Integrative Innovation Strategy:
A Case Study of Guaranty Trust Bank plc (GTBank)

by

Modupe Oludare Adeyeri

B.Sc. Computer Science and Economics, Obafemi Awolowo University, 1988

Submitted to the MIT Sloan School of Management in
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Signature redacted

Signature of Author:____________________________

Modupe Oludare Adeyeri
MIT Sloan Fellow SF-14
May 9, 2014

Signature redacted

Certified by:____________________________

Professor John Van Maanen, Thesis Advisor
Professor of Organization Studies, MIT Sloan School of Management

Signature redacted

Reviewed by:____________________________

Professor Ezra W. Zuckerman Sivan
Professor of Technological Innovation, Entrepreneurship and Strategic Management,
MIT Sloan School of Management

Signature redacted

Accepted by:____________________________

Stephen J. Sacca, Director
MIT Sloan Fellows Program in Innovation and Global Leadership

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ABSTRACT

Since starting in 1990, Guaranty Trust Bank plc (GTBank) has emerged as one of the strongest players in the African Banking space despite the challenging business climate. Firms operating in similar conditions – geographies, industries and markets; leveraging similar sets of resources – capital, skill and technology; and having identical organizational designs do not always demonstrate similar corporate performance. The situation could be likened to a normal distribution curve where a few of the firms are the industry leaders who outperform the rest on all metrics including profit. At the other end of the spectrum is another group who returns less than stellar performance. The majority however usually lies somewhere in the middle with acceptable performance, forming the industry average.

The question which then arises is what constitutes the distinction between the great firms and other players within an industry or market? This is despite the similarity in operating conditions, resources at their disposal and organizational designs. There have been extensive academic and practice-based efforts to explain the likely causes of the gaps in performance among firms. While each attempt seems to present a valid position, it is likely that the success does not depend on any one effective management situation or strategy but rather in a novel combination of existing management, strategic and operational components in an innovative manner. I call this combination an "Integrative Innovation Strategy (IIS)" and use it to describe the distinctive advantage of GTBank.

The research examines how Guaranty Trust Bank plc (GTBank) has emerged as a dominant player in the African banking landscape.

Thesis Supervisor: John Van Maanen
Title: Erwin H. Shell Professor
Professor of Organization Studies

Thesis Reader: Ezra W. Zuckerman Sivan
Title: Professor of Technological Innovation, Entrepreneurship, and Strategic Management
Chair MIT Sloan PhD Program

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Dedication

To the Spiritual Hierarchy of ECK (God, Divine Spirit and the Godman), my family and; my friends.

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Chapter 1

INTRODUCTION

On May 29, 2013 at The African Banker Award held in Marrakech, Morocco, Guaranty Trust Bank plc (GTBank) was named the African Bank of the Year. Also on September 13, 2013, GTBank was named the Best Banking Group – Nigeria at the World Finance Banking Awards. During the same year, the EMEA Finance, United Kingdom named the bank's CEO as the Pan-Africa CEO of the Year. The CEO also bagged the World Finance Banker of the Year. These are just a few of the accolades won by the bank in 2013 and winning awards have become the norm for the company. Earlier in 2011, the Banker Magazine Brand Finance named GTBank as one of the top 500 Global Banking Brands giving it a rank of 270. Since listed on the Nigerian Stock Exchange in 1996, it has won the President's Merit Award at least seven times starting from 1996, the same year that it was listed. This is quite an achievement for a bank that started in 1990. In that short timeframe, it has emerged as one of the most profitable banks in Africa, consistently paying dividends twice a year and having the highest banking stock price on the Nigerian Stock Exchange.

How did GTBank become so successful given the challenging environment and the presence of older and erstwhile stronger banks? In attempting to answer this question, I start by reviewing the evolution and the different perspectives on organization strategy describing the factors that shape the competitive advantage of firms as well as the context in which they operate. I then propose that GTBank did not apply any of the strategic tools in isolation but rather combined existing elements in an innovative manner to create a compelling advantage. A point to note is that the bank did not create any element from scratch. Rather, it integrated existing elements. The innovation therefore lies in the new combinations of existing elements. I use the phrase "Integrative Innovation Strategy (IIS)" to describe the Bank's general approach. I note that the bank regularly changes the elements and their combinations to create new processes, products and services by leveraging its resources in new ways. Thus it is able to develop dynamic capabilities so that even if its processes, products and services are imitated, its dynamic capabilities would not readily lend themselves to imitation.

Firms are not created equal. There are differences in performance from one company to another. Given the global competitive landscape, the resources available to firms, the scope of businesses in which they engage and how they are organized to perform, no company can claim a birthright to being the definitive industry leader forever. To remain relevant, companies must continuously re-invent themselves and align their capabilities (or distinctive competences) in new ways to create and capture value. This is necessary even in the creation of the most basic product or in the delivery of the most mundane of services. Companies that want to lead into the future must spend considerable and sustained intellectual energy anticipating, creating and sharing a collective view of the future. Many companies fail because they concern themselves only with the current challenges and give less room for thinking about and imagining the future. Hamel and Prahalad (1996:5) state, 'So the urgent drives out the important; the future goes largely unexplored; and the capacity to act, rather than the capacity to think and imagine, becomes the sole measure of leadership'.

Therefore, in any given industry, a few firms will emerge as leaders with particularly strong performance in most of the relevant metrics; especially those that meet the expectations of shareholders and the market. The laggards on the other hand will fail the tests on several of the same criteria. Finally the majority of the companies will return satisfactory performance that falls within the industry average. The question then arises as to what separates great companies from the not-so-great? Many books and articles have been written to explain the sources of the competitive advantage of firms and a look at the evolution of strategy reveals the wealth of knowledge, experience and efforts that have been the results of active inquiries into the special ingredients that differentiate one company from another in terms of their ultimate performance.

The intellectual knowledge describing the roots of firms' competitive successes have mostly come from two realms. One group of ideas have come from the standpoint of theory within the academic ecosystem. Examples include management and business schools such as MIT Sloan, Harvard Business School, Stanford Graduate School of Business and Wharton. The other group find its roots in practice firms such as McKinsey, Boston Consulting Group (BCG) and; Bain and Company. From these two broad groups, many valuable ideas have emerged. Some of these include the choice of a firm to pursue incremental versus disruptive innovation; offensive versus defensive strategy or cost-driven (scale) versus quality-driven (differentiation or willingness to pay) strategy; amongst many others.

One explanation given for the stellar performance of a great company has been the discipline of continuous incremental innovation such as found in the Toyota Production System (TPS). This also goes by different names such as 'Kaizen', 'Lean' or 'Just In Time (JIT). TPS involves highly efficient integrative processes of manufacturing, production management and quality control. The new face of competition unleashed on the automobile world by the Toyota integrative performance system likely contributed to GM and Chrysler going bankrupt in 2009 (See Cusumano, 2010). Even so, while Toyota as a company has remained a global leader in the automobile industry for decades, the company has not been immune to flaws in how its business is run, how it is organized to perform and in particular; how two important functions in the value chain – design and testing - are executed. In fact, Cusumano (2010:3) argues that the improper execution of these two functions was responsible for the failure of the brake and acceleration components of some Toyota models in 2010, leading to a worldwide recall of more than 9 million vehicles.

Another explanation for why great companies seem to have outstanding performance is their choice to pursue disruptive innovation. While incremental innovation strategy such as the TPS is a system founded on evolution, that is, a systematic or normal progression of systems, processes and practices, a disruptive strategy on the other hand is revolutionary or transformational. It embodies profound change, often bringing radical shifts to how businesses are run and how organizations are structured. It may even bring with it, new lifestyles. Such is the introduction of the personal computer (PC) in the 1980's, which brought some new companies into being. Prior to that time, it was inconceivable to imagine a household with a computer not to talk of everyone in a household having their own personal computers. Before the debut of the PC, not many would have heard of names such as Microsoft, HP and Dell, which have become household names. The PC could now do whatever was previously the exclusive preserve of the mainframe. Since then far more advances have been made (for instance in mobile technology and cloud computing) and human lifestyles have been altered in significant ways.

Hamel and Prahalad (1996) offer two lenses with which to view successful companies in terms of their strategy. They look at whether the strategy employed is offensive or defensive. In this regard, they lay out a framework for managers as they envision the future of their organizations and try to distill how much management time is spent between internal and external issues. Even of the time spent focusing on external issues, it is important to know the proportion of time devoted to the long-term rather than the immediate business challenges. Further, how much of a shared view of the envisioned future happens in a collaborative sense amongst managers of the firm. Thus if the actions that result from this exercise leaves a company in a position where it is mostly reacting to the actions of the competition, it is adopting a defensive strategy. If on the other hand, its view of the future leads it to fill a gap through creating a new market, product or service, then it is on the offensive. To achieve outstanding performance therefore, a company must not only look inward. It must also look outward and forward.

In a sense the offensive versus defensive strategy ideas are similar to those described by Kim and Mauborgne (2009) as blue versus red ocean strategies. They contend that competition in an overcrowded marketplace cannot lead to long-term performance. Rather it is by seeking uncharted waters that a company can find a new source of competitive advantage. An example that comes to mind is Trader Joe's, the organic food store chain. Trade Joe's found a market for underserved but discerning customers who want to maintain a healthy lifestyle by consuming high quality food products; but at low prices.

There have been arguments that seem to downplay the importance of strategy, focusing rather on who is at the helm of the organization. This is precisely the domain of Level 5 Leadership (See Collins, 2009). Collins argues that good-to-great transformations only occur when there is a level 5 leader at the top. Two principal traits of such a leader are described as uncommon humility and extremely strong professional will. This contrasts sharply with the idea that celebrity-type CEOs with larger than life image and attention seeking personalities are the ones most likely to lead their companies to exceptional performance. Collins' flagship example is Darwin E. Smith, who took over the reins of Kimberly Clark, the paper company in 1971 and stayed on as CEO for the next twenty years. At the time, Kimberly Clark's stock price had fallen by about 36% behind the industry. However during the 20 years of Smith's rein as CEO, not only did the company become the leading paper company in the world, it's cumulative stock returns also outperformed the market by a ratio of more than 4 to 1 beating the likes of GE, Coca-Cola, HP and 3M.

While the foregoing have been attempts to explain what might be responsible for some companies demonstrating stronger performance relative to others operating in similar conditions, there have been arguments questioning whether the observations were more of random events in what has been described by Rosenzweig (2007) as the 'Halo' effect. Rosenzweig argues that when a company is doing very well, it is easy to assume that it has superior practices relative to the competition. In so doing inferences about the company's performance is made based on a general impression rather than on facts. Admittedly, there might be some correlation among some of the observable factors and the success of the company, but these may not necessarily represent causality. In one situation, Fortune magazine in February 2005 named Dell

Computers as number one among the World's Most Admired Companies (See Rosenzweig, 2007). Barely two years later, Dell Computers found itself struggling to survive. Michael Dell, the company's chairman promptly stepped in to rescue the ailing company. He fired the CEO Kevin Rollins and assumed the mantle of leadership himself. Observers were quick to point to complacency, arrogance, reluctance to change and poor leadership as the culprits of Dell's failure. Reflecting on Rosenzweig argument, one may be tempted to accept that luck plays a part the success of an organization.

Another reason cited for a given company's exceptional success is how they have been able to achieve vertical integration. However, Stuckey and White (1993) argue that, 'management's track record on vertical integration decision is not good' insisting that only a few companies are successful at vertical integration. Nevertheless, it is likely that the few successful companies such as Wal-Mart with its logistics; Apple and Samsung with research and development, manufacturing and distribution; can provide valuable insights to further an understanding of what constitutes their competitive advantage.

Traditional arguments in favor of vertical integration include economies of scale and reduced transaction costs, the need to contain excessive supplier and buyer bargaining powers and; raising entry barriers. At the same time, there have been arguments against vertical integration. These include distraction from the core business as a firm attempts to do too many things; less choice for consumers;

higher prices to consumers and lower prices for suppliers as the vertically integrated firm gains monopoly power; and finally, the limit to technical economies of scale since the production processes at each stage of the value chain are distinct, giving little or no opportunity for sharing (See Sucky and White, 1993). Despite the arguments against vertical integration as an innovative strategy however, it can provide a formidable shield against the competition and new entrants as illustrated in **Figure 1** by providing differentiation and willingness to pay.

A recent trip to California as part of the MIT Sloan Fellows Program (Class of 2014) provided exposure to three companies – Oracle, Google and SolarCity - who have successfully embraced vertical innovation as a competitive strategy, combining strategic elements from the value chain to deliver compelling products and services. These companies are leveraging vertical integration innovation strategy to accomplish the following four things:

1. Strong research and development (R&D) supported by idea generation across entire organization rather than rely on a single department headed by a Chief Innovation Officer.
2. Product development and marketing management leveraging supplier and customer feedback
3. Continuous improvement in the production process to improve quality and operational efficiency and to reduce cost

4. Business model innovation enabling coordination across different production stages in the value chain and leveraging industry networks to provide strategic intelligence for organic scope expansion and target acquisitions

Cusumano (2010:314) argues that most of the enduring management ideas have come from consulting firms, as opposed to academia. He outlines six strategies responsible for enduring performance. First is that successful companies should focus on platforms and not just on products. In this regard, a platform is an environment or system providing a base to deliver a product or service. As such, it is reusable and longer lasting than just a product or service. Such a platform can be delivered directly to end users as a single-sided platform (SSP) or can complement (or be complemented by other firms) in the form of a multi-sided platform (MSP). The more the platform is used, the more network effect is created and the more 'sticky' is the user base. The second strategy is a focus on services and not just products (or platforms). When services are bundled together with products or platforms, a new 'entity' is created and it becomes difficult to distinguish the service from the platform or product thus raising the switching costs.

Consider the case of an automobile. A consumer may purchase a car every four years which makes it a one-time purchase for that period. However, the service technician continuously captures the value from the owner's driving experience so long as the required technical skills continue to match the requirements of the increasing sophistication of the modern automobile.

The third strategy focuses on capabilities not just strategy. Two companies operating with the same strategy may end up with different results. The leaders in an industry are constantly under threat of imitation by followers. Whereas strategy can be copied, the capabilities and will to implement the strategy do not easily lend themselves to imitation. It is likely that a company that focuses on enriching its capability will outperform the rest of the competition.

The fourth strategy suggested by Cusumano (2010) to win the battle of competitiveness is the 'pull' and not just 'push' strategy. Thus a company must position itself to learn from the marketplace by staying close to its customers, the competition and the overall value chain. It must be alive to the external factors that can dominate its present and future terrains.

The fifth strategy involves economies of scope, not just scale. There is the sense that companies can only compete on the basis of one of two competitive advantages – cost or quality. In this regard, a company is either pursuing scale (cost or efficiency) or differentiation (quality). However, the fifth strategy suggests that a company may be able to pursue the two goals simultaneously if it can identify and establish synergies among the businesses in which it engages, its underlying resources and the organization that coordinates business activities.

The sixth and last of the strategies is flexibility not just efficiency. Relating to the fifth strategy on the basis of value creation, seemingly opposing value creation levers can be combined in a way that brings about the realization of their combined benefits. However, that can only be achieved if management is willing to be flexible.

While the list is not exhaustive, what has been described so far are some of the ways a company's performance can be explained relative to other players in a competitive environment. There seems to be no clear answer to explain why one company might be successful and another fails even if they adopt the same strategy, compete in the same space and pursue the same customers. This is the paradox of strategy. Even so, a company considered great at one time, could become weak at another time or, at the extreme, fade into oblivion. This is what Fine (1998) describes as 'temporary advantage'. This perhaps leads some people to think that companies that have been very successful throughout time have just been lucky. Yet it is not that great companies invent new things all the time. They have often found a way to combine existing elements in a new way (See Croitoru, 2012). **Figure 2** illustrates a system dynamics view of how strategic elements can be combined to achieve stellar performance while at the same time showing certain factors that can constitute barriers to achieving a stellar performance.

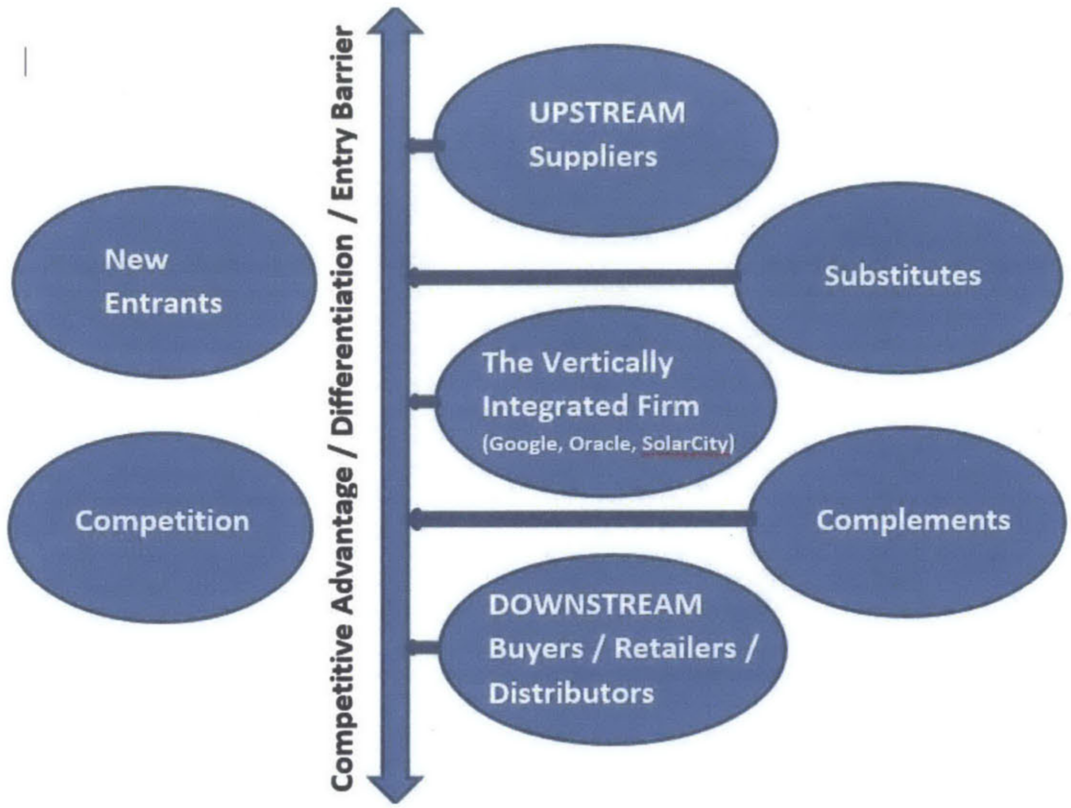

Figure 1: Innovation through Vertical Integration Strategy; an adaptation of the economist's view or rational actor model of value maximization (see Allison, 1969:689-718) and Porter's Five Forces

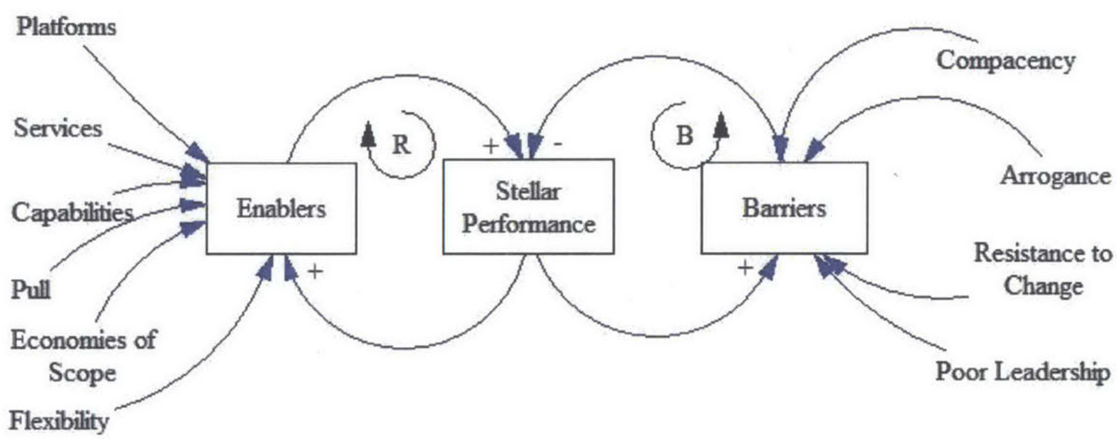

Figure 2 Achieving Stellar Performance through Combining Strategic Elements, adapted and illustrated with ideas from Cusumano (2010) and Rosenzweig (2007)

Background

In January, 1994, I joined Guaranty Trust Bank plc (GTBank) as a Banking Officer in its Information Technology (IT) department then known as Electronic Data Processing (EDP). At the time, I was relatively fresh in my career having graduated from the university six years earlier with a degree in Computer Science and Economics. I was hungry for knowledge and wanted to build my technical skills by working for the best company that I could find towards achieving my career goals. My desire was to create products that people use rather than resign my career to using products and services created by others. I needed to feel a sense of achievement. Thus for the first four years, I stayed out of banks and other places that I perceived did not provide a technically challenging environment for career advancement I only sought employment in computer, technology and consulting firms. At the end of this period, it became clear to me that banks had more money to invest in technology than any of the places I had either worked or searched for work.

