Research Strategy

A research strategy is a plan of action that gives direction to a researcher’s efforts, enabling them to conduct research systematically rather than haphazardly and meet the research objectives (Saunders et al., 2009). It is a plan that can help a researcher to stay focused, reduce frustration, and enhance the quality of research and saving on time in the long run. In this study the researcher used both a case study of SBZ and a survey in the form of a questionnaire limited to SBZ management and general staff.

### 3.4 Target Population

The target population of a study is the collection of all observations of a random variable under study about which one is trying to draw conclusions in practice (Wegner, 2002). It must be defined in very specific terms to include only those elements that are relevant to the study. The population for this study was made up of...
all of SBZ’s management, and general staff. The population size, based on the number of employees which is estimated to be about 631 (Stanbic Bank, 2012).

3.5 Sample Size
A sample is a subset of the population on which observations are made or measurements taken (Wegner, 2002). Not every member of the population is observable or measurable mainly because of population size, cost, time and also the possibility of destruction of elements being tested (Wegner, 2002 and Leary, 2004). Resultantly a sample has to be used for the study.

The researcher personally distributed a total of 100 questionnaires both management and the general bank employees. The questionnaires were allocated equally between the two groups and were hand delivered to the staff by the researcher at their workstations.

3.6 Sampling Methods
There are two basic methods of sampling, probability and non-probability sampling (Wegner, 2002). Random sampling ensures that the probability of each case being selected from the population is known and is usually equal for all cases (Saunders et al., 1997). Any sampling method in which elements are not chosen randomly is called non-probability sampling. The major disadvantage of this method is the lack of guarantee on the representativeness of the sample with respect to the population being studied, causing a possibility of bias on the results (Popper, 1992; Wegner, 2002).

In coming up with the sample, the researcher divided the population into two strata, general non-managerial staff and managerial staff. Simple random sampling was then applied in coming up with the sample elements representing the non-managerial staff. Judgemental sampling was applied in coming up with the managerial representatives using personal judgement. The closeness of the functional units in which managers work, to the operations that involve SBSA or strongly dependant on SBSA was the factor considered in using judgemental sampling. This was based on the identification of managerial positions that have a
direct relationship with decision makers at Standard Bank, the decisions which have direct impact on the performance of the bank.

3.7 Data Collection Procedures
The researcher used a research questionnaire and desktop research to collect primary and secondary data. A single questionnaire was administered to respondents after permission from the Chief Executive had been granted ensuring acceptance by respondents and adherence to research ethics.

3.7.1 Primary Methods of Data Collection
A total of 100 questionnaires were distributed to individuals from SBZ’s managerial and non-managerial staff. The researcher individually administered and collected the questionnaire during free time to ensure costs were minimized and confidentiality and privacy maintained.

3.7.2 Secondary Methods of Data Collection
Secondary data was collected through desk research of available records from the following documents:

i. SBZ’s and other bank’s yearly financial reports.

ii. RBZ periodical reports.

3.8 Data Collection Instruments
The researcher used a research questionnaire as the main research instrument.

3.8.1 Questionnaires
The researcher designed the questionnaire covering all research questions, using mostly closed questions on a lickert scale. A few open ended questions where given to solicit for the opinions and recommendations of the respondents and to get their actual views of the respondents on the strategies that could be employed by SBZ as a subsidiary of SBSA to enhance performance.

3.8.2 Research Pilot Study
A pilot, or feasibility study, is a small experiment designed to test logistics and gather information prior to a larger study, in order to improve the latter’s quality and efficiency (Ruxton & Colegrave, 2006). A pilot study can reveal deficiencies in the
design of a proposed experiment or procedure and these can then be addressed before time and resources are expended on large scale studies. Piloting helps in not only with the wording of the questions but also with procedural matters including the reduction of non-response rates.

A pilot study involving 8 individuals was conducted. The questionnaires were administered by mail to 4 non managers and 4 managers in the researcher’s work area. None of the respondents had responded after 3 days and the researcher took it time to follow up by e-mail. Only after follow up did the researcher receive 3 completed questionnaires from managers with suggestions to consider additional factors affecting their performance as a result of their relationship with SBSA that the researcher had left out initially. Only after the researcher physically visited the other respondents were the rest of the completed questionnaires obtained. The response rate induced the researcher decided to print the 100 copies and physically distribute to the sample and also collect personally over a period of one week with continued revisits to the respondents.

3.8.3 Administration of Questionnaire
Hard copies of the questionnaires were hand delivered to the selected respondents at their workstations. After clarifying the instructions, respondents were left to answer the questions in privacy. The data collection process was generally slow. Apart from being mostly unco-operative the respondents took too much time completing the questionnaire, with some complaining on its length and their work schedules. Others cited issues of authority and permission, with others needing to see the researcher’s permission from the CE to carry out the research. Others were quick to recognise the importance of such a research to the researcher’s studies and the organisation and they exuberantly completed the questionnaire.

