



Millennium bcp: The Recapitalization Plan

A Strategy Case Study

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Dissertation written under the supervision of Professor Nuno Cardeal

Dissertation submitted in partial fulfilment of requirements for the MSc in
Management with Specialization in Strategy and Entrepreneurship, at the
Universidade Católica Portuguesa, April 2019.

Abstract

Title: Millennium bcp: The Recapitalization Plan – *A Strategy Case Study*

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Keywords: Economic Crisis; Banking Sector; Recapitalization Plan; Restructuring Plan; Recession Period; Resources; Capabilities; Competitive Advantage; Corporate Governance.

In 2012, Europe was affected by the economic crisis, conditioning companies' performance. This environment led to changes in the consumers' lifestyle, increasing the unemployment rate and decreasing the disposable income. Additionally, the banking sector has also suffered several transformations in its corporate governance.

The present dissertation, presented in the form of a case study, aims to study the real case of Millennium bcp as a Portuguese bank affected by the economic crisis, having forced to resort the state aid.

The reader has the opportunity to study the BCP strategy to overcome the recession period between 2012 and 2017. Therefore, the case has the purpose of study the Recapitalization Plan that the bank was submitted and the corresponding Restructuring Plan.

BCP performed as a company that explored its resources and capabilities to establish competitive advantage, taking benefits from its reputation, culture, values, strategic objectives, the relationship with different stakeholders, the unique brand and the adaptation of its corporate governance model.

Additionally, there is a reflection about the potential tensions between different stakeholders and their possible solutions based on Stakeholder Matrix Approach.

Finally, since banking sector is extremely volatile the case also analyzes the future challenges faced by the bank, such as keeping the decision center in Portugal, the expansion of the brand and the development of digital services.

Abstracto

Título: Millennium bcp: Plano de Recapitalização – *Um Caso de Estudo de Estratégia*

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Palavras-chave: Crise Económica; Sector Bancário; Plano de Recapitalização; Plano de Reestruturação; Período de Recessão; Recursos; Capacidades; Vantagem Competitiva; Governação Corporativa.

Em 2012, a Europa sofreu uma crise económica condicionando o desempenho das empresas. Este ambiente alterou o estilo de vida dos consumidores, aumentando a taxa de desemprego e diminuindo o rendimento disponível. Adicionalmente, o sector bancário também sofreu alterações na sua governação corporativa.

A presente dissertação, sob a forma de um estudo de caso, permite a análise do caso Millennium bcp, um banco português afetado pela crise económica, sendo obrigado a recorrer à ajuda Estatal.

O leitor tem a oportunidade de estudar a estratégia utilizada pelo BCP para ultrapassar o período de recessão entre 2012 e 2017. Assim, o caso destina-se a analisar o plano de Recapitalização a que o banco foi submetido e o respetivo plano de Reestruturação.

O BCP apresentou-se como uma empresa que explorou os seus recursos e capacidades para estabelecer vantagem competitiva, beneficiando da reputação, cultura, valores, objetivos estratégicos, relação com os ‘stakeholders’, marca e adaptação do modelo de governação corporativa.

Adicionalmente, analisam-se os possíveis conflitos entre os diferentes ‘stakeholders’ e respetivas soluções, tendo por base a matriz dos ‘stakeholders’.

Finalmente, já que o setor bancário é extremamente volátil, o caso também analisa os futuros desafios do banco, tais como a permanência do centro de decisão em Portugal, a expansão da marca e o desenvolvimento de serviços digitais.

Acknowledgements

First of all, I would like to thank Millennium bcp and its team, especially the Head of Corporate Communication, the Responsible of the Investor Relation Department, the Head of Human Resources and the Coordinator of the team in the area of Planning and Control – reporting of DEPALM, that gave me the opportunity to study a reference bank, helping and cooperating with me to make this project possible.

Secondly, I would like to thank my advisor, Professor Nuno Cardeal that gave me important support and help through its comments and insights, motivating me to conclude this challenging project.