Reluctantly, I applied to one of the banks and was accepted. Thus began my banking career in October 1992. Once in the banking industry, I soon became aware of the incumbents who have been in business for much longer; the latest arrivals to the market, who I would describe as the rising stars, who although new were on the fast track to growth and profitability. Within my bank, especially at meetings, there were frequent references to a particular bank and a puzzle as to how it could have been so successful in a relatively short time given their arrival on the scene barely over a year. This particular bank was an enigma and it was giving my bank a hard time in the market place. This bank was Guaranty Trust Bank plc (GTBank). There was talk about their excellent customer service and superior technology. This revelation caught my attention and Information Technology being my area of specialization, I decided to explore an opportunity to work with the bank.

After a few months passed after I had submitted my resume to the bank's HR department without a response, I assumed that they must not be interested in my skills, qualifications and experience. Then I got an invitation to take a written test. It was similar to the Graduate Management Admission Test (GMAT). The top 13% are selected to progress to the second stage which is a panel interview. The few that pass this stage then met with either the CEO or Deputy CEO. Every applicant that made it this far must see one of the two top executives before they are offered a place in the organization. With growth however, the function has been delegated to general management staff for levels below manager. Also another layer has recently been introduced in addition to the written test. Applicants are asked to write an essay on a national or global issue.

Upon successful completion of these recruitment stages stages, an offer letter is issued to the applicant. However the new hire cannot work right away. They are sent along with about thirty others to the GTBank Academy where they undergo four months of training in operations, accounting, customer service, value and leadership and personal development. The faculty are drawn from both internal and external sources. Years later and upon attaining the position of manager, I became a member of the internal faculty team. Much later as General Manager and Chief Information Officer, I led the technology and operations track. There is a minimum pass mark for each of the subjects and a minimal overall grade for the program in order to graduate from the academy. Only graduates are assured a final place in the organization. There is no opportunity to repeat and those who fail leave the organization. Even so the rejects are considered very valuable to the industry and are often the targets of other banks. I know of no other institution in Nigeria that goes into so much detail to develop its people.

I believe that in order to determine what sets apart a sterling organization in a crowded marketplace, four factors must be considered. These are globalization and its implications for business; the sources of national competitiveness; the industry structure and competition and; the strategy inside the firm. My thesis explores how Guaranty Trust Bank plc (GTBank), an international bank with roots in Africa has derived its competitive advantage, not from a single source, but rather from multiple sources and recombining them in innovative ways to create an integrative strategy that has led to high performance.

Summary and outline

In their role as intermediaries, financial institutions deal with the sources and uses of money often following the origins of liquidity for deployment in asset creation. Since money travels well and often by electronic means, such activities span international limits which expose financial institutions to cross border risks. At the same time, shutting off the global or international scene to focus solely on the domestic markets means letting go of the opportunities that come with playing in a global economy. Thus the Integrative Innovation Strategy I present here to describe Guaranty Trust Bank takes into account global trends and their implications for financial services, the roots of competitive advantage of firms as provided by the home base, the industry structure and competitive analysis of the banking players, and finally a focus on what happens inside the firm.

In Chapter 2, I examine twelve global trends that have potential implications for banking business and discuss the competitive advantages provided by the firms' home base. I then consider how industry structure and rivalry can affect a company's competitive position and how the company in turn may respond in the way it deploys its resources and capabilities; the businesses in which it engages and how it organizes to achieve results.

Chapter 3 introduces Guaranty Trust bank (GTBank), its origins; the background of its founders and its footprint in Africa and Europe.

Chapter 4 traces the sources of the Bank's competitiveness and how it has leveraged opportunities provided by globalization and its home country, Nigeria. I then examine the industry structure and the nature of the competition that GTBank faces and how it has responded so far.

Chapter 5 reviews the outcome of GTBank's strategic choices and notes that some of the actors that contributed to the Bank's success in the past have ceased to be compelling and that the Bank needs to find new ways to remain competitive. In this regard, I suggest a careful review of its market segments, people, culture and the political environment in which it operates.

Chapter 2

GLOBALIZATION, COMPETITION AND STRATEGY

Companies or businesses do not exist in a vacuum. They emerge out of an economy. The economy itself emerges out of a society. The society exists within a larger, global environment. Senge, Smith, Kruschwitz, Laur and Schley (2010: 102) argue that a sustainable order of priority ought to be from the environment to the economy. Thus an enabling environment is what creates a sustainable society. A sustainable society in turn creates a vibrant economy which then creates prosperous businesses. Thus the environment in which a company operates is crucial to understanding the roots of its competitiveness and the choice of its strategy. Some of the factors affecting a company's strategy are out of its control and only by creative adaptation does a company excel above other firms.

Therefore, from the standpoint of what I call an Integrative Innovation Strategy an organization is viewed from four dimensions in terms of the factors that influence its performance. First is the general state of the world (globalization); second are the conditions of the country or countries in which it operates (country roots); third is the industry structure and the nature of rivalry; and lastly, its own action or inaction given the first three influences.

In this chapter, I discuss globalization and its implications for businesses, the roots of countries' competitive advantage and which subsequently affect businesses, the industry structure within which a company operates and finally how the company organizes its strategic efforts internally to meet its key objectives.

Globalization and Implications for Business

Globalization has collapsed traditional barriers to trade and relations among nations, industries and institutions. New trends have emerged that continue to shape the nature of politics, economics, trade and regulation. The impact of globalization on businesses has been a double edged sword creating both opportunities and threats. It has affected how business is done at home and abroad. Malnight and Keys, (2008) identify twelve global trends that are shaping the business terrain. The following section discusses these trends and their implications for businesses:

1. **Shift in Economic Power**: New power blocks have emerged shifting the economic power from the traditional TRIAD – US, UK, Japan to the BRICS – Brazil, Russia, India, China and South Africa. Companies are finding that their home bases are no longer sufficient to remain competitive in an intense global environment that is increasingly characterized by volatility, uncertainty, complexity and ambiguity.
2. **Shifting Market Landscape:** The middle class is predicted to continue to grow reaching more than 1 billion in 2030, accounting for the fastest growing segment of the world economy. At the same time, the proportion of consumer spending contributed by developed countries will drop by 5% to 70% in 2015 (See Malnight and Keys, 2008).
3. **Changing Industry Landscape**: Competition is coming from places never before imagined. Power is shifting along the value chain and exerting greater pressure on the economy.

4. **Changing Nature of Capital**: The nature of capital is constantly changing. There is increased international capital flow, particularly from the East to the West with increasing US trade deficit and China's surplus. There is potential to reshape financial markets as new power brokers – sovereign wealth, private equity and hedge funds – emerge diminishing the influence of central banks. The implication is increased liquidity in financial markets and consequently increased regulation and protectionism. These demand new forms of corporate governance and create 'economic super powers' who colonize 'by purchase rather than by conquest'.
5. **Fracturing Social Structure:** The global social structure is changing more rapidly. There is population increase in Asia; and at the same time ageing and migrating to urban cities. Traditional social structures and identities are fragmenting as manifested in falling household sizes and more people are living alone.
6. **Changing Consumer Landscape:** The consumer landscape is also changing as consumers become increasingly more sophisticated, changing what they value and assigning greater importance to price and speed. New consumer groups are emerging and exchanging ideas in an unprecedented manner through online networks.
7. **Greater Mobility of Labor:** There is greater mobility of labor as Asia continues to support a growing workforce, lower labor cost and rising productivity.

8. **Greater Pressure on Natural Resources:** There is intense pressure on natural resources as 50% more of natural resources are consumed than can be sustained (See Scharmer and Kaufer, 2013:4). Yet resource costs are increasing and impacting climate and the environment. This has generated intense social pressure, some legitimate and others seeking legitimacy.
9. **Changing Geopolitical and Security Landscape:** The geopolitical and security landscape is shifting as risks emerge in International terrorism and transnational crime and corruption. Economic risks such as the decline of the world economy and the fall in the US Dollar during the financial crisis, the rise of China, the hike in prices of crude oil and energy crisis; environmental factors such as climate change and natural catastrophes; societal pandemics and diseases in developing countries. These risks are predicted to continue to rise over the next 10 years and breeding lack of trust and confidence in institutions.
10. **Greater Stakeholder Demand on Business:** There is growing stakeholder demand on business. Corporate scandals and environmental issues have undermined faith in government and big business. There is perceived weakness of government and its security agencies to protect the citizenry against terrorism, disasters and diseases. There is increased threat to privacy with the proliferation of new media and the emergence of big data. There is increased pressure for businesses to be more socially responsible, transparent and accountable. There is need for a greater focus on the interests of all stakeholders – shareholders, regulators, Non-Governmental

Organizations (NGOs), labor unions, the media and the general public. Public-Private Partnerships present an opportunity and there is the need for Innovation in stakeholder management through creating sustainable business models, products and services.

11. **Changing Technology Landscape:** The technology landscape is changing rapidly and impacting all aspects of production, service delivery, quality of life and the environment; as well as technological risks in the breakdown of critical information infrastructure (CII) and new technologies such as nanotechnology. These present both opportunities and threats.
12. **Changing Economics of Information and Knowledge:** The growth of the Internet has enabled easier information access, sharing and networking; thus empowering continuous innovation.

The Roots of Firm's Competitiveness

Companies derive their primary advantage or face setback from the conditions of their home country. Thus high technology and biotechnology startup companies in the USA will likely outperform their counterparts in other parts of the world which lack a vibrant ecosystem such as found in Cambridge/Boston and Silicon Valley areas. Porter (1990:69-130) provides a framework for analyzing the roots of a country's competitiveness. Each country's roots is described as a diamond, hence Porter's Diamond Analysis. This is discussed as follows:

Factor Conditions

Factor conditions describe the endowments of a country which are likely to give it a competitive edge. These include a country's natural resources, people, education, capital and technology.

Structure, Strategy and Rivalry Conditions

These describe the nature of the country's economy and the structure of its industries as well as its strategy for relating with the world. Thus an open economy will allow the free flow of capital. Also an intense rivalry in industry structure will lead to efficiency in the country's markets. The converse is also true.

Demand Conditions

This relates to the size of domestic consumption as well as its exports which is driven by international demand for locally produced goods and services. A robust domestic and foreign demand for a country's output will likely lead to economic growth.

Support and Allied Industries

Support and allied industries relate to the enabling environment for business. This facilitation is provided by government on one hand and the private sector on the other hand. Thus a stable government, a strong justice system and respect for human rights are factors of a healthy business environment as is the protection of property rights including intellectual property (IP). On the other hand service and allied industries such as air, rail, road and sea transportation will support a dynamic business environment.

Government and Leadership

The system of government and leadership can determine the prosperity of a nation and whether businesses operating within it will thrive or fail to thrive. For instance a strong democracy, respect for the rule of law and good "doing-business" policies are crucial for business to thrive.

Chance

Luck and factors outside of the control of companies can play a part in their outcomes. Natural disasters can have major impacts on company stock prices and concern about sustainability can affect the image of companies. On the positive side however, consider Canada with about one-tenth of the population of the USA. Even though it lacks a strong domestic demand when compared with the USA, by physical proximity it is able to access hundreds of millions of consumers in the USA. This is purely because of its location as a neighbor of the USA north of the border. Thus Canada enjoys both its diamond and the US's diamond, hence Canada's double diamond or the North American diamond. **Figure 3** shows the typical diamond analytical tool.

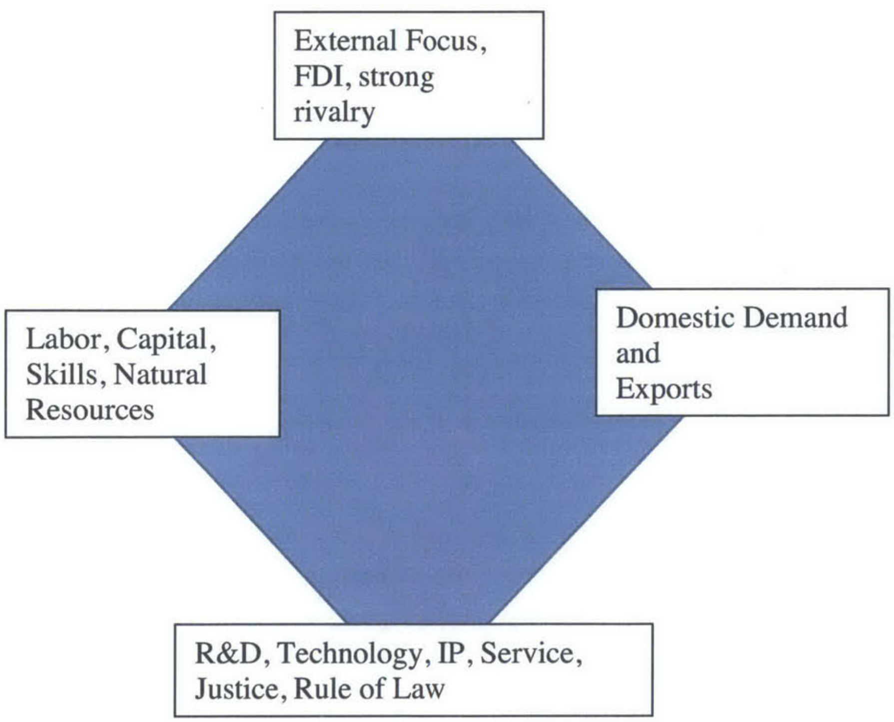

Figure 3: Porter's Diamond

Industry Structure and Competition Analysis

The third broad set of factors shaping the environment in which a business exists relates to the structure of the industry and the nature of competition within the industry. A widely used tool for analysis in this area is one provided by Michael Porter known as Porter's five forces (See Ghemawat, 2002: 55). It enables an understanding of the attractiveness of an industry and the interactions among the competitors. The five forces' consist of the existing firms, buyers, suppliers, substitutes and new entrants. Each of these is discussed as follows:

Existing Firms: These constitute the rivals who compete to gain market share and profit. Thus the more firms there are in an industry, the more intense the rivalry since they must compete for the same customers. Other factors contributing to intense rivalry among firms include high fixed or storage costs, slow market growth, low switching costs, brand identity and low product differentiation. Others are high corporate stakes, high exit barriers, the diversity of the incumbents and the complexity of information.

Substitutes: A breakthrough of Porter's five forces is the introduction of extended competition driven by the threat of substitutes. A threat exists when the demand of a product is affected by the change in price of a substitute. Thus the impact is felt through price competition.

Buyers: Buyers can exert influence on producers of goods and services in varying degrees. Generally when there are few buyers, especially a large one such as Wal-Mart, they have tremendous power on the producers. Not only can such buyers dictate terms to the producers, they are sufficiently big and have the capacity to backward integrate or buy the producer. Conversely many and varied buyers cannot exert significant influence on producers and are thus considered weak. However when buyers are many and concentrated, they have the effect of a single large buyer on the producers.

Suppliers: Suppliers are the providers of inputs to the firms. The existence of a small number of suppliers will give higher bargaining power to the suppliers. When suppliers are many and varied however, then firms have a higher bargaining power. Even so when many suppliers are united by a common interest such as a labor union, then such concentration gives the suppliers a higher bargaining power over firms.

New Entrants: An attractive industry is always appealing to entrants. Entry can be difficult or easy depending on the presence or lack of barriers. Some barriers to entering an industry include government regulation, high capital requirements, asset specificity, scale requirements and patents. **Figure 4** is a graphic illustration of Porter's five forces.

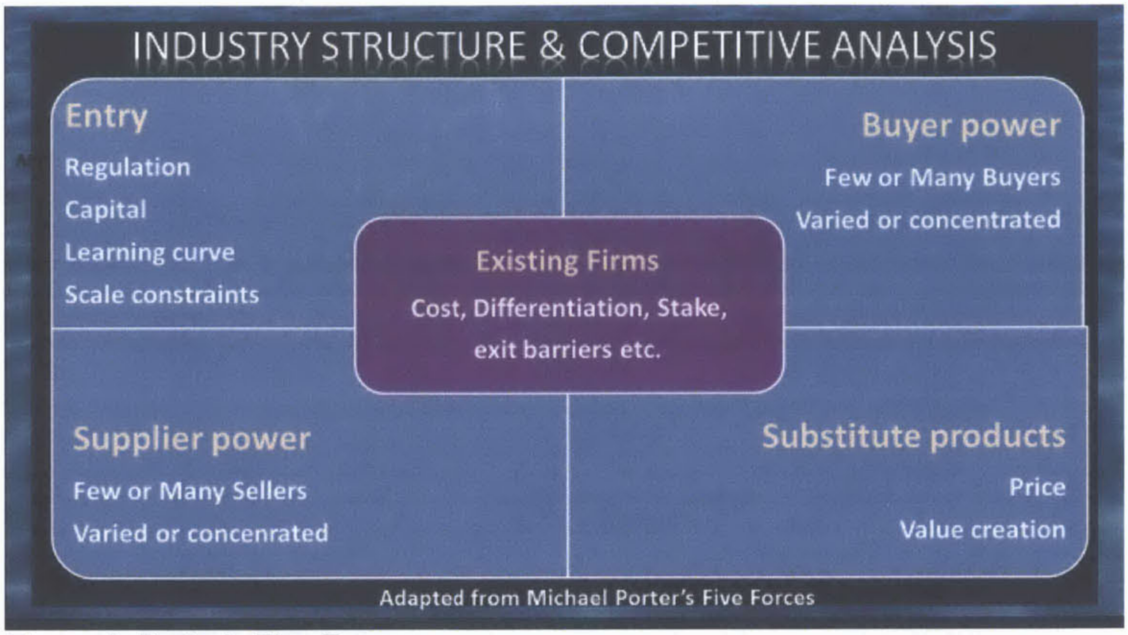

Figure 4: Porter's Five Forces

The Porter's five forces is sometimes referred to as the 'six forces' because of the introduction of another force – **complements**. Thus the relationship of the demand of a given product relative to the demand of its compliments is directly proportional since an increase in the demand of one will drive an increase in the demand of the other and vice versa.