3.8.4 Collection of Questionnaires
It took the researcher at least week of visiting the respondents daily to pick up completed questionnaires. In the majority of visits the respondents had not finished answering the questions and would request for more time. In some instances the the respondents would wait for the researcher to explain certain aspects first before completing the questionnaire.
3.9 Data Validity and Reliability

3.9.1 Data Validity
Cooper and Schindler (2003) defined data validity as the extent to which a measure, indicator or method of data collection possesses the quality of being sound or true as far as can be judged. The validity of information is its relevance and appropriateness to one’s research question and the directness and strength of its association with the concepts under scrutiny. In this study, the questionnaire was pre-tested by the researcher to ensure correction of errors and relevant adjustments were made to the content in an effort to maximise the capture of accurate information.

3.9.2 Data Reliability
Consistency is the main measure of reliability in the sense that if data is reliable research findings and ascertains be able to be replicated (Collis and Hussey, 2003), giving consistent results (Fraenkel and Wallen, 1996). Consistency gives the researcher confidence that the results actually represent what was intended in the study. Reliability of instruments is shown by similar responses obtained when the same research instrument is administered to different respondents. For this study a Cronbach test for reliability was done using SPSS which yielded scores of above 0.70 with some variables showing values of up to 0.89. This, according to literature which reports that the acceptable values of alpha, range from 0.70 to 0.95 confirmed the reliability and validity of the questionnaire used in this study.

3.10 Data Analysis and Presentation
The obtained data was coded in excel and uploaded into (SPSS) for analysis. The data was cleaned by running frequencies to remove inconsistencies in the responses. The research findings were analysed, compared and presented using tables, bar graphs and histograms.

3.11 Practical and Ethical Issues
Research ethics relates to how moral and responsible a researcher carries out a research (Saunders et al, 2009). Identified below are the steps that the researcher to ensure that ethical considerations were followed in the research.
i. The permission to carry out the research was request from the CE of SBZ and all research work was carried out only after the permission had been granted.

ii. Participant Privacy – Privacy and Confidentiality of respondents was maintained. Respondents were requested to make sure they do not indicate their identity on the questionnaire. Confidentiality of data will be maintained even after the research is complete and any form of publication will have to be sanctioned by the CE of SBZ.

iii. Participants were given the chance to accept or deny the offer to respond to the questionnaire.

3.12 Chapter Summary
The research methodology of this study and the research methods were discussed in this chapter, which identifies that the study adopted a positivist approach and used a single questionnaire to gather data from both managerial and non-managerial SBZ staff.
CHAPTER FOUR

RESULTS PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

For collected data to generate meaning, it needs proper arrangement, analysis and proper presentation (Bell, 1996). The researcher used a combination of research tools to gather both primary and secondary data. Data from the questionnaires was coded, entered into Excel and exported to SPSS from which it was analysed. The following section is a presentation of the findings from the research. The researcher used a combination tables and figures were used to and present the responses from the participants.

4.2 RESPONSE RATE

Stanbic Zimbabwe Limited had a total of 631 employees as at 31 December 2012 (Stanbic, 2012) and this formed the population of our study. Fowler (1984) explains that response rate is measured as a proportion of completed questionnaires to the total number of elements in the sample. The researcher issued out a total of 100 Questionnaires and 82 were returned, making a response rate of 82%. However after screening and data cleaning 65 were used as the source of the data set. This represents a sample to population ratio of 1:10.3 and a response rate of 76% which is high for data analysis considering the 50% to 92% benchmark from Dillman (1978) as cited by Saunders et al. (1997) Table 4.1 below summarises the information above.

Table 4.1 Response Rate

<table>
<thead>
<tr>
<th>RESEARCH METHOD</th>
<th>TARGET</th>
<th>RETURNED</th>
<th>After Data Cleaning</th>
<th>Percentage of returned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires</td>
<td>100</td>
<td>82</td>
<td>65</td>
<td>76.5</td>
</tr>
</tbody>
</table>
4.3 DEMOGRAPHIC INFORMATION

4.3.1 Staff position

The research findings as depicted in figure 4.1 show that of the respondents, 56.9% are general staff, 30.8% are middle level managerial staff and 4.6% are senior management staff with the remaining 7.7% occupy various positions mainly junior management, and attachment students. The distribution of staff positions shows a fairly spread pattern, with all the staff level represented. This induces some level of credibility on the responses and the resultant study findings especially considering the basis for the judgemental selection of respondents.

