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Interview with Hakeem Belo-Osagie United Bank for Africa

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HAKEEM BELO-OSAGIE

The Early Years

I was born in Lagos, Nigeria. My father is a professional gynecologist and my mother was a nurse. At age three, I moved with my parents to England. I lived in England until I was about eight and then I came back to Nigeria where I went to primary and secondary school. I left Nigeria when I was about sixteen and did my last years of high school in England. I started university at about eighteen and was in university in England for five years and then in the United States for two years from age twenty-three to twenty-five.

I would say that both my parents were great influences on me but in terms of my career I'd say my father was probably the more dominant influence. He had himself come to the United States. He went to Howard University and then to McGill Medical School in Canada. He instilled in all of us children a drive for excellence and he hammered home consistently the theme of being independent.

So I would say that a lot of my entrepreneurial drive was less a drive for monetary rewards and more the desire to be my own man, to be independent, to be in charge of my own destiny, to not have to take orders from other people. I saw it also as a chance to create something of my own, to watch it grow, and to gain a certain amount of satisfaction from that sense of creation.

The HBS Experience

I didn't expect to become an entrepreneur when I came to HBS. My ambition at the time was to go into the petroleum industry and I hoped that one day I might be Chief Executive of the State Petroleum Corporation. I wanted an understanding of what business was about, what economics was about, and what the free enterprise system was like.

I then did go into the government of Nigeria and I worked there for several years. It was after numerous changes of government that I decided that I would leave the government and I would then set up a business of my own. So that's how I started my entrepreneurial career. In a sense my entrepreneurial career arose partly from my desire to do my own thing but also from the fact that the government career, which is what I had wanted to do, was no longer feasible given the political instability in Nigeria at that particular time.

Now I think what I got from Harvard Business School was an approach to business that essentially tries to collect facts, collect data, and then analyze those facts and data. It's an approach that thinks strategically, thinks in terms of planning, and then focuses on how to implement that plan. I think that in a lot of emerging markets there are a lot of entrepreneurs who sincerely believe business is something you do on a hunch, on a whim. You try something out. There's often not the rigorous analysis to examine what is the market, what is the size of the market. How do you access that market? What do

customers want? Is there a cash flow analysis done? How are we going to finance this business? And I think what Harvard Business School did for me was it gave me the tools with which to approach business in that kind of way.

Then, on a softer basis, I think it also gives you the confidence and belief that you can tackle almost any business problem and solve it if you're willing to put the energy into it, if you're willing to put the determination into it, and if you're willing to put the hours into it. And I think that anybody who has been to HBS has no problem working long hours. I think that is a very essential element of business. However much people may say work smart, I think in business you've got to work smart and work hard. And that I think is one of the key things that I got from Harvard Business School.

I would also add something that is helpful but I wouldn't say it's fundamental. If you are an entrepreneur and you are going into business in an emerging market, there's a certain amount of credibility that you get precisely because you went to the Harvard Business School. And I'm sure that I probably benefited from that. I'm sure it was helpful in some ways.

Finding the Opportunity

In the finance area there are two opportunities that I've pursued. One is a company called First Securities Discount House, which is basically a securities trading outfit. That was my very first entrepreneurial experience in the finance area.

The opportunity there was the following: There was little trading activity going on in areas of commercial paper, treasury bills, and bankers' acceptances. So in a sense we saw a gap in the market. We saw that a lot of the larger financial institutions in Nigeria basically were not trading, but they were interested in more consumer banking and credits to corporate customers. We saw a niche in that particular area and I set up the first institutions with a couple of other Nigerian shareholders and some international shareholders like the World Bank in order to take advantage of that niche. So that was my very first entrepreneurial activity.

My interest in a large bank stemmed from my experience in First Securities Discount House, which was a small institution. What became very obvious to me was that the small institution I had just started was to some degree benefiting from the slowness of large commercial banking. It became obvious to me that if a large commercial bank were very well organized and made very efficient, that it might be able to blow a smaller group out of the market. In some senses it's similar to the issues between investment banks and large commercial banks in the United States and in the United States almost all of the investment banks have been bought up by commercial banks. So the move into a large commercial bank was partly defensive, in that I could see that there was value, they were not very efficiently run, their stock prices were low, they were government owned and, if a group of more modern-minded businessmen came into that particular area, they could realize value in that business. I had no hesitations in pursuing that course.