Strategy inside the Firm

All the contributions thus far have dealt with competitive factors outside of the firm. Unless there is a way to look inside the organization, a complete picture cannot be formed about how the company interacts and integrates with the external world. Also, without taking a deep dive into the organization, it would be difficult to know its strategic make-up. Thus analyzing firm level strategy can provide insight into what makes a company different from the rest of the players in a given industry. This lens deals with the resources and capabilities of the firm, the scope of businesses in which it engages, how it is organized to perform and the consistency or coherence of its internal and external fit.

Resources

Resources separate one firm from another and provide insight into why a company can possess competitive advantage in both its business and corporate strategy. The reason according to Collis and Montgomery (1995:118-128) is because each company possesses a unique set of resources which cannot be accumulated instantaneously but rather are gathered over time. Thus the choice of strategy of a firm and its business outcome is constrained by the resources at its disposal. There are three types of resources as follows:

Tangible: These refer to items appearing on the firm's balance sheet such as its land, building and machinery as well as material inputs to mention a few.

Although these can provide competitive advantage to the firm, they can be copied or acquired by other firms. They are however easy to value.

Intangible: Intangible resources are those accumulated by the firm over time such as brand, relationships; patents and trademarks, technological innovation, knowledge, culture and company reputation. These are more difficult to copy or acquire. They provide a better competitive advantage than tangible resources. However, they are more difficult to value.

Organizational capabilities: Unlike tangible and intangible resources, organizational capabilities are not factor inputs. Rather, they are an intricate blend of assets, people and processes. Capabilities can enable a firm to produce at a lower cost than the competition thus achieving greater efficiency or; produce at a higher quality; or both, thus achieving integrative innovation. Organizational capabilities allow a company to produce more output per unit of time or use less input to achieve the same level of output without compromising quality.

Scope

A firm can engage in a single business or in multiple businesses. There are three dimensions to the scope of a firm consisting of the value chain, geography and customer segments.

Value chain: In the production of goods and services, the value chain begins with the first factor input and terminates with the final consumer. Thus multiple firms are often involved in creating the value that is delivered to the final consumer. Each firm has a choice to determine where in the value chain to specialize either by virtue of its resources or driven by its business objectives. At the same time, a single firm may choose to participate at two or more stages in the value chain, thus becoming vertically integrated. If a firm moves upstream in the value chain, it is backward integrated. When it moves downstream in the value chain, then it is forward integrated. Rather than move along backward or forward in the value chain to create a single product or service, firms can choose to enter seemingly unrelated businesses in the form of horizontal competition. However, problems can arise where there are no synergies or where a completely different set of resources is required to satisfy each of the separate businesses (see Siggelkow, 2001).

Geography: This describes the physical spread of a firm in domestic or global markets. A firm may be content to operate in one country or even in certain regions within a country while another may prefer substantially larger footprints in domestic or global markets. Each strategic choices will lead to different business outcomes.

Product or Customer: The scope of a firm can be limited by product or customer segment. A company may choose to manufacture only one or a few products while another may manufacture a full range of products. Similarly a company can decide to serve only a certain segment of customers while another may choose to serve a diverse base of customers.

Organizational Design

The third leg of the strategy inside the firm is organizational design. This relates to how the organization is conceived in terms of its structure, control and coordination mechanisms in order to achieve its performance objectives. Thus it deals with the processes and human capital incentives that fit the business strategy.

Supporting the triangle of resources, scope and the organizational design are four levers which deal with, first, how resources are allocated among the various businesses in which the organization is involved; second, the cost of the corporate center as a result of including a business under a corporate umbrella rather than pursuing a market alternative such as contracting or outsourcing; third the competitive advantage of each business in the group and lastly, the synergies that exist among the various businesses.

The first lever deals with the allocation of resources among the portfolio of a corporation's businesses. This is determined by the value that each business unit brings to the company. The value of a business unit could be viewed in terms of its financial contribution to the group; how it ranks among other business units in terms of growth or market share; how it enhances the competitive positions of other businesses in the group and how the group itself is enhanced as a result of that business unit.

In terms of the cost of the corporate center which is the domain of the second lever, it is useful to note that there is always a market alternative to owning a business unit under the same corporate umbrella rather than through licensing, contracting and outsourcing. It is good to ask if that alternative would be better than maintaining the business unit inside the corporation. Would the group also be better off without the business unit? Is there an occurrence of "conglomerate discount" where some businesses are being subsidized at the expense of the good performers? In other words, is the corporation accommodating inefficiencies and sacrificing performance just to be big?

The third lever deals with the competitive position of the each business unit within the group. How well is each business doing on its own and can it survive if left as completely autonomous? What is its market share and how fast is it growing in its market segments?

The fourth lever deals with the "synergies", not only amongst the group companies but also among the activities of a single business unit. It deals with how the organization leverages its complementary assets and capabilities across the group. This lever is so crucial that even for seemingly unrelated businesses, the ability to leverage complementarity of resources and capabilities can confer on the organization, the type of differentiation that is difficult to copy by competitors. Thus rather than have a separate set of resources and capabilities for each activity or business, the organization defines a pool of complementary assets that can be deployed across businesses and activities (see Siggelkow, 2001). This can be done in two ways – by transferring such complementary assets as needed or by sharing across the organization. The effect is that the resulting organization is bigger than the sum of its parts.

I use Integrative Innovation to describe the result of the unique combinations of these existing elements. It is important to ensure that objectives are clearly defined as well as how to gain competitive advantage in a crowded marketplace. At the same time, the scope of the firm must be defined stating what business it would engage in and what business it would not do. Finally, the internal and external fits must be evaluated given the resources and capabilities of the firm. **Figure 5** is an illustration of how these elements fit together.

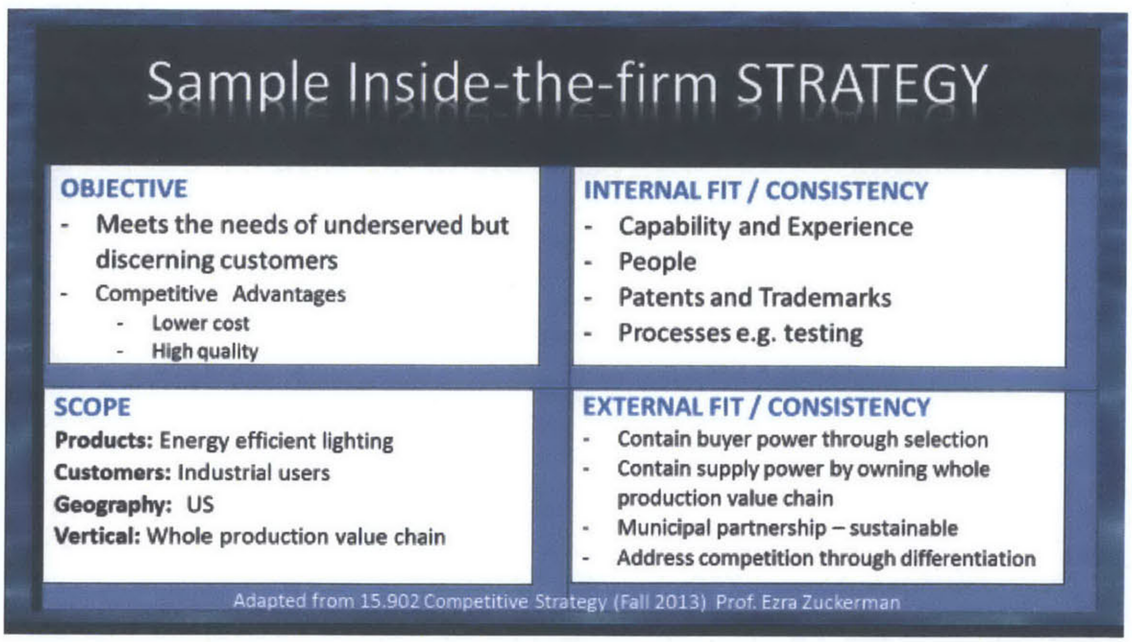

Figure 5 – Strategy inside the Firm: Adapted from 15.902 Competitive Strategy (Fall 2013) Prof. Ezra Zuckerman

Chapter 3 introduces Guaranty Trust Bank plc (GTBank), its origins, the background of its founders and its footprint in Africa and Europe.

Chapter 3

GUARANTY TRUST BANK PLC (GTBank)

Guaranty Trust Bank plc. (GTBank) is a commercial bank with head office in Lagos, Nigeria. It has more than 201 branches located throughout the major cities in Nigeria. It employs more than 5,000 full time employees; and an equivalent number of contract staff. Since inception in 1990, it has recorded consistently healthy performance. From published annual returns, its 2013 revenue amounted to 221.6 billion Naira (₦242.7 billion or $1.34 billion) with operating income of ₦172.5 billion ($1.05 billion) and net income of ₦100.5 billion ($609.1 million). It has a total assets of ₦1.9 Trillion ($11.5 billion) and shareholders' equity of ₦332.4 ($2 billion). It has more than 5 million customers.

Speaking at the Annual General Meeting which held on April 14, 2014 and posted on the company's website at http://www.gtbank.com, the Managing Director of GTBank; Segun Agbaje said, "At the onset of the 2013 Financial Year, our commitment was to continue our business in a manner that would be beneficial to all our stakeholders. This we planned to do by paying critical attention to service delivery, instituting innovative alternative channels that would enhance our customer experiences, expand our share of available business opportunities and grow our regional footprint in Africa. On all these fronts, we made appreciable progress, despite competitors offering basically the same services and the peculiarities of our operating environment. With our performance, we will maintain our commitment to maximizing shareholder value with a dividend pay-out of ₦1.70 per share, an increase of 10% over the ₦1.55 paid in 2012 and a share price appreciation of 17% in 2013."

Guaranty Trust Bank plc. (GTBank) was founded in 1990 by Fola Adeola and Tayo Aderinokun both ex-bankers at Chase Merchant Bank. To meet the capital requirement for obtaining a banking license, they sought the support of forty (40) others, many of whom were their childhood friends and former colleagues. The bank commenced business in February, 1991 as a commercial bank. Starting with a middle-market strategy, its rapid growth allowed it to begin offering a full range of financial services under separate umbrellas. These included banking and investment services, insurance, mortgage, capital markets and securities; as well as government-sponsored equity investments in small to medium enterprises. With a strong management team, superior technology and excellent customer service, it quickly became a market leader and the biggest bank in Nigeria by market capitalization in 2011. Its footprint covers all English-speaking West Africa, one Franco-phone West African country – Cote d'Ivoire and is now looking to expand into the rest of Africa starting with its acquisition in December 2013 of a 70% stake in Fina Bank Limited, Kenya, East Africa.

Fola Adeola served as the pioneer Managing Director and Chief Executive Officer (MD/CEO) of the Bank from 1990 to 2002 when he handed over the CEO position to Tayo Aderinokun who was until then the Deputy Managing Director (DMD).

Tajudeen Afolabi Adeola (Fola) was born in January, 1954 and is the 5th of 17 children in his family. His father worked as a bank clerk. Fola would often recount how his mother sent him and his brothers to hawk wares on the street to supplement the family income. He would also add that some of his younger brothers were luckier because they did not have to make such sacrifices. He exhibits hard work and integrity, values that derive from his family upbringing. He has a passion for teaching and knowledge sharing. While working at the bank, I participated in case discussions that he led for bank employees on Tuesday mornings at 6.30am while he served as CEO.

He attended elementary school at Saint Paul's School, Breadfruit, Lagos and completed secondary school at the Methodist Boys High School, Lagos. He obtained a National Diploma in Accounting in 1975 from the Yaba College of Education. He later joined the accounting firms of Deloitte, Haskin and Sells and D.O. Dafinone. He became a chartered accountant in 1980. He also worked with NAL Merchant Bank and Continental Merchant Bank (a Nigerian subsidiary of Chase Bank, USA) before founding GTBank with Tayo in 1990.

He has received executive education at IMD, Lausanne; INSEAD, Fontainebleau; and Harvard Business School, Cambridge. He is a Fellow of the Institute of Chartered Accountants of Nigeria and a Fellow of the Institute of Directors. He has served as a commissioner on the Commission for Africa, an initiative of the

British Government under Prime Minister Tony Blair (May 2004) to stimulate development in Africa. Fola is the recipient of many awards including the Order of the Federal Republic of Nigeria (OFR) and Banker of the Decade (2009) by the Vanguard Newspaper Group. He is the founder of FATE Foundation, an initiative to train, support and empower young graduates to pursue entrepreneurship and was the Chairman of the Nigerian Pension Reform Commission (PENCOM) that led to recent pension reforms in Nigeria. He serves as chairman and director of many companies in Nigeria and abroad. He is active on the Nigerian political scene. He contested the last presidential election (2011) as a vice presidential aspirant along with Nuhu Ribadu, the former Chairman of the Nigeria's Economic and Financial Crime Commission. He has also been active in the politics of his home state, Ogun, in South Western Nigeria where he has shown interests in the senatorial and governorship seats.

Olutayo Aderinokun (Tayo) was born on May 8, 1955. He has a first degree Business Administration from the University of Lagos, Nigeria and a Master of Business Administration (with special concentration in International Business) from the University of California, Los Angeles. He did his national service - National Youth Service Corp (NYSC) – with the Central Bank of Nigeria (CBN) from 1977-1978 and undertook Credit and Relationship Management training at the Chase Manhattan Bank Institute for International Banking, New York, USA from 1982 to 1983 as part of his career at Continental Merchant Bank (Nigerian subsidiary of Chase Manhattan Bank) which spans 1981 to 1988. Between 1988 and 1989, he was an Assistant General Manager and Head of Financial Services Division at Prime Merchant. He left Prime Merchant Bank in 1989 to set up First Marina Trust Limited (FMTL), a non-bank financial institution. FMTL was the first office of GTBank when the Bank began in 1990.

Tayo was the recipient of many awards including Member of the Federal Republic (MFR) and CEO of the Year (2009) by ThisDay Awards. The award was given in Nigeria with former US President Bill Clinton and United Nations (UN) Secretary-General Kofi Anan in attendance. Tayo passed away on June 14, 2011 as a result of illness in a hospital in London. Until his passing, he was my direct supervisor and I learned many helpful management principles from him. He spurred my interest in strategy. Generous, simple, publicity-shy, professional and extremely goal driven, he fits Collins (2009) description of the Level 5 Leader with uncommon humility and an extremely strong professional will.

GTBank was not the first entrepreneurial venture that the two founders would do together. Many years earlier, they had setup a barbing salon in Ikoyi when none could be found within the neighborhood where they lived. They had to travel a considerable distance each time they needed a haircut. On one such occasion, Fola saw a ghastly motor accident on Eko Bridge on his way to have a haircut. He wondered if the victim was also travelling from the Island to the Mainland to have a haircut. He convinced Tayo that it was safer to have a salon close to where they lived; thus, the birth of Finishing Touches Barbing Salon. Upon setting up GTBank, Tayo convinced Fola that running a barbing salon was inconsistent with running a banking business. They sold the business and included in the terms of sale that, they along with their male children would have free haircuts for life.

GTBank has a full banking subsidiary in the United Kingdom, the only full presence it has in an OECD country (Organization for Economic Development and Cooperation). It has correspondent banking relationships with major banks in all continents. It maintains a shell company in the Netherlands for special purposes such as capital raising as in the two cases of the Global Depository Receipts (GDR). All of these confer on the company the status of an international bank. It is listed on the Nigerian and London Stock Exchanges and has been the subject of a couple of case studies at Harvard Business School. After the financial crisis of 2008-09, the Bank decided to exit all its non-banking businesses as a consequence of an industry restructuring action of the Central Bank of Nigeria which required banks to run their non-banking subsidiaries either as holding companies or exit them altogether. **Figure 6** shows the company's footprint and business diversification prior to divesting from non-core banking activities in 2012.

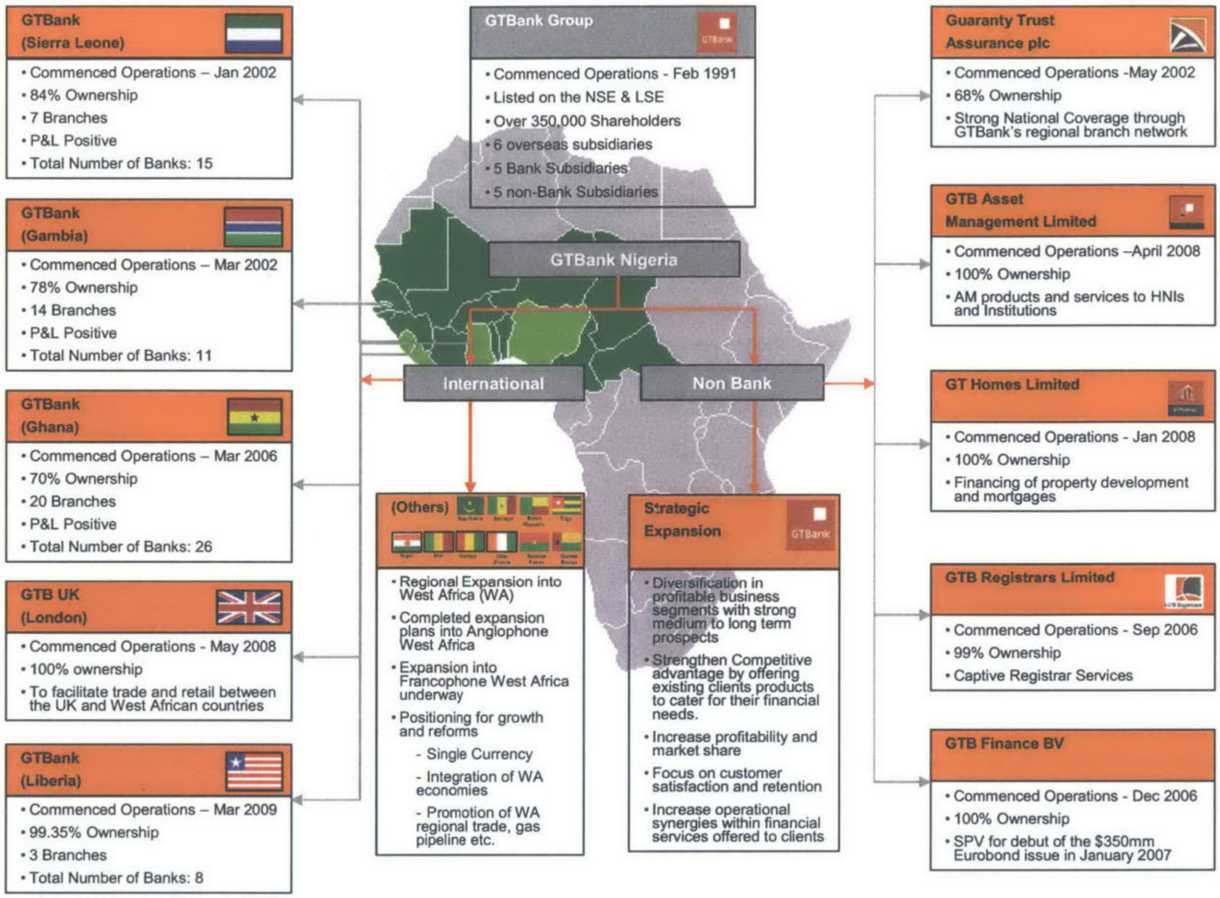

Figure 6: Regional Presence and Business Diversification. Source: Company records, 2012 (Mostly African footprints with presence in the UK and shell in Netherlands).