4.3.2 Period of Service

With regard to period of service, 33.8% have been with the bank for at least 10 years, 38.5% for 6 to 10 years, with 26.2% having been with the organization for 1-5 years and the remaining 1.5% for less than one year. The average period of service is 6 years. Figure 4.2 shows that the majority of staff have been with the bank for periods exceeding 5 years this means the responses from the respondents (w.r.t SBZ management model) was reliable and valuable responses owing to their long stay and experience with the institution.
4.3.3 Level of Education

The data the analysis in fig 4.3 reveals that only 7.7% of the respondents went as far as Advanced level, 4.6% are certificate holders, 33.8% hold a Diploma, 41.5% are degree graduates and a total of 12.3% have MSc degrees. These findings reveal that SBZ has a fairly educated staff complement. This also means that the wide mix of respondents is educated enough to give positive feedback.
Fig 4.3 Staff Education Level

4.3.4 Level of Understanding of Performance Indicators

With respect to an understanding of different performance indicators fig 4.4 shows that a reasonably high response of 64.6% indicated that they have a high understanding of bank performance measures and indicators, 15.4% indicated that they have a low appreciation of these performance measures while the remaining 20% were not sure. On the basis of more than two thirds of the respondents having high understanding of performance indicators, the researcher places credibility on the research responses. The majority of responses were based on an informed position.
Fig 4.4 Level of Understanding

Cross tabulation results show that there is a relationship between period of service and level of understanding. Of those that have a high level of understanding 80.95% have a period of service of at least 6 years. This analysis reveals that the greater the period of service the higher the level of understanding of performance indicators.

Conclusively the characteristics of the respondents shown in this section and the level of involvement in SBZ is an indication that the data collected are reliable and we can be able to draw valuable conclusions from their responses.
### Table 4.2 Cross tabulation of level of understanding and Period of Service

<table>
<thead>
<tr>
<th>Period of Service</th>
<th>High</th>
<th>Low</th>
<th>Not sure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than 1 Year</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>1- 5 Years</td>
<td>8</td>
<td>4</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>6-10 Years</td>
<td>17</td>
<td>5</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>Above 10 Years</td>
<td>17</td>
<td>1</td>
<td>4</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>10</td>
<td>13</td>
<td>65</td>
</tr>
</tbody>
</table>

Table 4.2 Cross tabulation of level of understanding and Period of Service

#### 4.3.5 Performance Drivers

**Table 4.3 Factor Effect on the Performance of Stanbic Bank Zimbabwe**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Individual Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy</td>
<td>1</td>
</tr>
<tr>
<td>Liquidity</td>
<td>2</td>
</tr>
<tr>
<td>Asset Quality</td>
<td>5</td>
</tr>
<tr>
<td>Operational Efficiency</td>
<td>2</td>
</tr>
<tr>
<td>Degree of Diversification</td>
<td>8</td>
</tr>
<tr>
<td>Credit quality</td>
<td>4</td>
</tr>
<tr>
<td>Management and Control</td>
<td>1</td>
</tr>
<tr>
<td>Technology</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 4.3 shows Individual ranking on a scale of 1 to 8 (with 1 having the most effect and 8 the least effect) of the factors and their effect on performance. The results reveal that capital adequacy (CA) and Management & Control have the most effect on the bank’s performance. SBZ is one of the banks that have consistently complied with the regulatory capital requirements. Resultantly the banking sector has maintained confidence in the institution as high capital levels reduce the possibility of bankruptcy of the bank. This school of thought is in tandem to the views by Bourke (1989) and Berger (1995). They explain that a high level of capital reduces the risk of bankruptcy incurred by banks. They can therefore afford to maintain the same level of risk of investing in riskier assets whose expected return is higher. The ultimate effect is improved performance ratings.

Management and Control is also identified as having the most effect on the bank’s performance by the respondents. Sound management is one of the most important
factors behind financial institutions performance. Given the qualitative nature of management, it is difficult to judge its soundness just by looking at a financial performance of the banks. In addition, performance evaluation includes compliance with set norms, ability to plan and react to changing environments, technical competence, leadership and administrative ability (source). In essence, management and control effect is shown in the performance of all the other factors identified, where management plays a part.

Liquidity and operational efficiency both have a number 2 ranking individually signalling their relative effect. Credit quality follows with a number 4 individual ranking. Asset Quality and Technology are more on the less important side with a number 5 ranking. An important point to note is that SBZ employees strongly feel that the relationship between SBSA and SBZ has not yielded enough technological transfer as would be desired to create a competitive edge. Business Units feel that Information system deficiencies have caused loss of revenue and customers to other banks although this has been more sentimental talk and less factual proof has been provided to substantiate these claims.

Lastly Degree of diversification proves to have the least effect on performance. The observation on diversification seems to differ with the bank’s results as depicted in table 1.10 which shows that for the past 5 years the ratio of non-interest income to total income has been basically above that of funded income, meaning that diversification into alternative sources of income enhanced performance. To add to that, the 82% in 2009 is an indication of the ability of the bank to survive from diversification as it reduces risk and possibility of default as highlighted by Tabak et al. (2011). This view is also supported by (Lin et al., 2012; Smith et al., 2003) who advocate that concentration strategy (lack of diversification) is highly related to risk.
Table 4.4 Factor Comparative Rating

<table>
<thead>
<tr>
<th>Factor</th>
<th>Comparative Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy</td>
<td>1</td>
</tr>
<tr>
<td>Liquidity</td>
<td>2</td>
</tr>
<tr>
<td>Operational Efficiency</td>
<td>3</td>
</tr>
<tr>
<td>Credit quality</td>
<td>4</td>
</tr>
<tr>
<td>Asset Quality</td>
<td>5</td>
</tr>
<tr>
<td>Technology</td>
<td>6</td>
</tr>
<tr>
<td>Management and Control</td>
<td>7</td>
</tr>
<tr>
<td>Degree of Diversification</td>
<td>8</td>
</tr>
</tbody>
</table>

A further ranking of the same data in table 4.4 using comparative analysis of the factors indicates that CA has the most effect followed by liquidity, Operational Efficiency, Credit quality, Asset quality, technology, management & control with Degree of diversification being ranked as having the least effect on performance.