Now the opportunity developed when the government took a decision that they were going to sell the government's shares in the United Bank for Africa. So when I looked at the prices at which the government was selling those shares, although those prices looked steep, it became obvious to me that if the banks were turned around those banks could make much more money and would realize an appreciation in the value of the shares. So that was the opportunity and that is essentially what we tried to do.

It's been a puzzle to me why no one else thought of that opportunity. Maybe a lot of people thought the bank was too big and the problems looked too huge. There was a huge bad debt portfolio. So there were issues of bad debts and how you collect on these bad debts. There were problems of overstaffing. We had to cut our staff strength by 45 percent. There were issues of how you stop influential people from being granted loans. And I guess for a lot of people they just looked at those problems and said, "This is just too much."

Beyond my being more willing to dare than some other people, being more willing to risk losing a lot, I honestly think that quite a few other people could have taken advantage of the opportunity. I don't think I had any special expertise, although maybe there's something to be said for the fact that I was not a professional banker, because that made it a little bit easier for me to stand back and say, "Hey, why not?"

Financing the Business

In some senses I have found fundraising not as difficult as people had said it was going to be. For example, during the period of military government in Nigeria, we managed to attract equity investments for the United Bank for Africa from one or two very conservative U.S. fund managers. Fund managers and others have to be sold on the idea of investing in emerging markets. They've got to have the sense that the management of the company knows what it's doing, that they are all speaking the same language. The fund managers and others need to have a complete analysis done, so they need to see a complete business school type of analysis of the opportunity and of the business. My experience has been that once investors saw that they were far more willing to take risks than people otherwise would have thought. But there has got to be transparency of information and analysis. Investors have to meet the people concerned and have a feeling that yes, this is a good opportunity and we're talking the same language.

You must also understand that for a lot of the companies concerned, the investments in Africa are relatively small. An investment of \$5 million to \$50 million is, in an African setting, a decent investment. For lots of U.S. companies, however, those are minute investments. So part of the challenge is getting their attention but part of it is also just spelling it all out to them and letting them see clearly what the opportunity is.

A key problem that fund managers have had coming to Africa is deal flow. A lot of them are interested but there are just not that many deals being presented to them. Why are there not so many deals? In a lot of cases there's often a regulatory or government

angle to a transaction in Africa and that's because of the very pervasive nature of government in our political system. A transaction in the United States typically just needs to be analyzed from a purely commercial point of view and then a decision is made, whereas in Nigeria and in most African countries there are lots of regulatory hurdles that you have to go through before a transaction can be completed. It can take several months for a transaction to be presented to the foreign fund manager and even after it's presented sometimes a transaction falls apart for various regulatory reasons.

In this particular case, the fund managers have made good returns from investing in us and, as a result of that, they have shown an interest in investing in other sectors of the Nigerian market. As with a lot of private equity companies, once they find a partner who they feel comfortable with and have had an investment that has worked well, they become emboldened and more willing to look at other investments.

For Nigeria in particular you've got to get past what I call the Nigerian image factor, which is very real. It stems from the fact that there are in the United States quite a few Nigerians who are involved in fraud, involved in all manner of things, and for lots of fund managers there's a fear about investing in Nigeria. Therefore you've got to get past that, and once you do, once they've had a good experience, you'll find that they're much more into investing in other things as well.

Building the Business

The biggest change that I've seen over the last six or seven years, since I've been in the bank, is that in the first few years our objectives were to have a very tight credit system, to recover bad loans, penetrate the corporate market, reduce overheads by reducing the number of staff working in the bank. Those are the types of goals we had at the beginning.