Chapter 4 describes GTBank's approach to seizing the opportunities and containing the threats of globalization, its home base and the industry in which it operates.

Chapter 4

ANALYZING THE SOURCES OF GTBANK'S COMPETITIVENESS

In this chapter, I attempt to analyze four sources of GTBank's competitiveness as follows:

1. Home Base - NIgeria
2. Industry Structure
3. Business and Corporate Strategy
4. Globalization / Internationalization

Home Base - Nigeria

The conditions in the home country provided motivation for the bank's emergence and early success. With headquarters in Nigeria, Africa's most populous country, the Bank came into effect at a time when the population was significantly unbanked at over 90% - there were less than 14 million bank accounts for a population of about 150 million people. The country's literacy rate is estimated at 61% (see United States Embassy in Nigeria, 2012 – Nigeria Education Fact Sheet). English language is the official language. The country is a key trading hub in Africa and is a dominant leader in the ECOWAS zone. The capital market is unstable and it is estimated that a larger proportion of economic activities occur outside of the formal system. Specifically, only about 25% of activities are estimated to occur in the formal economy in 2010. In the four decades leading to 2010, the proportions of activities occurring within the informal sector have swung between 53.6 – 77.2% of GDP with an average of about 64.6% of GDP (See Ogbuabor and Malaolu, 2013).

In the early days of GTBank, banking culture was poor and fraught with bad customer service. There was weak corporate governance and owners of banks considered the institutions an extension of their private enterprises; often using depositors money to fund their private business interests. Performance and deals were based more on favoritism and political influence, rather than on merit. There was a dearth of infrastructure such as telecommunication, power and good roads. Supporting industries such as credit bureaus and switching companies were also non-existent. **Figures 7 and 8** show the Porter's Diamond analyses of the country's conditions in 1990 and 2014 respectively.

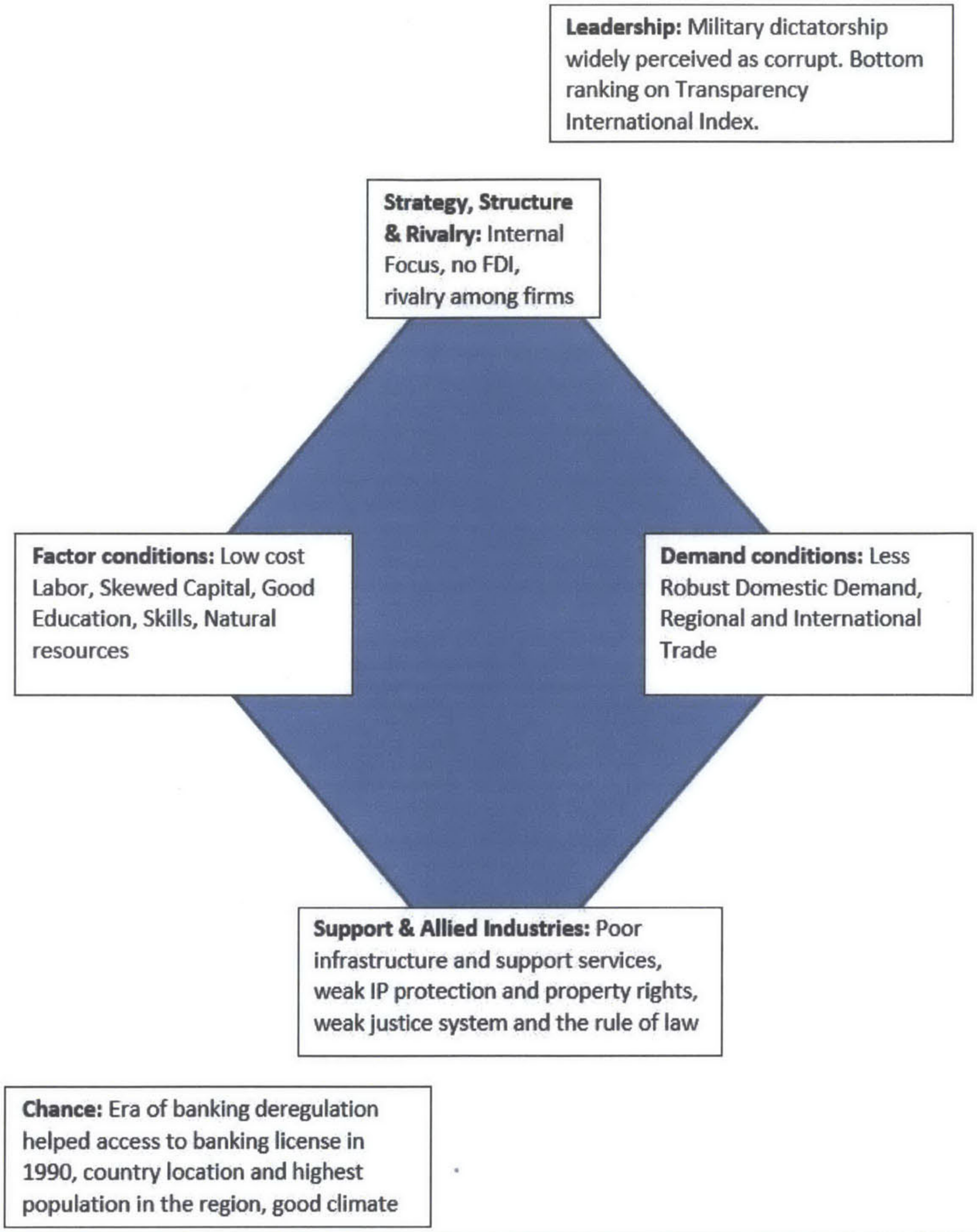

Figure 7: Porter's Diamond Analysis – NIGERIA, 1990

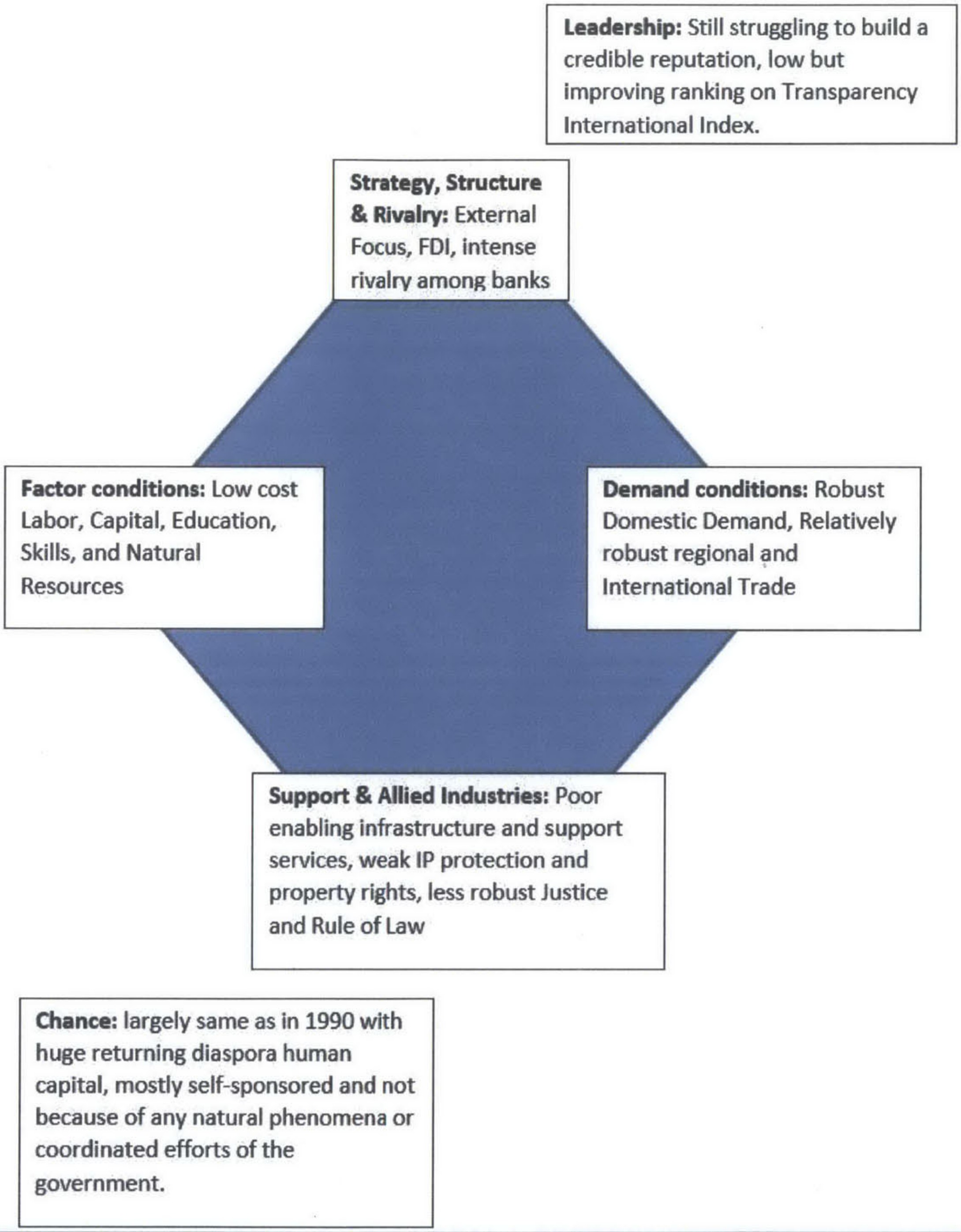

Figure 8: Porter's Diamond Analysis – NIGERIA, 2014

Nigerian Banking Industry Structure

At the time of GTBank's founding, there were more than 120 banks, many of them with only one branch and each with very fragmented assets. None could serve the rural communities and the mass market efficiently and effectively. While the Nigerian Deposit Insurance Corporation (NDIC) stated only half of this number was healthy, analysts believed the actual number of healthy banks was one-third of that number (see Agusto & Co, 1996: 48). Whereas demand conditions existed largely throughout the country, all the banks were concentrated in the major cities and engaged in intense rivalry over the fraction of money that made it into the formal financial system. The country's leadership was a military dictatorship, widely perceived as corrupt and ranked very low on the transparency international scale; often at the very bottom or quite close to the bottom. Yet the country had an abundance of natural resources particularly oil and gas, mining and agriculture.

Rather than be discouraged by the foregoing, the bank's founders saw an opportunity to create value in the industry and actively sought for a banking license. Supported by a few employees, Fola and Tayo initially worked out of a borrowed space located within the offices of First Marina Trust Limited (FMT), a finance company located in Victoria Island, Lagos and run by Tayo Aderinokun. In fact, Chief Kayode Aderinokun, Chairman of First Marina Trust Ltd and the older brother of Tayo Aderinokun, considers FMT as the unofficial parent of Guaranty Trust Bank. The goal of the founders was to create a financial institution providing exceptional customer service, superior financial returns and that creates roles models for society. From my interview with Chief Kayode Aderinokun on March 19, 2014, the vision, discipline and passion of the founders along with their strong determination and people management skills are responsible for the phenomenal success recorded by the bank. He quoted Tayo, his younger brother as saying that, 'Nigeria will see banking like never before'.

Vision Statement

We are a team driven to deliver the utmost in customer services. We are synonymous with innovation, building excellence and superior financial performance; and creating role models for society.

Mission Statement

We are a high quality financial services provider with the urge to be the best at all times whilst adding value to all stakeholders.

The appointment of a new Governor of Central Bank of Nigeria (CBN), Professor Charles Chukwuma Soludo in July 2004 saw the emergence of a massive banking industry reform. The new Governor assumed office while I was a business intelligence consultant for the Central Bank. Born on 28 July, 1960, Charles Chukwuma Soludo is a Nigerian economics professor. He is a visiting scholar to the International Monetary Fund and many universities including the University of Cambridge and the University of Oxford in the United Kingdom (UK). He is a member of the International Advisory Group of the British Department of International Development. He has been awarded the national honor of Commander of the Federal Republic (CFR).

As a result of the industry reform, banks were required to recapitalize from ₦2 billion ($16 million) to ₦25 billion ($200 million), an increase of 1,250%. In order to meet the regulatory requirements, banks had three options. They could raise money from the capital market by issuing public offerings. They could also raise funds from private investors or through mergers and acquisitions. As a last resort, a bank that is unable to meet the requirements could surrender its banking license to the regulator. Only 24 banks emerged at the end of the industry consolidation exercise. GTBank was one of the first banks to meet the new capital requirements through a public offer. Its new shareholders' fund amounted to ₦34 billion surpassing the new requirement by 36%.

Following the financial crisis of 2008-2009, Nigerian banks suffered from liquidity problems, compounded by the capital market crash, improper margin lending and the banks' exposure to the oil and gas sector which saw a sharp drop in crude oil prices during the crisis. A new CBN Governor, Mr Sanusi Lamido Sanusi (Sanusi) was appointed. Sanusi was born on July 31, 1961 to the royal court of Kano in Northern Nigeria. He has extensive experience in banking and risk management. We were colleagues at the United Bank of Africa where he was General Manager in charge of Risk Management while I served as Deputy General Manager and Chief Information Officer in 2005. Sanusi later moved to First Bank of Nigeria plc as Executive Director and later as the Bank's CEO. He was appointed as the Governor of Central Bank of Nigeria on 3rd June, 2009.

Sanusi is the recipient of the Global Central Bank Governor of the Year and the Central Bank Governor of the Year for Africa awards (2011) by The Banker magazine published by the Financial Times of London. Time Magazine also listed him as one of 100 Most Influential People of 2011. Although his term ends technically in June 2014, he was suspended from office on February 20, 2014 by President Goodluck Jonathan of Nigeria as a result of a report published by the Financial Reporting Council (FRC) and perhaps because of his engagement with the government over a $20 billion shortfall in the account of the Nigerian National Petroleum Corporation (NNPC).

Upon assuming office, Sanusi's immediate priority was to conduct an examination of all 24 banks to determine their level of financial soundness. The examination revealed major weakness in liquidity and capital adequacy of many of the banks occasioned by poor corporate governance and weak risk management practices. Ten banks had their assets seriously impaired. Of the ten, the CBN had to rescue eight by injecting liquidity to cover their impaired assets to enable them to continue to operate while undergoing restructuring. **Table 1** shows the rescued banks along with the negative value of their assets. GTBank emerged as the most profitable bank during this period as all others banks wrote down heavy losses. **Table 2** shows the bank's profitability history from 2007 to 2010.

S/N	Bank	Negative Asset Value
1	Oceanic Bank International Nigeria Plc	₦94.261 billion ($61.7million)
2	Union Bank of Nigeria Plc	₦135.894 billion ($90.6 million)
3	Intercontinental Bank Plc	₦330.709 billion ($2.2 billion)
4	Bank PHB Plc	₦242.309 billion ($1.62 billion)
5	Afribank Nigeria Plc	₦260.940 billion ($1.74 billion)
6	Finbank Plc	₦104.751 billion ($698.34 million)
7	Equitorial Trust Bank Ltd	₦27.253 billion ($181.7 million)
8	Spring Bank Plc	₦87.869 billion ($585.8 million)

Table 1: Distressed and rescued banks following the financial crisis

Source: Central Bank of Nigeria (CBN)

Year	Feb 2007	Feb 2008	Dec 2008	Dec 2009	Dec 2010
PBT (₦'b)	15.716	27.368	38.128	27.963	48.486
PBT ($'m)	104.77	182.45	254.19	186.42	323.24

Table 2: GTBank profitable history. ₦/$ exchange rate = 150/1.
Sources: Company annual returns

In 2008 regulatory changes forced all banks to adopt December as their year-end effective in 2009. However, GTBank chose to comply immediately hence the two year-end figures for 2008.

Following subsequent mergers and acquisition, the industry now has 20 banks. Of the twenty, 6 banks dominate the industry holding about 60% of total assets. Table 3 reflects the status and the structure of the industry as at the end of 2011.

Nigeria: Structure of the Financial System, 2011
(₦billion, unless specified otherwise)

	2006			2010			2011		
	Number	Assets	In percent of total assets	Number	Assets	In percent of total assets	Number	Assets	In percent of total assets
Commercial banks	**25**	**6,738**	**90.5**	**24**	**15,544**	**94.8**	**20**	**18,477**	**78.7**
Private	25	6,738	90.5	24	15,544	94.8	17	17,548	74.7
Domestic	21	6,456	86.7	20	14,217	86.7	13	14,704	62.6
Foreign	4	282	3.8	4	1,327	8.1	4	2,844	12.1
State-owned	0		0.0	0	0	0.0	3	928	4.0
Institutional Investors	**124**	**300**	**4.0**	**100**	**565**	**3.4**	**91**	**3,457**	**14.7**
Insurance Companies	107	n.a.		61	565	3.4	61	622	2.6
Pension Funds	13	300	4.0	30	n.a.		21	2,835	12.1
Unit Trusts	8	n.a.		8	n.a.		8	n.a.	
Other Non-Banks Financial Institutions	**1,683**	**409**	**5.5**	**1,619**	**280**	**1.7**	**1,403**	**1,543**	**6.6**
Finance Companies	112	54	0.7	108	31	0.2	n.a.		
Specialized development institutions	6	n.a.	n.a.	6	250	1.5	6	267	1.1
Securities Firms	581	n.a.		580	n.a.		254	n.a.	
Fund Managers							136	1,085	4.6
Mortgage Institutions	90	114	1.5			0.0			
Microfinance Banks	757	55	0.7	800	n.a.		876	191	0.8
Discount Houses	5	186	2.5			0.0	5	n.a.	
Bureaux de Change	126	n.a.		125	n.a.		125	n.a.	
Asset management Companies (AMC)							1	n.a.	
Other	6	n.a.							
Total financial system	**1,826**	**7,447**	**100.0**		**16,389**	**100.0**		**23,477**	**100.0**

Table 3: Structure of the Nigerian Financial System (2011)
Source: Central Bank of Nigeria (CBN)

The Nigeria banking industry is characterized by intense rivalry. Most of the bank branches are concentrated in the big cities and products and services are targeted at the same set of customers. Rivalry is most intense at the corporate and institutional banking levels as banks fight over the accounts of a few large multinational companies. Thus the large corporates wield significant influence while banks trade their margins away and incurring high cost as they compete to win the large customers. Banks often target hiring of staff of rival banks who manage the large accounts of big companies in order to win business. As a result there is a high staff turnover among the top banks. Retail banking is another fierce competition zone, especially in sourcing low cost funds. While there are millions of retail customers, heavy investments in branch infrastructure, people, processes and technology are required to gain the required scale. The battle for market share is therefore very intense.