4.3.6 Performance drivers affected by Foreign Ownership

Across all the factors foreign ownership has a significant effect on performance drivers as shown by Fig 4.5 below.

Fig 4.5 Foreign Ownership Effect on performance indicators

i. Capital Adequacy - Over half of the respondents, (58.5%) strongly agree and 26.2% agree that foreign ownership has an effect on CA, with a combined 13.9% indicating that it does not have any effect on performance. This means that 84.7% support the view that foreign ownership aids the bank’s ability to
meet regulatory capital adequacy requirements. This is supported by the fact that SBZ has consistently been able to achieve this feet. In addition looking at the performance of foreign owned banks in Zimbabwe, we notice that they all have managed to meet capital adequacy requirements ahead of their local counterparts (RBZ, 2013). This supports the view by Claessens, Demirguc-Kunt, and Huizinga (1998) that foreign owned banks are better able to raise equity capital internationally than their domestic counterparts, and by Hull (2002) that depositors consider these banks a safe and solvent due to high capitalization and access to foreign credit, thereby enhancing loyalty and profits.

ii. Liquidity – Of the respondents a combined 72.3% are in support of the view that that foreign ownership affects liquidity of the bank and 21.6% are in disagreement whilst 6.2% are unsure. On the balance of responses, foreign ownership has an influence on the liquidity of the bank. According to the bank’s 2012 financial report the bank has not faced any liquidity challenges. This is in line with Dinger (2007) who suggests that foreign owned banks are more liquid that local banks because of their associated risk aversion foreign banks operate more conservatively and have greater liquidity buffers from external support. In addition, they greater activity in capital markets (Demirguc-Kunt and Enrica, 1998).

iii. Asset Quality - The same trend persist with Asset Quality (AQ) where 35.4 & 36.9 are in agreement (strongly agree and agree respectively) 9.2% are unsure of the effect while 10.8 and 4.6% indicate that foreign ownership does not affect in any way AQ.

iv. Operational Efficiency - A significantly higher percentage (18.5%) indicate that operational efficiency is not affected by foreign ownership however a combined 76.9% agree that foreign ownership does affect operational efficiency and 1.5% are not sure. The global advantage hypothesis as put forward by Berger et al (2000) is supported by the agreeing majority. It purports that foreign owned banks may use more advanced technologies and information systems instituted from a more developed home country and may also become more competitive due to an active market for corporate control in the home country and may also have a more advanced labour force that enhances efficiency.
v. Degree of Diversification - The results further show that the ownership structure determines the degree and extent of diversification; this is substantiated by the 38.3 and 47.7% that strongly agree and agree respectively, disagreeing with this is a combined 6.1%.

vi. Credit Quality - On Credit quality (CQ) a combined 76.9% agree that foreign ownership has an effect whilst a combined 16.9% disagree and 4.6% are not sure.

vii. Management and Control - Management and control (MC) is strongly influenced by foreign control and this is substantiated by 50.8% who strongly agree and 27.7% who agree. Only 18.4% differ with the notion that foreign ownership has an effect on management and control.

viii. Technology - Lastly with regards to technology a combined 94% agree that foreign ownership influences the technology that SBZ uses, with 4.6% disagreeing and 3.1% not sure. All technologies used in all SBSA subsidiaries are sanctioned and authorised by the Head office and standardised across all the 17 countries in which the bank has presence. This includes computer hardware, core banking systems and application software and all system developments. The centralisation of information systems control has gone to the extent of the head office centrally hosting the majority of applications servers and technical support that subsidiary countries use.

The strength of the responses above coupled with their trend indicates that foreign ownership has strong effect on the identified drivers of bank performance. Resultantly foreign ownership affects the performance of the banking subsidiary.
### 4.3.7 Why SBSA centralises the control of its foreign Subsidiaries

![Fig 4.6 Reasons for Centralised control and Authority](chart)

i. **Cost Control** - Fig 4.6 above On reasons for centralized authority, research results show that 20 % and 49.2 % strongly agree and agree respectively 13.8 % are not sure and a combined 16.9 % disagree.

ii. **Economies of Scale** - The desire to take advantage of economies of scale and synergies with other subsidiaries, 33.8 % strongly agrees, 46.2 % agree 12.3 % are not sure and the remaining 7.7 % disagree.

iii. **Standardisation** - Standardization is a major motivator for central control as shown by the combined 90.7 % who agree (53.8 % strongly agree, 36.9 agree).

iv. **Enhance operational efficiency** - A comparatively high figure of 32.3 % disagree that enhancing operational efficiency is a driver for centralized control of subsidiaries by SBSA, 30 .8 % agree 26.2 % strongly agree while the remaining 10.8 % are not sure.

v. **Manage Risk** - As a strategy of managing country risk, 35.4 % strongly agrees, 44.6 agree, 7.7 are not sure, 10.8 disagree and only 1.5 strongly disagree.