Finally, I would like to thank my friends and family, in particular my parents and my brother for patience and availability demonstrated throughout this important period of my life.

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I. Data and Methodology

The content of this thesis is divided into three different groups: the case study, the literature review and the teaching notes. The analysis of each group differs in the framework of research and in the sources used.

Case Study

Research Framework

The elaboration of the case study was based on a research focused on different units. Firstly, it was necessary to present the financial institutions, Millennium bcp. Then, the research was focused on the analysis of the economic crisis that plagued financial markets in 2012. In this section, the focus was on the consequences of this controversial episode on the most affected markets. Four years after the origin of this episode in USA, Greece and Portugal were the most affected countries by the adverse effects of the economic crisis.

Thereafter, in a national context, the research focused on the consequences of this episode in Portuguese financial institutions. Apart from BCP profits, the bank's sustainability was compromised by the need to resort to public investment.

In the next two sections, the research was focused on the analysis of the capitalization and restructuring strategies. The first one, studied the agreement between the bank and Portuguese Government to develop a Recapitalization Plan, helping BCP to adjust its balance sheet, to recover its solvency position and to meet the minimum capital requirements. The second one, focused on the internal strategy developed by the bank to comply with the inherent requirements of the Capitalization Plan. Furthermore, the research also focused on the facts that influence the bank to successful in this process.

Finally, the case study ends with the analysis of some of the challenges that the bank may face in the future.

Sources

The elaboration of the case study was based on different sources. On the one hand, the existence of a face-to-face contact with the institution allowed the elaboration of three interviews and a recurrent contact with employees from different areas. In addition to this privileged contact with the different employees, part of the information was collected through newspapers, the firm's website and diversified internal and external firm reports (Figure 1).

Regarding the information of the case study, it was necessary to ensure its quality. For this, besides all the information has been reviewed and validated by the different interviewees, there were used multiple sources of information collection (Figure 1).

Figure 1 - Data source

Type of Sources	Number	Examples	
Interviews	3	The Head of Corporate Communication	11 October 2018
		The Responsible of the Investor Relation Department	11 October 2018
		The Head of Human Resources	29 October 2018
Press Articles	4	BBC, Jornal Económico, Markttest, Negócios.	
Internal Firm Information	14	Annual Reports, Corporate Presentation, Other Reports.	
External Firm Information	3	Statistical Information	Eurostat, Pordata.
	2	Legal Information	Ordinance No. 150/2012; Law No. 63-A/2008.
	8	Other Information	IMF Reports; OECD Reports; Bank of Portugal Reports; European Commission Reports; Associação Portuguesa de Bancos.
Direct Observations	-	Recurrent contact through informal meetings with the Coordinator of the team in the area of Planning and Control - Reporting of DEPALM.	
Academic Articles	9	Top Journals	Academy of Management Review; Strategic Management Journal; Journal of Management.
	8	Others	Public Management Review; Official Journal of the European Union; (...).

Source: Own elaboration

Literature Review

Research Framework

Once the case study approaches the experience lived by the BCP during the period of economic crisis the following themes of literature review were studied (Figure 2):

Figure 2 - Themes of literature review

Topics	Details
Economic crisis concept	The definition and the identification of BCP kind of crisis.
Restructuring strategy concept	The definition and the types of restructuring strategy.
Recapitalization strategy concept	The definition and the types of recapitalization strategy.
State Aid	The definition and the necessary requirements to be considered compatible in the market.
Corporate Governance	The definition, the need of an adequate corporate governance, the influence of the recapitalization process in the company's corporate governance.
Resources and Capabilities as the base of strategy	The resource-based view model, the definition of firm's resources and firm's capabilities, the definition of competitive advantage and sustained competitive advantage.
Stakeholders Theory	The definition of stakeholder, the existence of conflicts of interests between stakeholders and how the firm can solve this conflicts and the Stakeholder Matrix Approach.

Source: Own elaboration

Sources

To write the literature review, the main sources of information were collected from papers published in top journals, namely Academy of Management Review, Strategic Management Journal and Journal of Management. Besides this, non-top journals and some legislation were also part of the sources for collecting and analyzing information for this section.