There are no real substitutes for banks except for the finance companies that are more expensive than the banks. The barrier to entry is high in the industry due primarily to regulation. Establishing a bank in Nigeria requires meeting very stringent requirements. It requires a high capital, competent and costly staff and physical presence in all major cities in order to gain scale and operate efficiently. **Figure 9** shows the Nigerian Industry analysis.

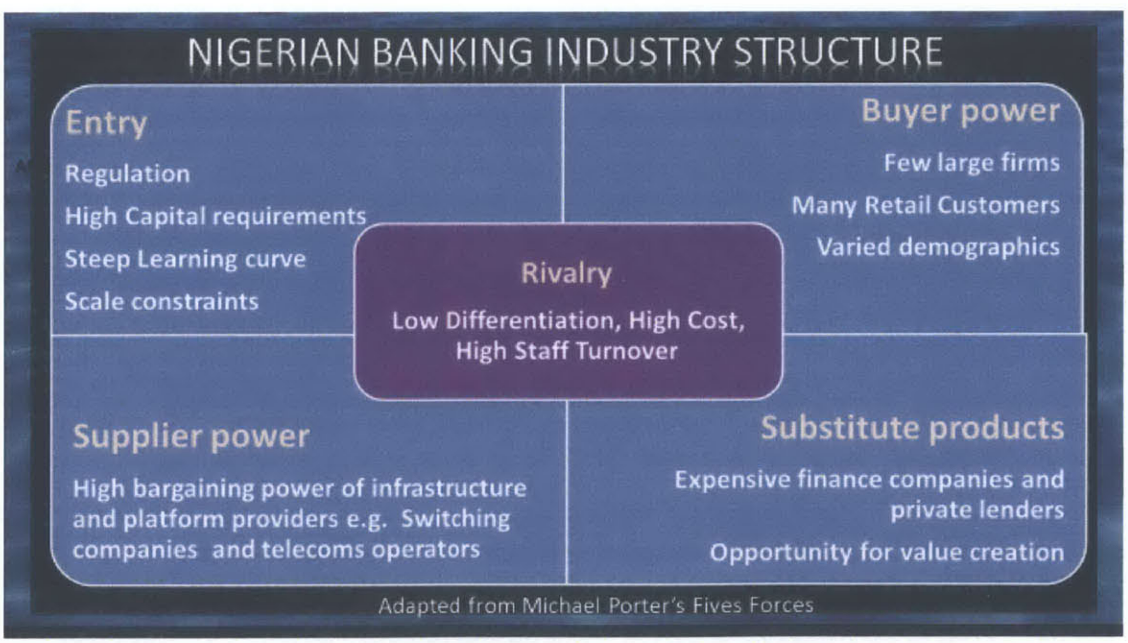

Figure 9: Nigeria Banking Industry Structure and Rivalry – Porter's Five Forces Analysis

Business and Corporate Strategy

GTBank's strategic aspiration is to be a top three (3) bank in Africa in absolute profitability by 2016. This is contained in the bank's latest 5-year strategic plan (2012-2016). The plan is based on six strategic pillars and three enablers. The pillars are described as follows:

1. **Dominate chosen markets** by aggressively growing market share in priority sectors including telecoms, oil and gas, construction, maritime, manufacturing, general commerce and retail, small and medium enterprises. Specific market imperatives include driving penetration into key markets using technology and alternate channels; appropriating value from entire value chain by leveraging the synergies of existing relationships; growing low cost deposits; deepening knowledge of customers; industries and business models; and raising capital to support aggressive growth.
2. **African expansion** to take the bank to the rest of Africa. At the end of 2010 financial year, international operations contributed a marginal 3% to the group company. The plan is to raise international contribution to 20%. Its approach would be to focus on viable African economies and adopting both 'greenfield' and 'brownfield' approaches to gain scale. In December 2013, the bank acquired 70% of Fina Bank (Kenya) as its first foray into the East Africa sub-region.
3. **Talent management and leadership** by attracting and retaining a pool of knowledgeable and highly driven staff with deep industry skills. The bank noted that customers were becoming increasingly complex and sophisticated.

At the same time, the bank was moving into new areas of banking which required professionals with specialized skill. There was also an intense battle for talents in the industry. The bank thus recognized the need for an effective recruitment and retention strategy as well as a robust performance management system.

4. **Leverage a scalable, fit for purpose technology** to support current business and future growth. The technology must operational efficiency, governance and risk management, new and enhanced solutions, regulation and compliance and customer focus.
5. **Competitive cost containment.** The bank stated its commitment to continue to focus on the reduction of its cost-to-income ratio in order to capture value. From internal records, the cost-to-income ratio is set at a maximum of 40% for 2012 which a goal to drive it further down by 2016. A central procurement organization was established in 2012 to drive the cost containment initiative.
6. **Enhanced Risk Management** across five risk elements including risk governance, assessment, quantification and aggregation, monitoring and reporting and; control optimization. The overall risk objective is to maintain a non-performing loan portfolio of less than 5%. Its roadmap for accomplishing a superior risk management is laid out in three phases. First is to begin with basic risk management practices to ensure it remain in compliance in the short term. In the medium term, the bank plans to move to a mature risk management process that embodies greater risk mitigation strategies. Its goal in the long term is to advance its risk management practice such it becomes a

strategic tool. Thus risk management becomes a way of life and is integrated into business processes and performance management.

The six strategic pillars are supported by three enablers as follows:

1. **Deep market knowledge** to understand how best to structure its marketing efforts; what products and services to offer and for efficient resource allocation such as physical branch citing and optimal staffing.
2. **Products and solutions**. Rather than pursue a one-size fits all strategy, the bank's product development strategy is informed by customer requirements and the opportunities and gaps it perceives in the market
3. **Strategic relationships**. The third enabler is to maximize its customer and strategic relationships to support its aggressive growth plan by leveraging the customer value chain. An example is to seize the opportunity of its relationship with a multinational (Corporate banking) to acquire the business of the contractors and suppliers (Commercial and SME banking) and then acquire the business of their employees (Retail banking). It also leverages its strategic partnership with platform providers such as Interswitch and MasterCard to offer electronic banking services to its customers.

Figure 10 summarizes the bank's strategy inside the firm:

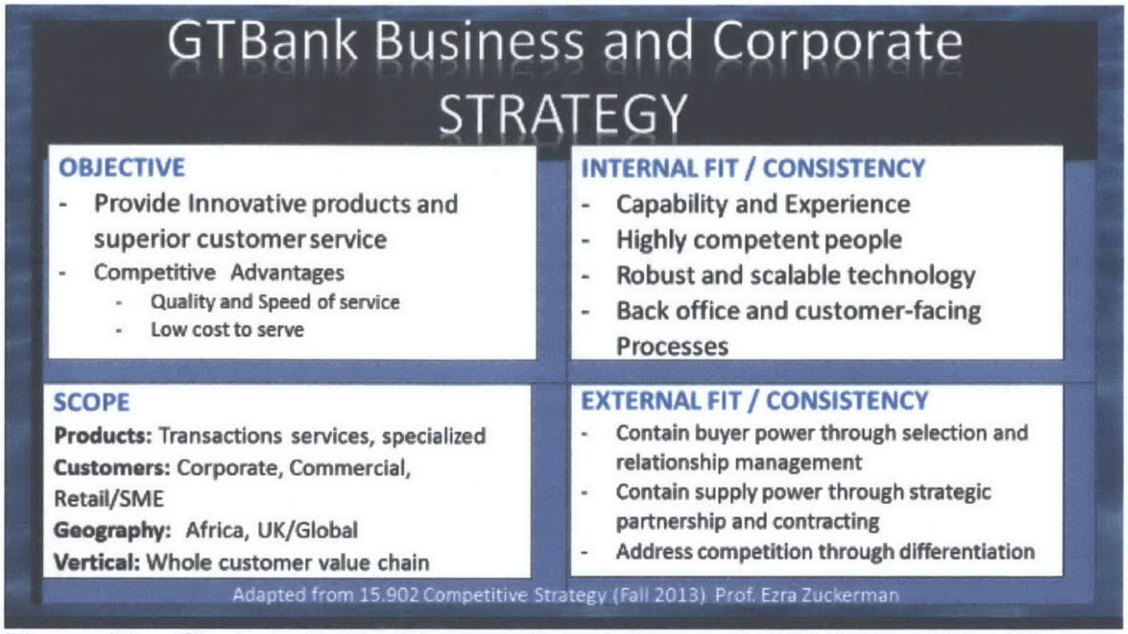

Figure 10 – Strategy inside the Firm: Adapted from 15.902 Competitive Strategy (Fall 2013) Prof. Ezra Zuckerman

Global and Internationalization Strategy

As noted, GTBank has full banking subsidiaries in all English-speaking West African countries including Gambia, Ghana, Sierra Leone and Liberia and one Franco-phone West African country – Cote d'Ivoire. In December 2013, it acquired 70% stake in Fina Bank Limited, Kenya as a first step in its expansionary drive into East Africa.

The bank's focus on customer service enabled by technology, distinctive products and services; and competent management and staff allowed it to add value to the industry and its home country. The evolved experience and capabilities are then transferred to the foreign jurisdictions in which it operated. Two useful frameworks to aid understanding and for analyzing the value of internationalization to GTBank are known as ADDING and RAT/CAT. The ADDING framework (see Ghemawat, 2007) defines a scorecard for analyzing the value addition by a firm when deciding to extend to international territories. The RAT/CAT analysis on the other hand (see Lessard, 2013) is a framework for analyzing the company's capabilities that are Relevant, Appropriable and Transferable (RAT) to foreign jurisdictions and once in the foreign jurisdictions, capabilities at home and elsewhere in the group can be enhanced by the feedback of Complementary, Appropriable and Relevant (CAT) capabilities that are pulled back home. Specifically, for GTBank, the 'ADDING' and RAT/CAT frameworks are used to demonstrate how the bank adds value as follows:

1. **Adding Volume**: Nigeria is a business hub for the region and has extensive bilateral trade partnerships and agreements. Over the years GTBank has maintained strong local and international risk ratings by Fitch and Standard & Poors (S&P), limited only by the rating of the sovereign – Nigeria (see **Table 3**). Agusto & Co., a local rating agency has consistently assigned a local triple A (Aaa) rating to GTBank. It has a strong brand and has received many industry awards since its inception. See **Table 4** for a selected awards in 2013. This track record makes it easier for its subsidiaries to gain a captured market in its African business domains.
2. **Decreasing costs**: The bank shares its integrated technology, group services, risk management infrastructure, product development capabilities and management practices with subsidiary companies so they do not have to incur the full cost of sole acquisition.
3. **Differentiating (Willingness-to-pay)**: The bank's customer-facing real-time online banking system, efficient service and fast turn-around time of 3-5 minutes per transaction are strong factors in customer acquisition, retention and lifecycle management. As a result, there is significant growth in the adoption of subscribed electronic platforms over the years. **Figure 11** shows the customer growth along with the adoption of electronic banking services.
4. **Improving Industry**: GTBank's entry was considered revolutionary with carefully selected and well trained staff, sound processes and what JP

Morgan (Nigeria Report, May 14, 2008) considered one of the best executive management in the region. A phrase in the bank's vision stated, '...creating role models for society'. Today, all the banks have real-time online systems and have customer facing integrated technologies. However, GTBank is still the benchmark for sound corporate governance, competent management, integrity and superior technology.

5. **Normalizing Risk**: Internationalization has allowed the bank to diversify risk while also shielding the smaller subsidiaries from credit, liquidity, market and operational risks.
6. **Generating Knowledge**: The bank has a deep knowledge of all markets in which it operates and is able to leverage such knowledge for competitive advantage. The knowledge generated in each local environment is shared formally using its internal technology and at regular management performance meetings.

Figure 11 shows the ADDING and RAT / CAT analysis of such dynamics in the movement of resources and capabilities.

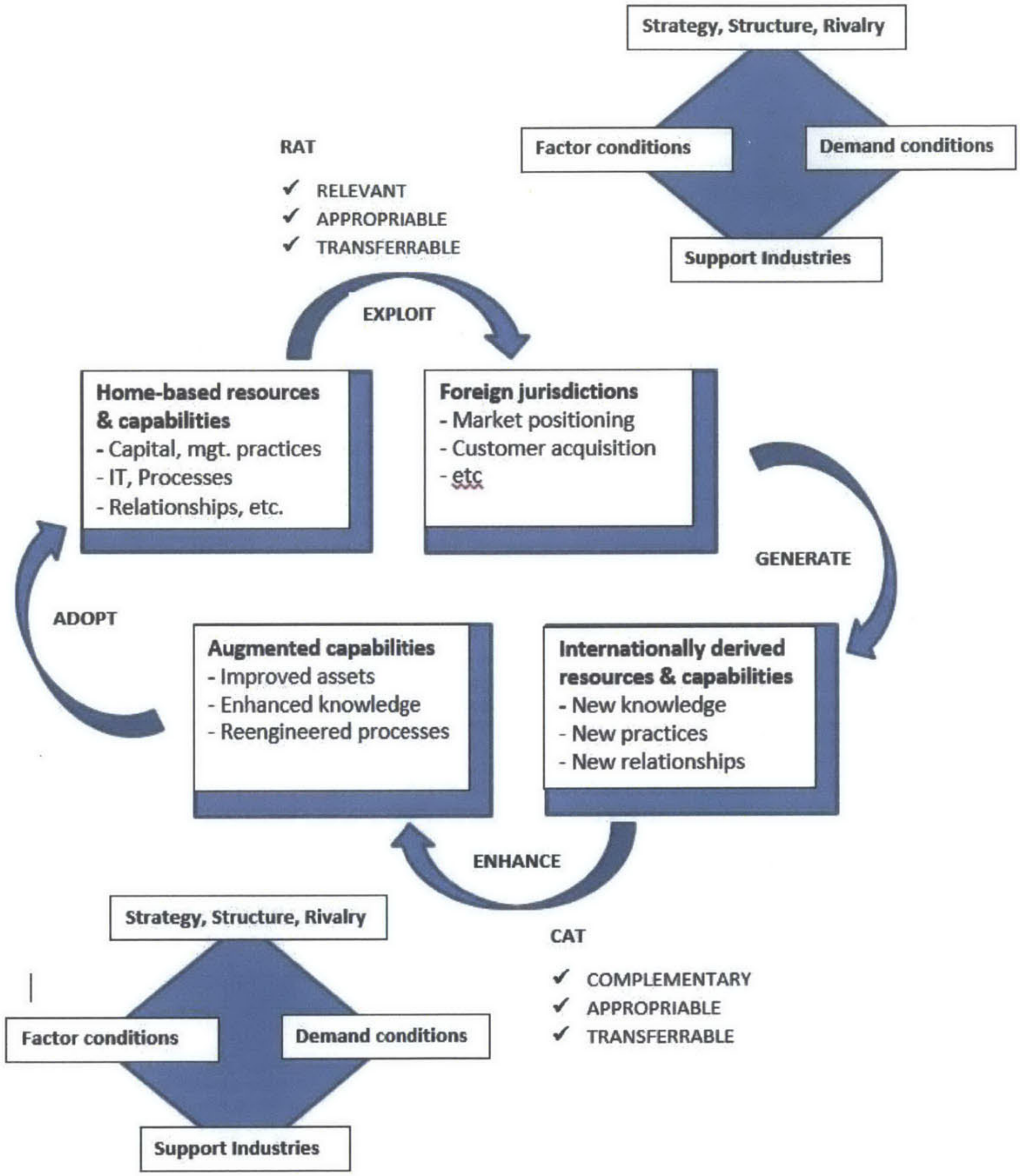

Figure 11: GTBank Internationalization RAT / CAT Analysis; adapted from 15.221 - Global Strategy & Organization (Spring 2014), Professors Don Lessard and Joe Santos.

	Dec 2008	Dec 2009	Dec 2010	Dec 2011	May 2012
Branches	148	160	170	177	182
Users	3,500+	4,000+	7,000+	7,500+	8,200+
Tellers	3,431	3,703	3,848	4,263	3,987
Customers	1,561,959	2,254,987	2,856,768	3,376,418	3,767,053
ATMs	388	475	506	639	741
Min Tranx/day	303,829	422,106	207,186	699,641	132,426
Max Tranx/day	2,531,580	3,410,373	3,973,895	5,060,463	6,707,038
Avg Tranx/day	578,285	778,994	987,067	1,264,936	1,500,326

Figure 12: GTBank Growth Trends; Source: Company records. At the end of 2012, number of customers had reached 4,220,266 and total number of accounts stood at 7,288,530.

Year	Fitch	S&P
2005	AA- (local)	N/A
2006	N/A	BB-
2007	B+	BB-
2008	B+	BB-
2009	B+	B+
2010	B+	B+
2011	B+	B+
2012	B+	BB-

Table 4: GTBank Risk Ratings: 2005-2012;
Source: Company website – http://www.gtbank.com

Award	Institution
2013 Pan Africa Most Innovative Bank	EMEA Finance
World Finance 2013 Banker of the Year – Africa; awarded to MD/CEO, Segun Agbaje	World Finance Banking Awards
2013 Best Banking Group Nigeria Premium Award	World Finance Banking Awards
Top Nigerian Company in the Banking industry	African Business' Annual Rankings Magazine
2013 African Bank of the Year	African Banker Magazine

Table 5: GTBank Selected Awards :2013;
Source: Company website – http://www.gtbank.com

Global Integration and Local Responsiveness

The bank tries hard to transfer capabilities across the group and enforces uniform practices, processes and knowledge sharing across subsidiary companies. Thus it is globally integrated. However, banking is a highly regulated industry and its subsidiaries are subject to the local laws of the territories in which they operate. For this reason, the bank must be responsive to local regulations and competition. Nevertheless since banking rules are similar, the capabilities, resources and management practices are transferable, relevant and complementary. They allow the group to capture value (appropriable) and individual subsidiaries to be better off. Their feedback in turn enriches the group company. **Figure 12** illustrates how GTBank fits the global integration quadrants using GTBank (UK) as an example.