### 4.3.8 Extent to which SBSA influences decisions as a result of the governance emanating from the ownership structure of the bank
On analysing the dependence of decisions and operations depend on policies, procedures and decisions from SBSA, the researcher found out that size of the loan book and Technology & Information system at 76.9 % each are highly dependent on foreign ownership. These are followed by Strategy formulation and implementation at 73.8 %, maintaining CA at 70.8 %, product offering & Diversification at 56.9 %, quality of loan book. Lastly the responses show that adjustment of bank liquidity has a lower dependency on Head office decisions.

**4.3.9 Benefits to SBZ as a result of foreign ownership and centralization of control at SBSA**

Fig 4.8 shows the responses on benefits from centralized control.
Fig 4.8 Benefits from Foreign Ownership and Centralization of Control

i. **Enhance Operational Efficiency** - On enhanced operational efficiency there is an equal disagreement and agreement that SBZ is benefiting and the researcher conclude that the respondents are indifferent on the benefits to operational efficiency.

ii. **Improved Capital Levels** - On CA 32.3 % strongly agree, 49.2 % agree, 6.2 % are not sure and 12.3 % are not sure.

iii. **Improved Liquidity Management** - A combined 70.7 % agree that central control enhances SBZs Liquidity management, 7.7 are not sure and 21.5 % disagree.

iv. **Improved Asset Quality** - In addition to that research results show that AQ improves with 20 % strongly agreeing, 47.7 agreeing, only 18.5 % disagree and 10.8 % are not sure.

v. **Better Risk Management** - Evidence shows that central control comes with better risk management, 86.2 % agree to that that 3.1 % are not sure and 10.8 % disagree.

vi. **Quality and Timely Managerial Decisions** - Results however show a different trend in Statistics in Quality and time management were 69.2 % indicated that central control has an adverse effect, 9.2 % are not sure and 21.6 % indicate there are benefits w.r.t quality and time management.
vii. **Enhance Shareholder Value** - With shareholder value, a total of 69.3% agreed 16.9 are not sure and a combined 12.3 disagreed that central control enhances it.

viii. **Technological Transfer** - Research results indicate that technology transfer and increase in market share benefit from central control this is validated by 63.1 and 52.3 respectively who agree.

ix. **Growth in Market Share** - However in terms of staff welfare centralised foreign control does not result in accrued benefits.

x. **Improved Staff Welfare** - This is empirically by a combined 70.8% who show that disagreed with central control enhancing staff welfare.

### 4.7 Central Control and Performance

![Graph showing impact on performance](image)

**Fig 4.9 Impact on Performance**

4.3.10 **Shortcomings as a result of foreign ownership and centralization of control at SBSA**
An analysis of Figures 4.10 and 4.11 above develops the findings discussed below;
i. **Slow reaction to market** - As a consequence of central control 72.3 % strongly agree that the resultant is a slow reaction to market needs, in addition 25.3 % agree, 1.5 % are not sure and 4.6 % disagree. Slow reaction has had an impact on performance 95.4 % agree to this the impact of lending to the cream market is marginally lower as indicated by the 50.8 % who agree, 41.5 % are not sure.

ii. **Lending only to cream market** - As a result of central control, research results show challenges arise due to lending to the cream market leaving small businesses unattended 61.5 % agree (strongly agree and agree) only 32.3 % disagree

iii. **Operational Inefficiencies** - 70.8 % agree that there are increased operational inefficiencies caused by governance layers and process controls. The impact of inefficiencies arising from central control is also substantiated by the 78.5 % who agree

iv. **Transmission of market shocks** - 36.9 % indicated that SBZ is susceptible to the transmission of market shocks with 30.8 % not agreeing. With market shocks the generality of the staff are not sure about the impact with 36.9 % being unsure and a marginally higher (41.5 %) confirming the impact.

v. **Increased Risk Aversion** - 73.8 % agree there are greater incidences of risk aversion, 13.8 % disagree. Increased risk aversion is also evident and to support this is the 76.9 % who agree.

vi. **Limited Technological development** - 78.5 % revealed that as a subsidiary SBZ as more likely to have low technology development, 18.5 % are of the opposite opinion. Lastly 80 % agree that limited technology development has had an effect on performance 15.4 % are not sure and 3.1% disagree.