Now we see opportunity much more in two areas. One is the application of technology, making operations more efficient and making operations less expensive, reducing the overall cost of delivery of services. The second is that corporate margins are thinning, which is a phenomenon that exists in all markets. We're a 200- to 300-branch bank, which for Nigeria is a large retail bank. The individual Nigerian consumer who doesn't even have any banking services is our target right now. So we're moving more and more toward selling this to the consumer, and toward using technology to improve our operations. To some degree, the two go together because we're finding that using efficient technologies, which reduce the cost of service delivery, allows you to service a customer who doesn't earn more than \$500 a year, whereas without technology, it's not cost efficient to look at customers like that.

The toughest decision that I've made in the bank was the decision to cut staff. That was the toughest decision because we were the first organization that had a mass cut in staff numbers. Most institutions in Nigeria very, very rarely cut staff. When you cut 40 percent in a day, it's a very, very dramatic event. It could have gone horribly wrong. There could have been riots. There could have been a run on the bank. There could have

been a security problem. We were dealing with the second most powerful trade union in the country, so how do you deal with trade unions? What kind of settlement do you reach with them? How expensive is that kind of settlement? After it's over, how do you live with the fears of those who've survived, who've undergone the trauma of the cuts, and who still, no matter how much you reassure them, have fears that it could be them next time? How do you tackle such things? That has been the very biggest decision that I've ever made.

I reduced risk in a number of ways. On the security side, we had to plan very, very carefully over a six-month period, right down to who is going to deliver the letter, where will the security guards be. All that was to happen nationwide at 3:00. How do you disguise the fact that this is what you're about to do? You have to have a backup plan, so that in the event of a complete strike, you can get cash, bullion, services, etc. You have to have a plan for the bank to be run by management staff for X period of time. So that's how we mitigated our risk.

Now, on reducing the trauma, we gave a very generous settlement. It was expensive, but our sense was that the guy is fired, and as he's being fired, it's explained to him that he receives a check immediately. He knows that with that check, he'll have enough money to live for the next year, while he's looking for another job. That also reduces the amount of confrontation you would have from him. Then there was the question about the remaining members of staff. We gave a lot of motivational speeches and explained that we were a company undergoing reorganization. New sets of targets were put into place and we established the first bonus system, so that people would have targets to take their minds off the future.

And we gave assurances that we didn't expect to do this again. I think that some believed us and others had a wait-and-see approach.

We also communicated to the government authorities what we were doing, and very, very importantly, we managed the press. The press was fully aware of what we were doing, why we were doing it, and so on and so forth.

Now, for the unions, one of the things we did was to ask the union leaders to nominate people who had worked in the financial control section of the bank. The financial control section is the section that works on numbers to analyze the bank, analyze our performance. I went to the union leaders to have their guys from the financial control section of the bank come and work with us so that they would have no doubt in their minds that we did what we had to do, and that it would be better for the bank to cut its staff than have a situation where everybody goes down simply because the customer base of the bank was untenable. I think that involving these union members in the process and letting them see all the figures was very reassuring to them, so that to a large degree they also sold it to the other union members. But we also had to make it clear to them that this was something we were going to do. A certain determination and unity from the board was essential as well and we achieved that.

The contribution I've made has predominantly been, I would say, in strategy and in bringing together competent and talented people. I can't overemphasize that, for an entrepreneur, it's not a one-man show. I think there's a tendency to personalize a lot of successes. An organization gets identified with "the top man." There's a method of history that emphasizes history as one big man talking about what he did. The reality is that you are an initiator. You may be a strategic thinker. You may have more guts than a lot of people, be willing to take more financial risks. In my case, I took financial risks. But if you are to be successful, and if you are to sustain your success, you need the cooperation of people very different from you, people who are better than you at institution building, better than you in execution, and I think the critical thing for an entrepreneur is to understand the talents that you have and the ones you don't have.