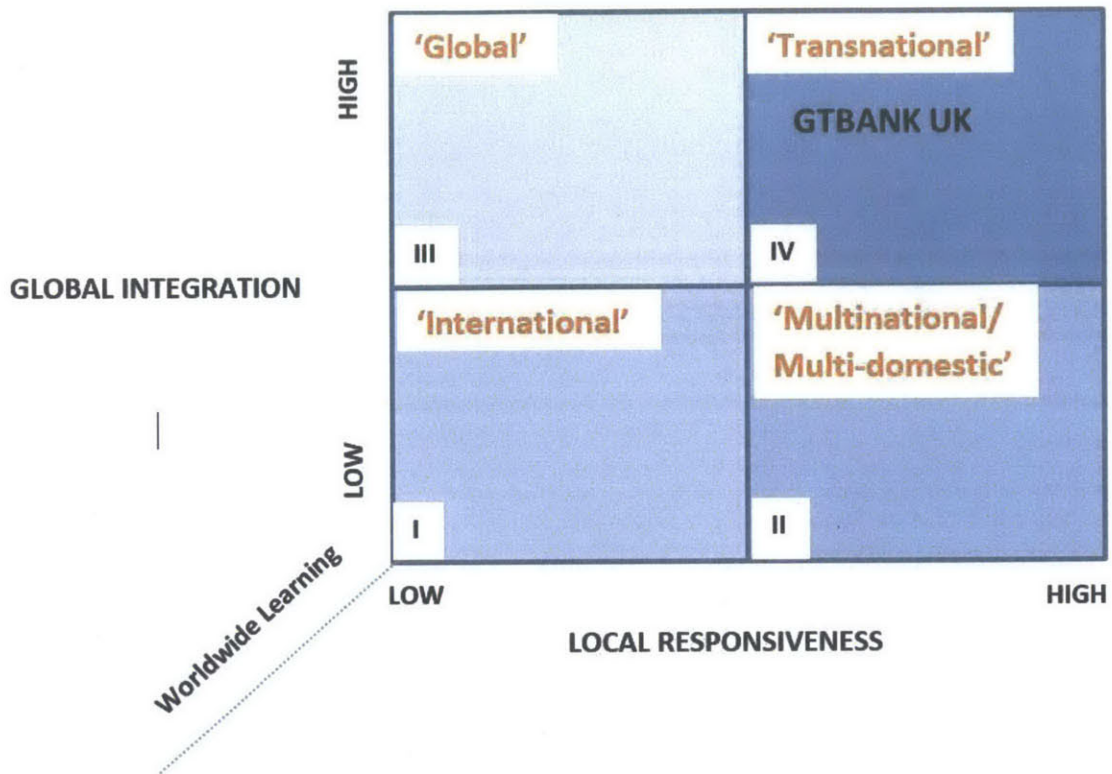

Figure 13: GTBank Global Integration; adapted from 15.221 – Global Strategy and Organization (Spring 2014) – Professors Don Lessard and Joe Santos

Appointed by the Central Bank of Nigeria (CBN), the bank is a 'Settlement or Clearing' Bank and represents other banks in the clearing system. It is one of only 7 of such banks appointed by the regulator. With its West African footprint and its excellent reputation, the Bank has the potential to be a regional settlement bank complementing the West African Monetary Union (WAMU) just as it currently does for the Central Bank of Nigeria (CBN) as a Settlement Bank.

The Bank's listing on the London Stock Exchange (LSE) in July, 2007 was the first time an African Institution would list on the LSE. Even so it was on the exchange's main bourse and not its subsidiary which confirms that it was able to meet the rigorous requirements of the LSE. As such it ranks on the same pedestal as the entrenched companies on the exchange and can enjoy the same status. The result is a much stronger brand. This was considered a bold move given the presence of bigger local banks at the time and one that analysts and investors saw as an indication of sound corporate governance given the stringent reporting requirements of the exchange and the need to adopt the International Financial Reporting Standard (IFRS) in a home country where the International Accounting Standard (IAS) was the norm. This singular event raised the stature of the company from a regional player to one poised to compete globally.

Gtbank's Head Office

The GTBank head office serve as a central coordinating unit of the group and houses the executive management and shared services. It is home to Strategic Management, Legal, Human Resources, Administration and; Communication and External Affairs as well as the office of the Chief Information Officer, a senior executive with the overall responsibility for the bank's technology. Customer facing divisions such as Treasury, Institutional Banking (Corporate and Investment Banking) and accounts of multinationals and large corporations are managed at the head office. All subsidiaries report to the Executive Director responsible for international business. **Figure 12** shows the company's organogram.

GTBank's Subsidiary Strategy

GTBank adopts cautious approach to international expansion, preferring to establish in countries where it can leverage existing capabilities including technology. It is also mindful of global trends and their implications for its banking business. An examination of its technology plan for the period 2009 and 2014 reveals that it had considered the twelve global trends described earlier, in its decision to invest in group technology and projects. Due to the fluid nature of capital and the regulatory contexts within which financial institutions operate, the global strategy adopted by the bank consists of a high level of global integration and local responsiveness. International subsidiaries maintain uniform practices, consistent with group policies\. However they also comply with local laws and respond to unique market conditions. Among all the subsidiaries, Guaranty Trust Bank (UK) Limited (GTB UK) stands out in that it not only exists as a subsidiary but also serves as a coordination point for the parent's global trade business. A closer examination of (GTB UK) will enable an understanding of the important role of a subsidiary within the group.

GTB (UK)

Guaranty Trust Bank (UK) Limited (GTB UK) was founded in May 2008 in London, England as a wholly-owned subsidiary of Guaranty Trust Bank plc (GTBank) with headquarters in Nigeria. It was licensed by the UK Financial Services Authority (FSA), the predecessor of the Financial Conduct Authority (FCA) to carry on banking business. It offered retail and wholesale banking products and services to private, corporate and institutional clients.

GTB (UK)'s pioneer managing director was Ronke Bammeke, a Nigerian and former schoolmate who took time off to undertake the Sloan Fellows program at London Business School. She finished her program just as the UK bank was starting. Earlier, she was a General Manager and Chief Information Officer of the parent bank, a position I took over from her in May, 2005. Ronke Bammeke holds a First Class degree in Computer Science with Economics from Obafemi Awolowo University, Nigeria and a Master of Science in Management (Sloan Masters) from London Business School.

GTB (UK) was founded as a green field operation rather than by acquisition or merger. The banking license was granted by the erstwhile UK Financial Services Authority (FSA), now Financial Conduct Authority (FCA). In retrospect, three (3) principal reasons were responsible for management's decision to open in London:

1. **Value ADDING (as earlier described):** The first motivation was the need to better support the international businesses of its home customers who conducted business in many countries abroad and to improve transaction costs. The bank had an intelligent banking information system which allowed it to have a deep insight into its customers' business. Under the bank's 'follow the customer' philosophy (sometimes called 'follow the money'), it was found over time that the number of customers doing business with foreign suppliers from North America, Europe and Asia were steadily rising. This impacted the volume of letters of credit opened in favor of foreign exporters. At the same time, with the collapse of the local educational system, more parents were sending their children to schools abroad with UK and the US as the most popular destinations. The London operation helped to increase business volume and lower transaction cost for the group and other companies within the group especially in trade, remittances and correspondent banking. See **Figure 13.**
2. **Enhancing Group Competitiveness (Virtual Diamond):** The Bank chose England for its central location as a gateway to most countries in the world. The city of London where it situated also enjoys a cosmopolitan status, has a large concentration of Africans and African businesses in diaspora. The regulatory terrain was similar to what obtains in Nigeria. Also the opportunity to obtain a banking license in the UK particularly to conduct full banking business was rare to a Nigerian bank at the time and the move gave the GTBank an important footprint in a prestigious OECD[1] country. All of these

factors seem to have helped enhance the bank's virtual diamond. See **Figure 14.**

3. **Acquire new skills from International best practices (RAT/CAT):** The United Kingdom boasts a superior banking landscape over Nigeria and presence would enhance the effectiveness of the group, particularly it can share acquire complementary skills for which can be transferred to group companies. As a result, the bank has strengthened its financial reporting skills and was the first bank in Nigeria to adopt the International Financial Reporting Standard (IFRS). It has also strengthened its management and control practices within the group.

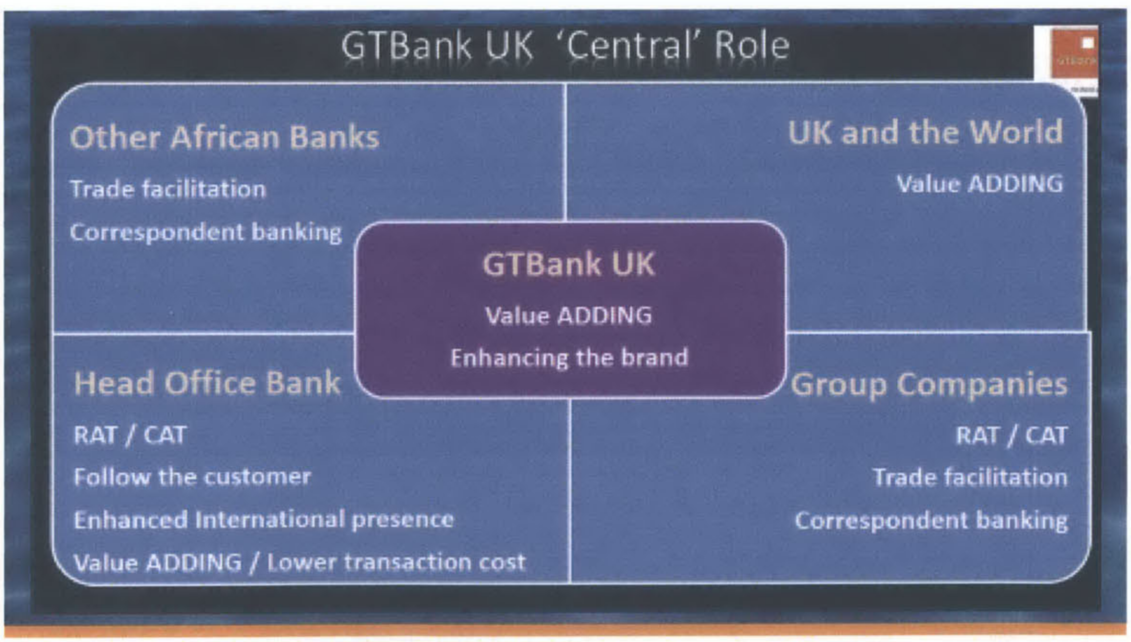

Figure 14 – Illustrating the role of a subsidiary within the Group – GTB (UK) as an example.

Entry into the UK helped the bank establish better trade support for the international businesses of its trade customers especially for time sensitive trade transactions without having to rely entirely on its correspondent banking relationships. The bank also acted as a correspondent bank to the group subsidiaries in all countries as well as to other African banks who find it more convenient to trade with GTB UK because of prior relationship with the parent. The move also benefitted its high net worth customers, Africans in diaspora, students and parents who were now able to solve their remittance problems. Furthermore the UK bank was able to attract its own credit line and business based partly on the track record of the parent but also because of the credibility of operating in a more acceptable jurisdiction for financial integrity.

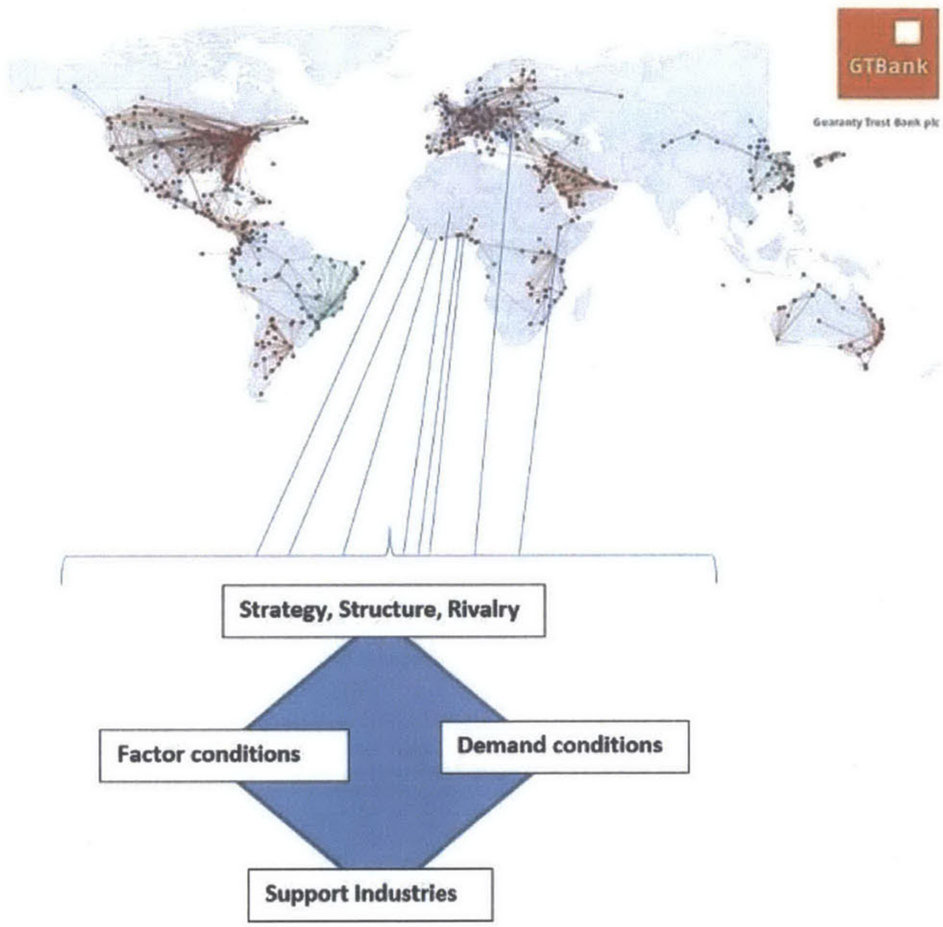

Figure 15 – GTBank's Virtual Diamond; adapted from Michael Porter's Framework for Country's Competitiveness

There were shortcomings however. Although the overall group has become better off as a result of GTB UK, the Bank has remained unprofitable based solely on its UK operations. It also experienced a challenge with its risk management and control system. A breach found between 2008 and 2010 led to a fine it £525,000 by the FCA in 2013.

GTB (UK) as Correspondent Bank

Among the current role of the foreign bank is acting as a correspondent bank to the groups African subsidiaries and to other Banks (local and foreign). It also facilitates trade transactions and remittances; as well as offer traditional banking products and services within the UK. In the past, the bank had relied on other foreign Banks to play these crucial roles on its behalf and on behalf of its customers. The parent bank still maintains a strong correspondent banking relationships with other foreign banks including Citibank, Lloyds and ANZ. There is however a need to develop financial advisory capability serving not only group companies but also act as a two sided platform to intermediate between local African firms seeking business opportunities in foreign markets and foreigners seeking to enter Africa; providing the opportunity to earn new revenue.

GTB (UK) Global Integration Fit

Following the group global integration strategy, I examine the fit of GTB (UK) in four dimensions as follows:

1. **Uniformity:** The products and services are fairly universal with minimal customization. There is uniform management practice and; the same information and IT system is used in the UK as used elsewhere. Resources are aligned and sufficiently integrated including capital, key management practices, group policies, audit responsibilities, risk management, HR and IT. However, some aspects of IT such as HR/Payroll and messaging could not be shared because of regulatory constraints around data protection.

Management and control was also not properly aligned in the past leading to a fine. However this is said to have been addressed.

2. **Enabling regulation:** The foreign unit operates under a dual regulation regime – UK and Nigeria. Thus the bank is subject to UK banking regulation, complies with Bank of England rules and is supervised by the UK Financial Conduct Authority (FCA). The bank is also regulated by the Central Bank of Nigeria since it is a wholly owned subsidiary, GTBank plc which is under the direct supervision of the Central Bank of Nigeria (CBN).
3. **Local responsiveness and organization:** The organizational structure is consistent with other subsidiaries within the group. However, there is only one head office staff in the UK, the Country Managing Director instead of the traditional two principal officers from headquarters. All others are hired locally. Thus the culture is a blend of both the UK and Nigerian. The bank operates as an autonomous entity in its day-to-day operations with dotted reporting lines to specific functions at Headquarters. Thus the country heads of risk management, audit and IT report to the Corporate Chief Risk Officer, Chief Internal Auditor and Chief Information Officer respectively. The country managing director reports to the executive director in in charge of International Banking. Policy decisions and management practices are implemented uniformly.
4. **Corporate governance:** In terms of Corporate Governance, the board is composed of the Country Managing Director (CMD), the Country Operations Officer, the group executive director for International Banking and the Group

Managing Director/CEO. There is an independent director who is a citizen of the UK. CMD attends quarterly performance meetings at headquarters.

GTBank Resources, Capabilities, Values and Liabilities

GTBank possesses competitive tangible and intangible resources as well as capabilities which helped it to deliver high quality service at low cost. **Figure 15** illustrates the position of GTBank on the efficient frontier relative to other banks.

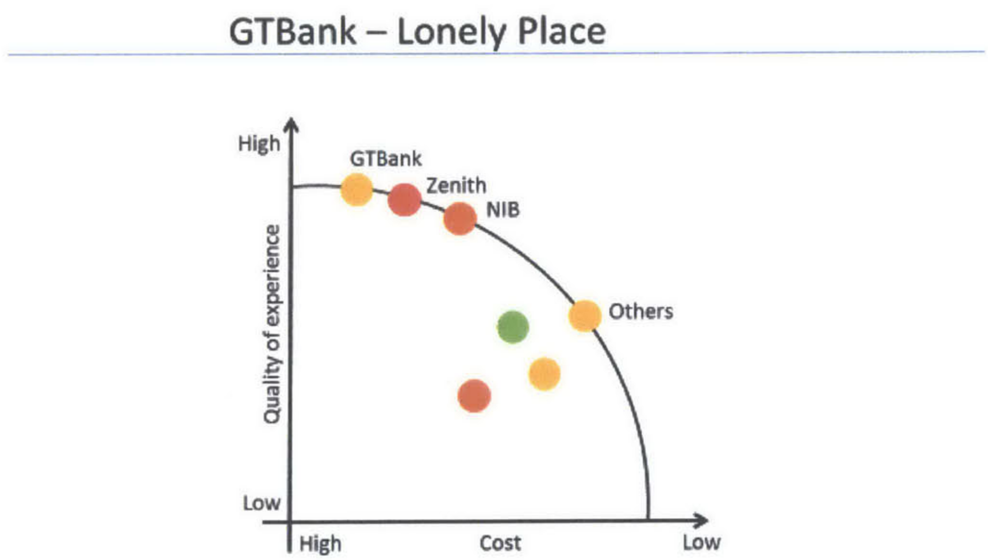

Figure 16 – GTBank on the Efficient Frontier

GTBank prides itself as having an exceptional pool of talented people. These are carefully selected as entry-level candidates from local and foreign institutions under the Bank's 'Brightest and Best' recruitment program which targets university graduates with First Class and Second Class Upper Honors degrees. They are then put through the GTBank academy as earlier described.