An analysis on the benefits and challenges of central control gives the indication that all the factors have an impact on the banks overall performance. The findings of the study generally support several studies that have been carried out before with regard to the effect of foreign ownership on the performance of subsidiaries. The indication is that foreign ownership has positive effect on CA, liquidity, Asset quality, Credit Quality and Degree of diversification. On the other hand it has negative impact on operational efficiency, management and governance, and technology. A major point to note is that, contrary to theory which suggests that foreign ownership brings in
better technologies and enhances performance (Cull and Peria, 2010), this study has revealed that the adoption of technology has been slow and behind that of locally owned banks and has had a negative impact on the performance of the bank.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION
In this chapter, the researcher presents the conclusions to the study and offer recommendations drawn from the analysis and research recommendations by respondents. Areas of further study will be suggested in at the end.

5.2 CONCLUSIONS
The following conclusions have been drawn from the study,

5.2.1 Why Standard Bank centralises the control of its foreign subsidiaries
The researcher notes that with foreign ownership of institutions comes foreign governance and foreign control of subsidiaries. SBSA controls the operations of all its subsidiaries including SBZ through the centralised control management model with centralised authority of all operational activities. The main objectives of this centralised control are;

i. Standardisation of operations - This ensures that strategy is implemented consistently across the entire organisation making it easier co-ordinate activities and institute changes.

ii. To take advantage of scale economies and reduce costs - SBSA uses central control in order to benefit from the economies of scale associated with its large network of subsidiaries in the 19 countries that it operates. There has been drive to centralise information systems and processing which are a source of the second highest costs in the bank. This has yielded massive savings in hardware and software licencing.

iii. In addition to that the, structure also has a buffer effect in terms of managing country risk in each subsidiaries country of operation and ensures that the interest of shareholders are maximised in managing agency costs.
5.2.2 The extent to which centralisation has been implemented in SBZ

According to the study, policies and decisions in all of SBZ’s functional units are highly and significantly dependent on SBSA and there are strong operational controls and procedures to ensure adherence to specific standards as set up by Head office and dictated to country. Country management is then limited to implementation of policies in consultation with the Head Office.

The extent of centralisation of control within the group was assessed using the dependence of the following key drivers of the bank’s performance on policies, procedures, standards and decisions from SBSA.

i. Maintaining a level of capital adequacy,
ii. Adjustments on bank liquidity,
iii. Size of loan book,
iv. Quality of the loan book,
v. strategy formulation and implementation,
vi. employment and remuneration,
vii. technology and information systems,
viii. products offering and diversification

It was found that all have a significant dependence on control from SBSA and any changes to and diversion from the same has to go through formal governance channels of approval.

5.2.3 The benefits brought about by foreign ownership and centralisation of control of SBZ

i. Based on the responses from the study which are strongly supportive of the theory presented, the researcher draws the conclusion that SBZ’s position of Capital Adequacy, liquidity management, asset quality and risk management has benefitted immensely from the support and control from SBSA. These are identified as some of the major drivers of bank the bank’s performance. SBZ has managed to be a stable and highly competitive financial institution in which investors have maintained high confidence levels. SBZ as part a large group has benefited from the availability of
external support for Capital adequacy and liquidity. By being highly sensitive and risk 
avverse that bank has managed to maintain low levels of credit losses, high asset 
quality levels, and the goodwill that exist comes from the mother company enhances the organisation’s image.

ii. With regards to technology the researcher concludes that whilst respondents 
generally feel that SBZ has not benefitted from technological transfer from SBSA, 
strong synergies and cost reduction benefits that have accrued to both organisations 
due to centralisation of information systems.

iii. As a result of the centralised management model with strict rules and regulations 
the bank has been able to have control of bank operations resulting in improved 
performance, adherence to organisational goals in line with the company’s vision 
and strategy.

However this management model was shown to have a negative effect on staff 
welfare and the quality and timely managerial decisions.

5.2.4 Deficiencies from foreign ownership of SBZ and centralised control of 
authority

i. From the research, as a result of central control results show that SBZ faces 
challenges in reacting to different markets, and faces increasing operational 
inefficiencies and increased limitations in product development an example of this 
deficiency being that SBZ’s Visa cards are not E.M.V compliant yet the South 
Africans are.

ii. Furthermore the bank’s products lag behind the major competitors, for example 
until now internet banking is still not operational whilst the rest of the market has 
been using internet banking for over five years.

iii. In addition, the organisation’s policy of lending to the cream market creates a loss 
of business from the small business and informal sector and yet this sector is 
becoming the main source of income for the economy. This observation is also one 
of the root causes of the loss in deposits market share.
5.3 RECOMMENDATIONS

The recommendations below are based on the sentiments of respondents to the study. They emphasise on the negative effects of centrality of control of SBZ at SBSA and what the bank can do to reduce the negative effects caused to enhance performance.

i. The bank should give guidelines in terms of governance but allowing autonomy in operation activities. This means SBZ will have a localized implementation strategy different from SBSA and is empowered to make decisions on its own especially on short term goals, decisions, product offering, diversification, technology for these to have a great impact on the performance of the bank. SBSA should be there to make assessments, reviews, and controls to help its subsidiary achieve its goals. This would encourage innovation, proactiveness, creativity and ingenuity in line with SBSA vision goals and beliefs.