Teaching Notes

Research Framework

This section was intended to help the professor to present and analyze the BCP case study based on the formulation of four questions as well as suggestion answer to them.

Sources

The suggestions for answers were based not only on the information provided in the case study, but also on the literature review information.

II. Case Study

Preview

In 2012, the context of economic crises and the Economic and Financial Assistance Program (EFAP) accorded in 2011 between the Portuguese Government and the International Monetary Fund (IMF) conditioned the performance of Portuguese companies. This recessive environment led to a reduction of family income and to an increase of unemployment scenarios which created a deflationary environment.

Over the last few years, the banking sector has undergone several transformations, resulting from economic crises. Many banks went bankrupt, others merged, and others were even recapitalized. Millennium bcp was one of the institutions affected by this negative environment, having been forced to implement a Recapitalization and Financial plan.

Overtaking the controversial economic period, it is possible to be said that BCP stood out in the market after a demanding process of Recapitalization, based on experience, innovation, personalized services and transparency with its employees, clients and shareholders. In addition, changes in corporate governance model, the internal strategy and the operational restructuring program enabled BCP to close branches and reduce operational cost while minimizing the negative impact of this process on all parties involved.

A walk – through history of Millennium bcp

It was June of 1985, when Banco Comercial Português S.A. (BCP) was founded by the intervention of more than two hundred investors and experienced people, with a unique objective of providing differentiated and efficient financial services.

At the beginning, the Bank's concern was its organic growth in national and international markets. Across the years, the financial sector was growing with the appearance of various financial institutions. To survive in the market, the BCP Group needed to acquire other players and expand its focus to other areas such as insurance market, mortgage loans and funds.

Worried about the expansion of the business, when BCP became leader in the national market, it was necessary to expand the brand to other countries. The international strategy was based in two principles: the historical relation with Portugal and the possibility to replicate the successful Portuguese business model to other markets where it can be adapted locally. Actually, BCP operate under the Millennium brand, in Portugal, Poland, Mozambique, Angola, Switzerland and Macau, offering a wide range of products and financial services such as current

accounts, payment options, saving and investment products, private banking, asset management, investment banking, credit, leasing, factoring and insurance service.

The company focused its strategy on delivering high quality service, characterized by customized relations with customers. Over the years, the Group has become a prestigious international bank with 1263 branches (573 in domestic market and 690 in international market) and 17 294 employees (7151 domestically and 10 143 internationally)¹.

BCP is considered the largest listed bank in Portugal, presenting in 2017, total assets of €71 billion, total loans to customers of €47 billion and total resources from customers of €52 billion² (Exhibit 1 and 2). Moreover, the bank operates in the Portuguese market with 573 branches and 7151 employees to serve 4.8 million customers¹.

The crisis that haunted the market players

A high leverage of financial institutions in the USA and the risk taken from government to support real estate loans were responsible for the emergence of a global economic crisis. The beginning of this crisis in Europe dates back to 2008. Greece and Portugal were two of the most affected countries.

In the banking sector, the large number of real estate loans forced many banks to resort to State aid, since they felt funding difficulties. Usually, this support can give unfair advantage over its commercial rivals, which obligate companies to comply with rules imposed by the Directorate-general for Competition (DG COMP), in order to minimize the possible consequences of this advantage that could distort competition.

Greece

The instability of Greece's economy (started in 2012) forced the country to implement a restructuring program to recover the sustainability of fiscal and debt situation and improved its competition and productivity. The high leverage of the country, exposed Greece to three different interventions with €289 billion³ of contribution from Troika⁴.

The reduction of family income caused an increase in the credit needs of families. However, the environment obligated banks to develop under restrict funding conditions.

¹ Banco Comercial Português, S.A. (2018). Corporate Presentation October.

² Banco Comercial Português, S.A. (2017). 1st Quarter Report & Accounts.

³ BBC. (2018, August 20). Greece emerges (...) BBC News, Retrieved October 28, 2018.