Continuous education and knowledge building is emphasized throughout the employee's career with at least two courses a year made up of one function specific and one generic course. Also every meeting, especially the weekly credit committee meetings (sometimes held more than once per week) are valuable ground for learning. A Total Quality Management program (TQM) introduced in the 1990's asked employees to put a quality stamp on their work upon completion before final submission or before passing it on to another employee in the value chain. Along with these is a rigorous performance management system where employees are on continuous evaluation based on clear metrics at three or more levels – the employee, their supervisors and a performance management committee. Promotion is based on performance as perceived by all the levels rather than age or length of time spent on the grade. Also not everyone recommended for promotion by their supervisors got promoted and there have been cases where the committee promoted staff not recommended for promotion by their supervisors. The intention is to ensure that an employee is not unduly penalized because of being in a particular function or department.

Another differentiating set of tangible strategic resources consist of its portfolio of branches with unique architectures matching the local environments. The interiors of the branches are designed as an open concept to facilitate a smooth interaction between a customer and a teller with no cages or cubicles. Each branch is equipped with accessibility options in consideration of people with physical handicaps and every customer is greeted at the door by a personnel in white uniform. The bank also maintains a set of mobile branches used to serve customers working off-site such as construction workers. The mobile branch is also used to test a new location for demand and for special occasions such as events happening at a stadium. Its ATMs and Point-of-Sales are installed in its branches and co-located with merchants throughout the country. The ATMs are also equipped with special features such as card-less withdrawals, bill payments and funds transfer to minimize a customer's trip to the bank.

Among its differentiating intangible resources are its brand, service culture, technology and relationships. It has developed capabilities for fast product development, fast transaction turn-around time, ability to respond quickly to changing regulations, deal structuring and ability to support complex transactions in a range of industries including telecommunication, oil and gas, airlines and other financial institutions. It has developed sound processes for all its business and a dedicated team is responsible for ensuring that the processes are regularly reviewed and updated as may be necessary.

One of GTBank's strongest intangible resources is its customer relationships. These have been cultivated over time through its relationship management model enabled by a thorough knowledge of markets, products and; customers and their businesses. In the relationship management model, each corporate or commercial banking customer is served by a relationship team composed of a relationship manager and relationship officers for all its business needs. While one such team would typically manage many customer relationships, the number is set such that the customer feels that the entire team is dedicated to its business alone. The team is expected to know all about the customer's business in order to be able to add value and serve them efficiently. They cultivate the customer's relationship in every way including attending company and personal events of the customer such as birthdays and weddings. It is mandatory for the relationship team to recognize the customer by name inside or outside the Bank. The relationship management model is expensive and suited only to large corporate, commercial and private banking customers. Thus sustaining the model became a challenge in 2006 when the Bank decided to pursue a retail banking strategy. The major concern at the time was how to serve these customers efficiently without compromising the quality for which it has come to be known. It was also important to address each customer by their name as it has done for the more lucrative segment, just to prove that the customer represents more than an account number in the banking system. This led to ultimately implementing a technology-driven customer relationship management system (CRM) known as GTConnect. The system is based on Oracle® CRM and Avaya® Interactive voice response (IVR) system. Thus when a customer dials the GTConnect number +234 448 0000, they enter their username and password and are greeted by their name. They also get special greetings on their birthdays. Thus the Bank continued to serve its high end customers with the relationship management team while it uses technology to offer personalized services to the mass market. The Bank instituted other programs to ensure that the executive team is not far from the customers or markets such as the regular guest teller exercise described later (in the section on values and culture). Another is the regular 15 minute webcast where the CEO responds to questions or comments from customers or the general public.

As a result of the creative deployment of resources and other capabilities as discussed in the next section, GTBank's brand has benefitted greatly. Table 6 shows the result of the brand's evaluation against the tests of ownership and control, differentiation, sustainability and customer satisfaction (ODSS) following the framework developed by Professor Duncan Semester (15.809 Marketing Management, Summer, 2013). Resource ownership and control tests whether a firm has a complete ownership and control suggesting a potential failure if the resource is being used under license or if the resource could be depleted, expired or become extinct. The second test, differentiation tests how the resource has improved appropriability such that customers are willing to pay more for the firm's products and services than if the resource was absent. It is the reason customers pay more for Gillette® razors than a no-name brand even if they are of the same quality. Sustainability tests whether or not the resource can continue to provide competitive advantage for the foreseeable future. Finally, customer satisfaction tests how happy customers are with the firm's products and services given the resource. The following table is an analysis of how GTBank's brand aligns with the four ODSS tests:

Factor	Description	Strategic Resource?
Ownership and Control	GTBank developed its brand from the ground up. It owns and control the brand and not under license or franchise.	Yes
Differentiation	The brand has allowed the bank to capture value over the years given its profitability history. This means that customers are willing to pay for its services.	Yes
Customer Satisfaction	The growth in customer base as well as the increased adoption of its electronic channels suggests that customers are satisfied with its services. Also the recent customer satisfaction survey conducted by KPMG (2011) featured GTBank as a top bank providing excellent customer service.	Yes
Sustainability	GTBank cuts the image of a high quality financial institution. It also supports the community through various initiatives in education, sports and health care	Yes

Table 6: GTBank Brand Strategic Resource Test; adapted from 15.809 – Marketing Management (Summer, 2013), Professor Duncan Semester.

Capabilities

The Bank has also evolved distinct capabilities, management practices, sound processes and a systematized body of knowledge that can travel as shown in the RAT/CAT model (see **Figure 11**):

1. **Innovation**: The bank has a culture of innovation and is able to bring differentiating products, services and solutions to the marketplace especially for complex and industry specific transactions involving airlines, oil and gas companies, telecoms and other financial institutions. Most of the Bank's innovation have come from internal programs such as the "Ideas Hunt". The Bank targets a transactions processing speed (turn around) of 3-5 minutes. Customers get transaction alerts by SMS (text message on their mobile phone) and by email as soon as a transaction occurs. This allows merchants to release goods without facing a settlement risk in a region where check is not popular and 'cash-and-carry' is the order of the day. **Figures 17, 18 and 19** show a few of the innovative products of the bank.
2. **Management Practices**: A sound coordinating mechanism is in place to ensure consistent customer experience across multiple geographies. The bank does this by ensuring that the two top positions in the subsidiaries are reserved for staff with substantial experience at the headquarters. These include the country managing director and country operating officer. This ensures that governance and policy are enforced uniformly, keeping the concept of one universal bank. All other positions are filled locally.

3. **Processes**: Following from the above, all transaction processes and operating procedures are similar. These are reviewed regularly to ensure operational excellence and regulatory compliance. A feedback mechanism ensures foreign best practices can be imported back home.
4. **New Knowledge**: Apart from their day to day functions, the key officers are responsible for enriching the knowledge pool which is managed centrally at headquarters by the strategic planning team. The insight gained is used to enhance the overall effectiveness of group companies.
5. **Business Intelligence**: The Bank's technology and information systems provide valuable insights into customer behavior, growth trends, revenue enhancing opportunities and prospects for cost containment. This enables the Bank to make better decisions.

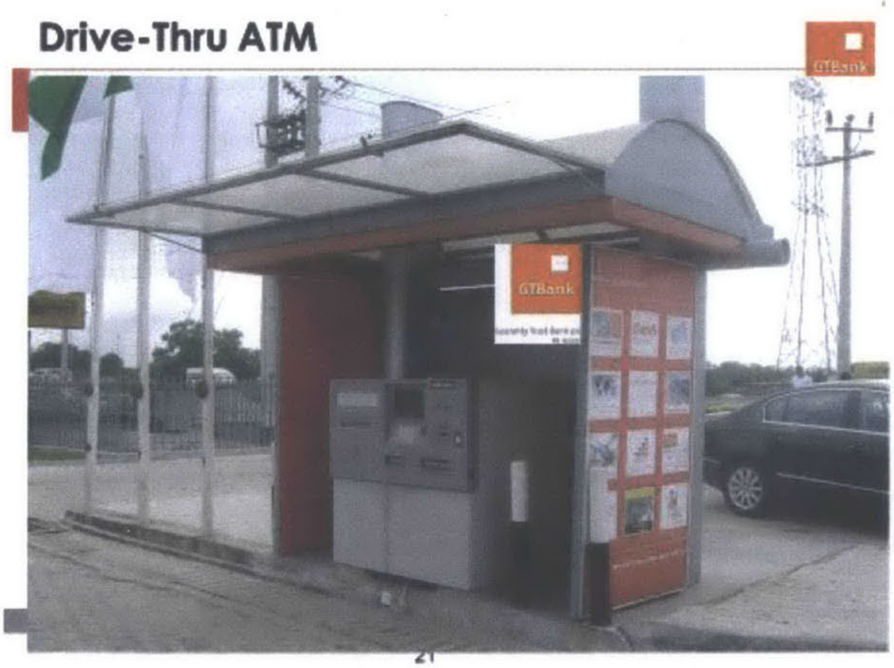

Figure 17: GTBank Drive-Through ATM

Figure 18: GTBank Full Service Mobile Branch with real-time, online connection to bank's data center.

Figure 19: GTBank Electronic Branch (Self- Service, Unmanned)

Vertical Integration

GTBank embraces vertical integration in its business strategy as it relates to the sources and uses of money. Having access to cash rich segments enables it to source cheap funds for asset creation in cash needing segments of the markets such as commercial and corporate banking. Thus it can achieve a better spread or margin. In addition, developing in-house electronic solutions to serve its customers also furthers its objective of differentiation through vertical integration.

Values and Culture

The Bank's value system is founded on ethics, integrity, professionalism and customer service. These vaues have allowed it gain the trust and confidence of millions of customers. In particular, it has gained a sizeable share of the business of large corporates and foreign companies who value transparency in the conduct of their business.

The Bank's culture is hinged on the eight (8) Orange Rules couched as Simplicity, Professionalism, Service, Friendliness, Excellence, Trustworthiness, Social Responsibility and Innovation. The traditional organization design in Nigeria and indeed Africa is hierarchical and people are normally addressed by formal titles placed before their names. At GTBank however, the policy was to address everyone by their first names. Calling an older person by their first name is alien to the Nigerian culture and it was initially tough for the younger people. However, there was no exception and any staff who could not fit within the culture was encouraged to find another job. Also while salaries differ depending on grade, the lunch allowance line was uniform for everyone. The reason given is that the CEO does not necessarily eat more food than the teller. Teamwork and bonding are encouraged and a dress-down Friday was established with business casual or full traditional attire. The goal is to encourage bonding among staff and to warm up to customers who often come to the bank dressed in such way. Also one Friday a month, the CEO, Deputy CEO and members of the senior management team participate in guest teller functions where they go to branches around the country to serve customers. It was the Bank's way of ensuring that senior management is closer to the customer and also demonstrate to employees that no one is too big to serve the customer. During such exercise, the senior management member reports to the operation head in the branch, who is their boss for the day. It also allows a closer bond between senior management and staff, many of whom may never have encountered a member of the senior management prior to that time. Thank God It's Friday (TGIF) is a common practice among branches, a relaxed interaction with management and staff of the branch with drinks, snacks and light music. These events enforce the culture of friendship, support, dignity and mutual respect. As the Bank grew larger however, these events happened less frequently. Also the larger size of the Bank means it cannot bring in entry-level candidates quickly enough or fill all internal management vacancies from within. This leads to hiring of middle management from the industry. While some of these people stay, others feel alienated by the culture and leave shortly after they arrive. Thus it is feared that the culture is being eroded or diluted.

The Bank has a robust portfolio of Corporate Social Responsibility (CSR) programs spanning education, healthcare and sports. Some of these include the adoption of a school in each of the three geopolitical zones of Nigeria and the sole sponsorship of the annual Autism Spectrum Disorder (ASD) seminar and behavioral clinic through its Orange Ribbon Initiative. It is also the sole sponsor of the Lagos State Principals Cup, a soccer event among all the secondary schools in Lagos State.

Liabilities

Although, the Bank's strategic design, resources and capabilities have given it a competitive advantage over time, they have also been sources of constraints. The competition appears to be closing the gap on key differentiating factors such as customer service and technology. This manifests strongly in the erosion of its dominance in corporate and institutional banking. Also, its strategic commitment to retail banking could also have contributed to the corporate banking outcome. Starting in 2007, its decision to develop retail banking and the consequent reallocation of resources and deployment of capabilities may have distracted its focus from Corporate Banking, even if inadvertently. Thus from the industry survey conducted by KPMG, it is observed that GTBank trails banks such as Citibank, Diamond Bank, First Bank and Zenith Bank in several areas of

Corporate Banking. Considering this segment represents about 50% of its business, it is imperative that it takes steps to address the weaknesses in this area.

Its choice of unique and architecturally pleasing branches comes at a premium. Thus it is unable to access rural markets where such investment would be unsustainable. In some cases, there have been crowded branches and long queues capable of undermining its objective of service excellence. Efforts to migrate customers to alternative channels such as Internet Banking, telephone Banking, ATMs and Mobile Banking have not had full impact. A comparable bank, Zenith Bank, has twice the number of GTBank branches (400 vs 200).

Also the rigorous and long recruitment process cause delay in deployment and puts pressure on existing staff. Finally, its ethical stance in a country still struggling with transparency and accountability limits its business opportunities. It also seems to neglect certain aspects of the Nigerian culture crucial to business success. Perhaps, the perspectives presented by Ancona, Kochan, Maureen, Van Maanen and Westney (2004) – the political, strategic and cultural -- can be extended beyond what happens within organizations to understanding and leveraging the power and forces that shape larger systems such as the external business environments. I believe that through innovation and creativity, GTBank can leverage these forces without compromising its ethical stance.

Organizational Design

GTBank's organizational design reflects the structure and the control and coordination mechanisms of the Bank. It is organized along divisional lines as noted earlier, consisting of market facing divisions and support and shared services divisions. Each market facing division and its constituent units maintain a self-contained balance sheet and profit and loss (P&L). Corporate costs from support and shared services are also allocated based on an activity-based costing model. While the performance of the institutional, corporate and commercial banking divisions are measured more by revenue and profit metrics, the retail banking division's performance measurement is heavy on the size of its balance sheet. This is because it is expected to be the source of cheap funds for the Bank. Apart from Institutional Banking, Corporate Banking and Wholesale Banking Divisions that report to the Deputy Managing Director, all other divisions (including non-market facing) report to the Group Managing Director and Chief Executive Officer who report to the Board.

The Financial Control Group is responsible for setting financial performance metrics as well as monitoring, control and reporting. Group Coordination and Planning ensures alignment of group-wide activities and processes. The Support and Shared Services divisions consist of group-wide functions including risk management, operations, information technology and audit (systems and control). The Systems and Control Division has a dotted reporting line to the board. Others include the corporate secretariat, administration and external relations. The respective support services country heads have dotted reporting lines to the divisional heads of shared services, who are often involved in their recruitment and training. **Figure 20** illustrates the Bank's organizational design.

In chapter 5, I offer some opinions on what constitutes a company's competitive advantage based on my study of GTBank. I also note that some of the factors that were responsible for the Bank's success in the past have become commodities. This suggests that today's distinctive competencies can become commonplace tomorrow and that a company must continuously re-invent its capabilities. I conclude by making some recommendations on how GTBank can maintain or enhance its competitive position.

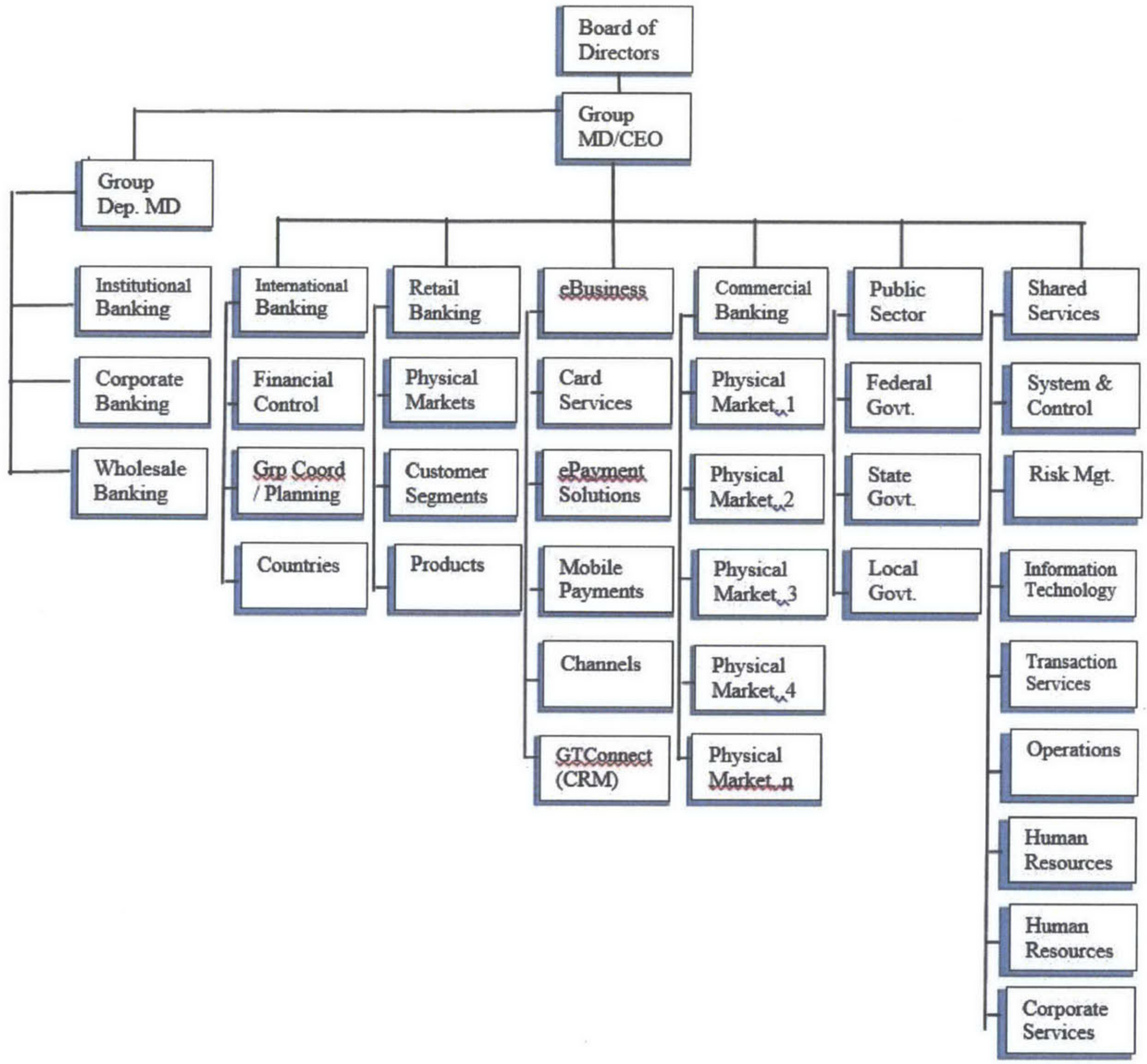

Figure 20: Guaranty Trust Bank plc (GTBank) – Organizational Design

Chapter 5

CONCLUSION

Firms gain enduring competitive advantage not from a single source but rather by combining a variety of strategic elements and distinctive capabilities over time that are difficult to copy by the competition. Such elements and capabilities are derived primarily from the resources of the organization, the scope of businesses in which it is involved and the organization that supports the performance and the coordination of its functions. The distinctive capabilities of the organization need to continuously evolve in order allow the firm to remain in a superior market position relative to other players. Therefore it would be implausible to imagine that truly successful organizations have attained their position by chance. Rather, I contend that success results from following an Integrative Innovation Strategy (IIS) which involves putting together novel combinations of known elements to accomplish the desired set of business outcomes.