ii. The above can be achieved by incorporating the local management in decision making especially in matters to do with country risk as they are better acquainted with the country’s environment. The reliance on head office decisions increases the levels of risk aversion, in some instances to levels that disregard the growth needs of the local institution. For example credit controls should be limited to local market situations not SABSA control if the bank is to be competitive with leading local banks. On the same note lending is mainly based on hard information, whilst the need to consider soft information is greater. This reduces the levels of lending in the bank, thus affecting performance.

iii. The bank should reduce the lead time in introducing new products and also learn to embrace products that are being accessed in South Africa and other developed countries in a short space of time and not take ages to implement. This can be achieved by reducing the red tape in so far as motivations for new products, product enhancements and information system enhancements as this increases costs. Special reference is to the area of technology - e.g. internet banking has taken years to be implemented and Visa cards where those from the Zimbabwean subsidiary are not E.M.V compliant yet the South
Africans are. Technological innovation will make SBZ a market leader rather than market followers. Below are some of the recommendations that could be made based on country initiatives without having to depend on SBSA to ratify

a. There is need to identify the Bank’s targeted sectors of the economy which can be supported through offering facilities and in turn benefit is derived from high volumes of transactions processed. For example, Stanchart’s clients in the manufacturing and distribution sector have contributed positively to the growth in Stanchart’s non funded income.

b. Some banks have strongly driven the growth of their customer deposits through acquiring external lines of credit, SBZ, needs to take advantage of and ride on its relationship with SBSA and work on their own external credit lines e.g. the FMO line, in order to raise earning assets.

c. The Bank recorded service fees amounting to $5.5 million for the year 2012 compared to $8.9 million registered by Barclays (Stanbic, 2012). This gives a clear indication that more rigorous effort has to be made in terms of account sales. There is to rigorously grow the number of customer accounts and given the low corporate business, loans and advances to individuals are a good source of fee and commission income. School fees and salary based personal loans is a new product on the market which can positively impact the bank’s NIR.

d. According to the 2012 financial reports, CBZ’s suspended interest on Non-Performing Loans increasing by $6.5 million in 2012 compared to our $2.5 million increase, this is a reminder that the bank needs to have additional work on the quality of the loan book as it remains critical.

e. The bank needs to adopt a locally designed aggressive marketing strategy and limit the influence of a one fits all strategy from the Head office. Strategies have to be tailor made for the domestic economy even if guidelines are coming from SBSA.
iv. Decentralize HR management with special reference to staff welfare (staff salaries and working conditions). If standardisation is to be met then even staff welfare should be standardised where salaries match or get related to inflation adjustments.

5.4 Areas of further study
This study concentrated on SBZ alone however in future there is scope to make a comparative study of all the foreign owned subsidiary banks vis-a-vis their local counterparts. These studies could make use of the CAMELS framework to determine bank performance and compare it to the one performed by the Central Bank. The researcher wishes to note also that an area of study concentrating on the behaviour of foreign owners during years of crises needs to be explored as that creates significant impact on the performance of subsidiaries in the crises countries.

REFERENCES


26. Cull, R And Peria, M.S.M. (2010) Foreign Bank Participation In Developing Countries: What Do We Know About The Drivers And Consequences Of This Phenomenon?


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84. Stanbic Results


86. Universitàbocconi, Institute Of Financial Markets And Institutions And Newfin Research Centre, Vialeisonzo 25, 20135 Milan, Italy


Appendix 1: Research Survey Questionnaire

RESEARCH SURVEY QUESTIONNAIRE
University of Zimbabwe
Graduate School of Management
Master Degree in Business Administration

This study is meant to evaluate the effects of foreign ownership on the performance of banking subsidiaries, looking at the specific case of Stanbic Bank Zimbabwe as a subsidiary of Standard Bank of South Africa.

Instructions
1. Indicate your response by ticking the box corresponding with your answer.
2. Once completed, please return the physical copy only to the researcher.

SECTION A: DEMOGRAPHIC INFORMATION
1. In which category do you belong?
   a. General staff [   ]
   b. Senior managerial staff [   ]
   c. Middle managerial staff [   ]
   d. Director [   ]
   e. Other (Specify)__________________________________________________

2. For how long have you been in Stanbic Bank Zimbabwe?
   a. Less than 1 year [   ]
   b. 1-5 years [   ]
   c. 6-10 years [   ]
   d. Above 10 years [   ]

3. Your highest level of education. Please choose the appropriate.
   a. Secondary education [   ]
   b. Certificate [   ]
   c. Diploma [   ]
   d. Degree [   ]
   e. Masters Degree [   ]
   f. Doctorate [   ]
   g. Other (Specify)__________________________________________________
SECTION B
1. There are different factors, dynamics and methods involved in determining, measuring and reporting on the performance of a banking institution. Please indicate your level of understanding of these aspects.
   a. High [ ]
   b. Low [ ]
   c. Not Sure [ ]