I tend to use the example of Steve Jobs at Apple. I think of him as an extraordinary thinker, a good visionary, with guts and determination. But if he is to be successful in a sustained manner, I think he will need a very good number-two, maybe a COO, who is a superb executioner, who tightens all the nuts and bolts, and who is very good at the day-to-day maintaining of the company. A lot of great entrepreneurial ideas have done brilliantly well in the first few years, and have collapsed because when that shift toward day-to-day execution is necessary, the entrepreneur doesn't want to step back from it and recognize that it's another phase, needing another set of skills.

Then there is a tendency of some entrepreneurs not to want to have people who can challenge them. Very good people have minds of their own, so I think that one challenge which I have had, and which I think I've tried to meet as best I can, is to try to recruit the best people, irrespective of how strong, independent, etc., they are. But the biggest problem for recruitment in Africa is that there are not enough good people. Second, very good guys have many opportunities, and so retaining very good guys is not easy.

The biggest challenge in Africa, though, I would say, is that you constantly have to manage the government and the regulatory agencies. They play a far more pervasive role in Africa than they do in the United States. In the United States, you can manage your customer. You have a compliance office to make sure you don't break the rules, but it's not 50 percent of the work. In a lot of African businesses, how you manage the government is 50 to 60 to 70 percent of the work. Things can go horribly wrong if you do not manage that aspect very well.

In the discount house, the securities trading company, the greatest risk there was, I would say, acceptance by the market. You had customers who had only dealt with banks, and banks have a certain credibility. Now you have set up an institution that's providing a certain service, but it's called a securities trading house. The issue was, were we a bank or not a bank? Would customers trust us? That was the biggest issue there. We mitigated that by trying to bring in foreign companies to be shareholders and by bringing in the World Bank as a shareholder to give us a certain amount of credibility.

In the bank, the biggest risk in the early days was how the government would react to the very dramatic changes we were instituting, particularly in cutting staff, in a company that had just been privatized. That was the biggest risk, and we were almost re-nationalized as a result of that. I think they almost re-nationalized the bank because of actions taken, and it reflected the fact that when some governments privatize, they don't expect dramatic changes. At least, they didn't in those days. Often, privatization was required by the IMF or the World Bank. It put money into the state coffers but it also meant that certain kinds of people lose out. Invariably, state entities are overstaffed, so some people lose their jobs. That creates an enormous backlash, and I think that the only way you can try to mitigate that is by selling to government agencies, to the general public, to the press, that the changes they are putting in place will be beneficial to the bank and to the general public. That message has to get out, and then you've got to produce results. Once people can see that, yes, the bank is more efficient, customers are getting better services, then some of the criticism will die down.

Contributing to the Community

I believe that private business, private enterprise, is still the most effective way of delivering goods and services in any community. When I was in university, I did not agree with this. When I was in the university, I thought that state enterprises were also effective deliverers of goods and services. I no longer believe that. I think that profit motive and accountability are both key. The market imposes a certain discipline and a certain constraint on private businesses, which cause them to be more efficient. I think that with state enterprises, there is no mechanism forcing them to be efficient or effective, and after a while they become monopolies, and after a while political considerations become more important than issues of profitability.

So I can't overemphasize the importance of the delivery of goods and services. Now, I think that businesses are large, and they're repositories of capital, of wealth, and of power. They exist within a certain community, and because they exist within a community, they have certain responsibilities to that community. They need the community, and the community needs them. So I think that it's important for businesses to focus on some specific areas they believe in, and then give capital as well as their business skills to address community needs and attack specific problems in the community.

In the organizations I have been in, we have focused on two or three things. One area we have focused on is the problem of motherless babies in Nigeria. We have also focused on the problem of AIDS within our society. Another thing that we have tried to do a lot of, and maybe it reflects the fact that I come from a gynecologist's family, is to focus on women's issues. I'm very proud of the fact that in the bank and in the discount house, we probably have the highest proportion of women in top managing positions of most institutions within our country. So women's issues, the problem of AIDS, and caring for motherless babies are the areas where we've tried to carve a niche for ourselves and focus on. Some banks are focusing on university education. Others have tried to encourage young entrepreneurs, working with high school graduates who don't

have money for university but want to set up small kiosks that sell things, and teaching them about business, accounting, and so on.