Guaranty Trust Bank plc (GTBank) is one such organization that has leveraged its strategic resources and evolved distinctive capabilities to achieve leadership in its chosen market segments. It has a strong brand and is perceived as a top customer-focused bank (See **Figure 21**). It has demonstrated strong performance over its twenty-four years of operation. Its strengths have come from a combination of strategic elements including its vision to deliver the utmost in financial services and its core values embodied in the eight Orange Rules. It has a strong financial position with nearly 10% of the market share in its home country. It has a culture of innovation and has evolved distinctive product development capabilities over the years. Its workforce is highly trained and motivated for high performance. Thus there is no simple answer to the question of what distinguishes GTBank from its peers. While excellent customer service is its focus, it has created a complex mix of resources and capabilities that is difficult to imitate.

With increasing competition however, and the likelihood of some of its distinctive competences becoming commoditized, the bank needs to review its business model especially as it relates to corporate banking in order to remain competitive. While an Industry Survey (See KPMG, June, 2013) found the bank among the top three categories on almost all metrics (see **Figures 21-25**), as noted, it faces stiff competition in the area of corporate banking with the likes of Citibank, Diamond Bank, First Bank and Zenith Bank. See **Figures 21-25**.

A peer review of GTBank, Zenith Bank, United Bank for Africa (UBA) and Diamond Bank shows intense competition in the last two years (2012 and 2013). Although published results indicate GTBank is still leading in absolute profitability, its growth has slowed tremendously relative to its peers (see **Figure 28**). Also growth in gross earnings trails those of its industry peers and its percentage growth in total assets is competing with that of Zenith Bank that has a much bigger base (see **Figures 27 and 29**). This is likely an indication of its inability to create proportionate assets in the corporate and commercial banking segments of the market. Its total assets need to grow at a faster rate in order for the Bank to remain competitive and maintain its leadership position.

Also, uniqueness is transitory and some of what made the Bank unique in the past such as technology may no longer hold today as other banks can implement the same or even better technologies. It also needs to address the culture dilution and erosion as it becomes bigger; finding creative ways to remain 'small' in the face of a bigger corporation. Finally, it needs to cultivate a more aggressive political clout without compromising its ethical stance; recognizing that no firm however big and strong can ignore or undermine the political influence of the environment in which it operates.

Following are recommendations to the Bank:

As noted from the KPMG (2011) survey and industry peer review, GTBank now faces greater competition. In particular, it seems that the Bank's corporate banking market share is being assailed by other Banks. As global trends intensify and boundaries disappear, customers are getting increasingly more sophisticated. Their values and needs are also changing. GTBank needs to deploy resources to understand the needs of the corporate market segment.

Related to the above, the corporate market segment appears to be price sensitive suggesting that a bank such as First bank may have a cost advantage over GTBank because it has a larger pool of low cost deposits. The Bank therefore needs to broaden its retail customer acquisition to create a large low cost deposit, not only to fund the asset needs of the corporate customers but also to enjoy a better spread.

Innovation is crucial to maintaining or enhancing competitive advantage. As noted, most innovations have always come from within the organization such as the ideas hunt. The Bank may want to explore open innovation by engaging with innovation ecosystems beyond the organization such as academia, experts, students and consultants.

People Development has been a key differentiator for the Bank. However, as the Bank grew larger in size, it became challenging for managers to release their staff to go for training. Even when staff leave, they were sometimes recalled. While there may be valid business justifications for these actions, it can harm the quality of staff and consequently the quality of business performance.

The Bank has to reverse the culture erosion or dilution by bringing back the feeling of a small company where business units recognize themselves as extensions of each other. As managers scramble to meet targets and defend their balance sheets, there is the danger of cannibalizing the Bank's market opportunities. The Bank must ensure that a unified front is presented to customers at all times.

The Bank must leverage its system of complementarities so that its resources are aligned across all business units and build on its dynamic capabilities. Its resources must be capable of being shared or moved across the enterprise to ensure the Bank can respond to changes in the environment, customer behavior and products.

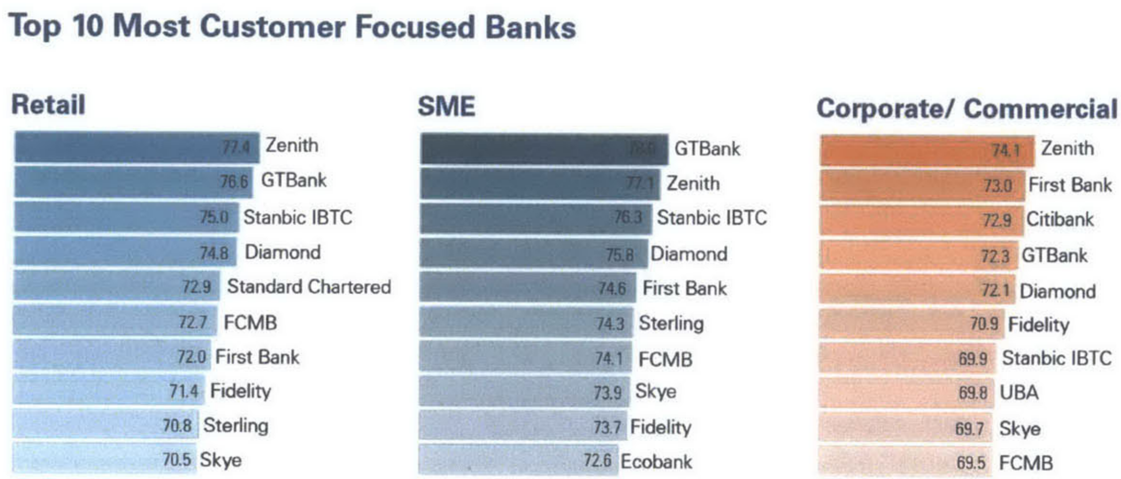

Figure 21: Top 10 Most Customer Focused Banks;
Source: KPMG 2013 Banking Industry Customer Satisfaction Survey, Nigeria

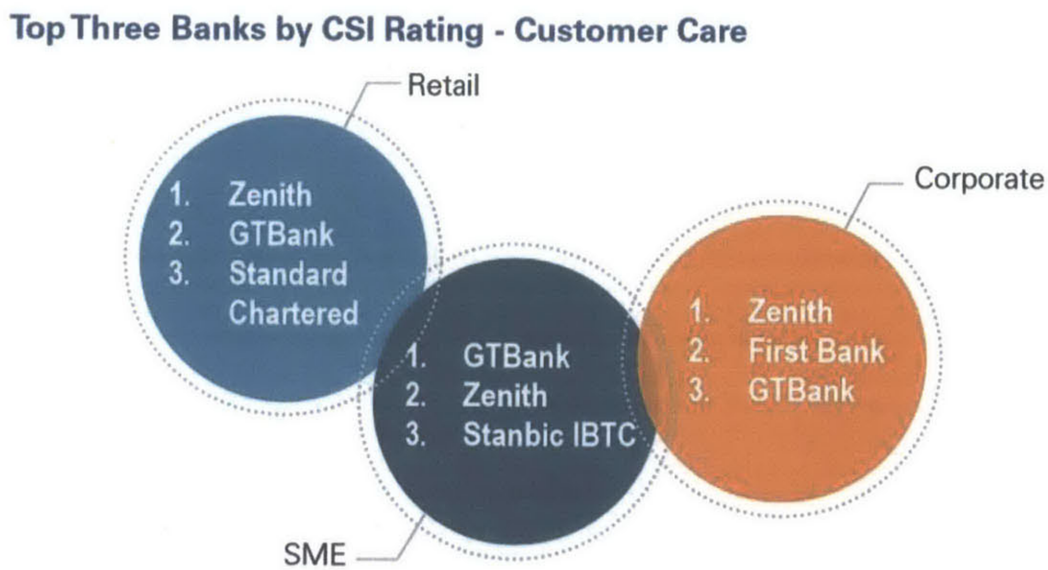

Figure 22: Top Three Banks by CSI Rating – Customer Care;

Source: KPMG 2013 Banking Industry Customer Satisfaction Survey, Nigeria

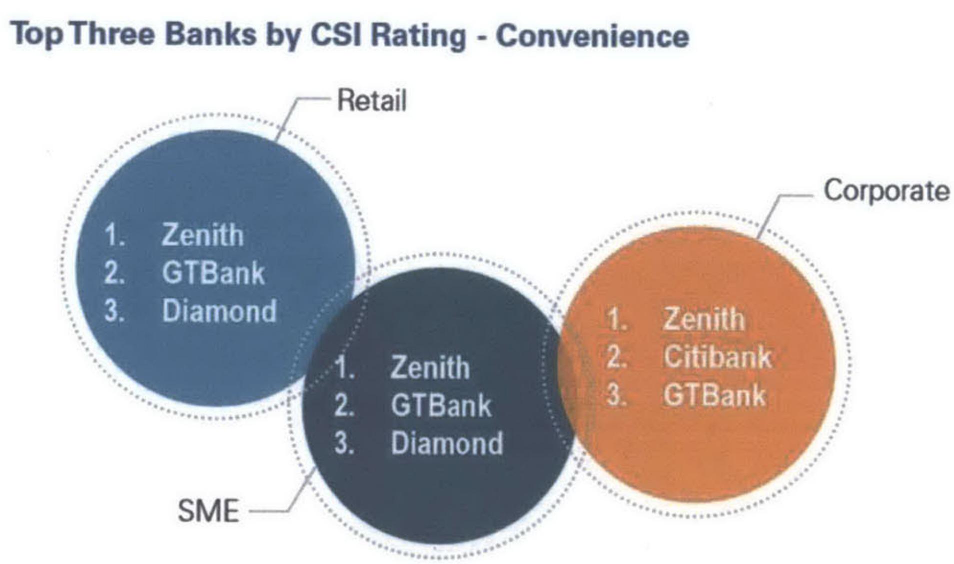

Figure 23: Top Three Banks by CSI Rating – Convenience;

Source: KPMG 2013 Banking Industry Customer Satisfaction Survey, Nigeria

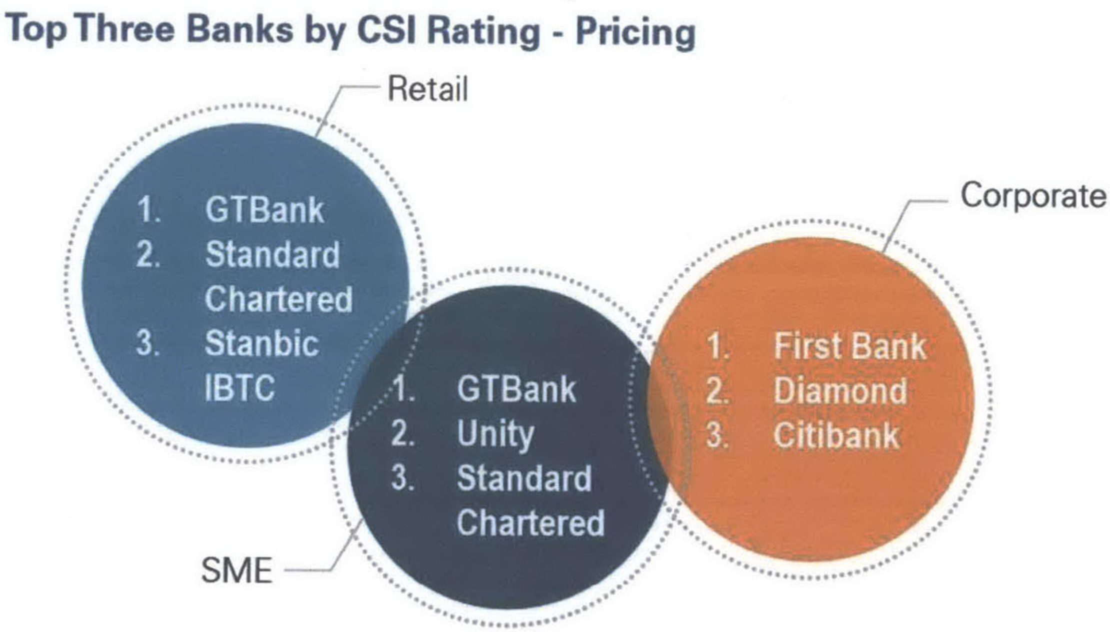

Figure 24: Top Three Banks by CSI Rating – Pricing;

Source: KPMG 2013 Banking Industry Customer Satisfaction Survey, Nigeria

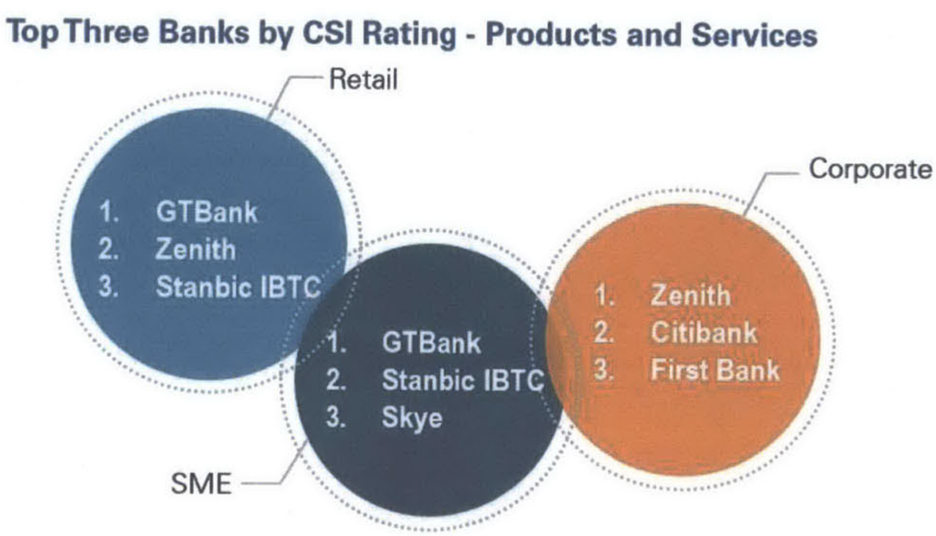

Figure 25: Top Three Banks by CSI Rating – Products and Services;

Source: KPMG 2013 Banking Industry Customer Satisfaction Survey, Nigeria

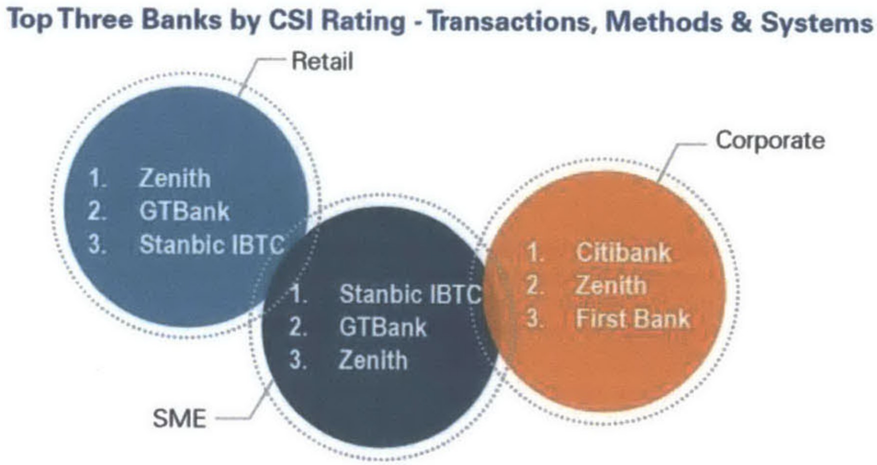

Figure 26: Top Three Banks by CSI Rating – Transactions and Methods;

Source: KPMG 2013 Banking Industry Customer Satisfaction Survey, Nigeria

	GROSS EARNINGS (₦'Bn)			INTEREST INCOME (₦'Bn)			OTHER BANKNG INCM (₦'Bn)		
BANKS	2013	2012	% Inc.	2013	2012	% Inc.	2013	2012	% Inc.
GTBANK	221.6	205.4	8.0	172.4	160.1	8.0	49.2	45.3	8.0
ZENITH	311.3	279.0	12.0	243.9	213.2	14.0	67.4	65.8	2.0
UBA	214.3	177.4	21.0	147.7	126.2	17.0	66.8	51.4	30.0
DIAMOND	168.0	133.5	25.0	133.5	105.5	27.0	34.5	29.2	18.0

Figure 27: Peer Review – Gross Earnings, Interest and Other Banking Income

Sources: Banks' Published Results

	OPERATG INCOME (₦'Bn)			OPERATG EXPENSES (₦'Bn)			PROFIT BEFORE TAX (₦'Bn)		
BANKS	2013	2012	% Inc.	2013	2012	% Inc.	2013	2012	% Inc.
GTBANK	172.5	167.5	3.0	72.0	67.3	7.0	100.5	100.1	0.3
ZENITH	232.1	205.1	13.0	137.9	111.0	24.0	94.1	94.0	0.1
UBA	137.8	121.6	13.0	85.9	75.4	14.0	51.8	46.2	12.0
DIAMOND	109.6	92.1	19.0	76.4	63.8	20.0	33.2	28.4	17.0

Figure 28: Peer Review – Operating Income, Expenses and Profit Before Tax

Sources: Banks' Published Results

	LOANS (₦'Bn)			DEPOSITS (₦'Bn)			TOTAL ASSETS (₦'Bn)		
BANKS	**2013**	**2012**	**% Inc.**	**2013**	**2012**	**% Inc.**	**2013**	**2012**	**% Inc.**
GTBANK	927.0	742.6	25.0	1,262.0	1,061.3	19.0	1,904.4	1,620.3	18.0
ZENITH	1,126.6	895.4	26.0	2,079.9	1,802.0	15.0	2,878.7	2,436.9	18.0
UBA	823.2	598.6	38.0	1,797.4	1,484.0	21.0	2,217.4	1,933.1	15.0
DIAMOND	690.8	636.8	8.0	1,099.5	831.3	32.0	1,354.9	1,059.1	28.0

Figure 29: Peer Review – Loans, Deposits and Total Assets

Sources: Banks' Published Results

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