2. Please rank the factors below according to your opinion of their effect on the performance of Stanbic Bank Zimbabwe. 1 having the most effect.
   a. Capital Adequacy [ ]
   b. Liquidity [ ]
   c. Asset Quality [ ]
   d. Operational Efficiency [ ]
   e. Degree of Diversification [ ]
   f. Credit Quality [ ]
   g. Management and Control [ ]
   h. Technology [ ]

3. Do you agree that these factors are affected by the foreign ownership structure of the bank?

<table>
<thead>
<tr>
<th>Factors influencing bank performance</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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<tbody>
<tr>
<td>Capital Adequacy</td>
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<td>Liquidity</td>
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<td>Asset Quality</td>
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<td>Operational Efficiency</td>
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<td>Degree of Diversification</td>
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<td>Credit Quality</td>
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<td>Management and Control</td>
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<td>Technology</td>
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4. SBSA centralizes authority and control at Head Office because of the following reasons;
<table>
<thead>
<tr>
<th>Reasons for centralising Authority and control at SBSA</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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<tbody>
<tr>
<td>To control and minimise agent related costs.</td>
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<td>To take advantage of economies of scale and synergies with other subsidiaries</td>
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<td>To enable standardisation across subsidiaries</td>
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<td>To enhance operational and decision making efficiency</td>
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<td>To Manage Country Risk</td>
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5. Please rate the extent to which decisions and operations on the following aspects depend on policies, procedures, and decisions from SBSA.

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<tr>
<th></th>
<th>High</th>
<th>Moderate</th>
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<tbody>
<tr>
<td>a. Maintaining a level of Capital Adequacy</td>
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<td>b. Adjustments on Bank Liquidity</td>
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<td>c. Size of Loan book</td>
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<td>d. Quality of the loan book</td>
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<td>e. Strategy formulation and Implementation</td>
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<td>f. Employment and Remuneration</td>
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<td>g. Technology and Information Systems</td>
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<td>h. Products offering and Diversification</td>
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6. In your view, do you agree that Stanbic Bank benefits from centralisation of authority and control at SBSA as identified below?

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<thead>
<tr>
<th>Benefits from centralisation of authority</th>
<th>Strongly agree</th>
<th>Agree</th>
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<th>Disagree</th>
<th>Strongly disagree</th>
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<tr>
<td>Enhanced operational Efficiency</td>
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<td>Improved Capital adequacy</td>
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<td>Improved liquidity management</td>
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<td>Improved asset Quality</td>
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<td>Better Risk management</td>
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<td>Quality and timely managerial decisions</td>
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<td>Enhanced earnings and Shareholder value</td>
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<td>Technology transfer</td>
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<td>Growth in market share</td>
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<td>Improved Staff Welfare</td>
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</table>
7. Do you agree that Stanbic Bank faces the following challenges by virtue of being a subsidiary of SBSA and the resultant centralisation of authority and control.

<table>
<thead>
<tr>
<th>Shortcomings of centralisation of authority and control</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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<tbody>
<tr>
<td>Slow reaction to different markets due to the centralisation of decisions at Head office.</td>
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<tr>
<td>Lending to the cream market only, leaving informal and small business unattended</td>
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<td>Increased operational inefficiencies caused by governance layers and process controls</td>
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<td>Transmission of market shocks from SBSA and other subsidiaries</td>
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<td>Increased risk aversion emanating from perceived country risk.</td>
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<td>Limited technology development due to the need to standardise across subsidiaries.</td>
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</table>
8. Do you feel that the benefits and challenges listed below have had impact on the overall performance of the bank?

<table>
<thead>
<tr>
<th>Benefits from centralisation of authority and control</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
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<tbody>
<tr>
<td>Enhanced operational Efficiency</td>
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<tr>
<td>Improved Capital adequacy</td>
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<td>Improved liquidity management</td>
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<td>Improved asset Quality</td>
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<td>Better Risk management</td>
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<td>Quality and timely managerial decisions</td>
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<td>Enhanced earnings and Shareholder value</td>
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<td>Growth in market share</td>
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<td>Improved Staff Welfare</td>
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<tr>
<th>Shortcomings of centralisation of authority and control</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
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<td>Slow reaction to different markets due to the centralisation of decisions at head office.</td>
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<td>Lending to the cream market only, leaving informal and small business unattended</td>
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<td>Increased operational inefficiencies caused by governance layers and processes and controls.</td>
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<td>Transmission of market shocks from SBSA and other subsidiaries</td>
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<td>Increased risk aversion emanating from perceived country risk.</td>
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<td>Limited technology development due to the need to standardise across subsidiaries.</td>
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9. What strategic recommendations do you think the bank can adopt to enhance its performance by leveraging on its position as a subsidiary of SBSA?

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END OF QUESTIONNAIRE

THANK YOU FOR YOUR PATIENCE AND EFFORT