Overall, I think each business needs to define for itself what it's going to do beyond delivering goods and services and being paid for that.

Summary Reflections

One of the problems of entrepreneurship in African countries, certainly in Nigeria and I suspect it's similar in other African countries, is that we don't have as sharp a demarcation between private and work life as you do in the United States. So, for example, part of your networking, part of your business contacts would be done in the evening. People would not think anything of dropping by your house, and you would be expected to drop by other people's houses. You would have to spend a lot of time at dinners. You have to attend dinners, weddings, fortieth birthday parties, fiftieth birthday parties, funerals. These are part and parcel of the social fabric of the country.

A good entrepreneur would have to build up that social network. So to some degree, you're on duty almost all the time. I know some entrepreneurs who are out every single evening. They have very little time to themselves. That can be a major problem, but I think that you've got to set aside some part of the week to do nothing but be with your family. Or, you have to take the view that I'm going to have X number of years in which I'm going to make the sacrifice for this particular business, and then I'm going to either slow down or I'm going to hire people who will take some of the pressure off of me.

I have three daughters and a son, and I think I've been helped by the fact that my wife is also a professional, and therefore I think she understands a lot of the pressures that I'm under. But I think that the work/private life balance has not been as good as I would have liked. I don't offer a great solution, because, frankly, it's something that I am struggling with. I think that the last six months is probably the first time in fifteen years, I would say, that I have felt free to sit back and spend more time with my family.

Another thing about being an entrepreneur in a developing country is that you have to cover many more disciplines than you would in North America or Europe. In North America or Europe, you can rely on specialists in many areas to advise you. You can turn to your marketing guy and get an opinion from him, turn to your finance guy. You can delegate much more. In developing countries, there is a shortage of talent, a shortage of experienced people. You find that you've got to do many more things yourself. When you're off doing these things yourself, you find that you've got to question, challenge, understand, many more areas. So I think that a very broad-based education is much more critical than being a specialist in any particular discipline. By that I mean I wouldn't try to be a specialist in finance, or in marketing, or in production management. You probably need to do courses in all areas, so that you sufficiently understand those areas. I certainly think that an MBA is an excellent qualification for that.

In addition to a broad-based education, working in a small company or in a small division of a large company is often very helpful preparation for an entrepreneurial career, especially in a developing country like Nigeria, because I think that the more you can see of all facets of a company, the better experienced you will be when you come to running your own business. I think probably the worst experience you can have is to have all your experience in, say, the strategic planning section of a very large company. What you'll find is you know a hell of a lot about that one particular area, but not enough about many other areas, unless of course what you want to do is to set up a strategic planning consulting firm. Otherwise, again, broad-based experience will be best.

You've also got to be very flexible and very adaptable, because there's a high degree of uncertainty in a lot of African countries. You can't decide that you want to be in one particular industry. You've got to look at the economy and then work out an analysis of the economy, and see where the opportunities are in the economy, and then decide which one you are going to tackle. And then you definitely have got to be in there for the long haul. Don't expect quick hits.

One thing I also try to say is that although I found it exciting going back, you should not romanticize returning. There are still exciting opportunities in the United States, in Europe, in Asia. I think that students should look upon the whole world as a stage. I think the world is so small right now that people can make as much of an impact on the African continent doing work in the United States as working in Africa. For example, somebody working on a cure for AIDS in a major pharmaceuticals company in the middle of Indiana is probably making as much impact on the African continent as anyone, even though he's sitting out in Indiana.

We're in a globalized environment right now, and, essentially, there are many different types of things you can do—some physically in Africa, some outside of the continent. Examine all of them very carefully before you make up your mind, but don't romanticize returning. There are real obstacles to working in Africa, and there are great opportunities as well. I've been very lucky in many respects myself, and I've enjoyed the work I have done. But at the same time, there are many entrepreneurs whom I know who tried just as hard as I have tried who have not been successful, and it has not been their fault. I want to give a very balanced picture and make people hopeful, cautious, and prepared before they take up the challenge of starting new businesses in Africa.