⁴ The group of international lenders responsible from austerity measures constituted by International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission.

Additionally, the political and social instability combined with the increase of 6.6 p.p.⁵ of unemployment rate, also characterized the negative environment in Greece.

This unfavorable economic scenario affected the access to international markets, the capital outflows and the restructuring of Greece's sovereign debt, contributing to the deterioration of the Greek banking system, where BCP was included.

Portugal

In Portugal, the situation was similar. The roots of Portuguese economy can be motivated by the failure to adapt to monetary union policies of monetary union, high levels of indebtedness and restrictive financing constraints, which contributed to the accumulation of economic and financial inadequacies.

In 2012, the Portuguese economy suffered a contraction (GDP decrease 7.7 p.p.⁶) based on the decrease of private consumption to -6.5%⁷. Besides the deterioration of labour market conditions, the unemployment rate also increased, staying at 15.7%⁸ (Exhibit 3). Moreover, financial institutions were forced to implement restrict funding conditions, which inhibited business to investment and closed around 15.4%⁹ of Portuguese companies.

Banking activity has developed in such an adverse macroeconomic and financial environment, highlighted by the difficulties in accessing the international wholesale markets.

“The business model in Portugal was not the most appropriate. It was a model based on the non-tradable sector and focused in the domestic market. In this way all Portuguese banks are involved in processes similar to what happen with BCP.”

The responsible of the Investor Relation Department of BCP

The economy's recession and the accelerated deleveraging process has affected banks' profitability through higher levels of credit risk and falling of interest rates levels. In addition, investors' fears have contributed to the increase of European banks vulnerability.

The need of change

During international crisis, the interaction between the sovereign debt crises, the financial system and the economy environment compromised companies' sustainability and its corporate

⁵ Eurostat. (2018). Unemployment by sex and age (...) Retrieved November 28, 2018.

⁶ Eurostat. (2018). GDP and main components (...) Retrieved November 28, 2018.

⁷ International Monetary Fund. (2012). Portugal: 2012 Staff Report (...) IMF Country Report, Retrieved September 17, 2018.

⁸ Bank of Portugal. (2013). Relatório do Conselho de Administração – A Economia Portuguesa em 2012.

⁹ Pordata. (2018). Taxa de mortalidade das empresas (...) Retrieved October 16, 2018.

governance. Portuguese banks were living in a challenging scenario and were obligated to have a minimum level of capital buffer.

Besides the sustainability and corporate governance of banks, their profitability was also compromised by the austerity measures requirements, the deleveraging process, the limited access to international wholesale market and the squeezed of net interest margin. Thus, financial institutions were not only obligated to comply with the monetary policy requirements defined by European Central Bank (ECB), but also have to resort to a capitalization and financial plan in order to correct structural and macroeconomic problems.

On the other hand, the impairment and provisions for financial assets and the transference of part of the employees' pension plans from some banks to the General Social Security System also compromised the banking solvency ratios. Additionally, the contraction of private consumption and the increase of unemployment rate, led to a decrease in the Bank's credit volume, which consequently affected its net interests and margin. Moreover, rising levels of unemployment and corporate insolvencies have affected clients' ability to repay their loans, increasing the Bank's credit default rate.

As the changes in economic market kept growing, financial institutions have been forced to adapt their business models, not only to new austerity measures, but also to the new needs of their customers that became more demanding and preferred digital platforms to be in contact with the bank, instead of face-to-face contact (Exhibit 4).

In 2012, the Portugal banking system was dominated by six banking institutions. Caixa Geral de Depósitos (CGD), the largest national and public bank had a market share of 22%. Secondly, Millennium bcp had 18% of market share in total assets. Then, based on market share of total assets, Banco Espírito Santo (BES) occupied the third position with 15% of market share, BPI had 9% of market share, Santander Totta had 8% of market share and lastly, Banif had 3% of market share (Exhibit 5)¹⁰. The prominence of BCP was notorious, being considered the largest Portuguese listed bank operating in the national market, with customers credit's market share of 19.6% and customers resource's market share of 17.7%¹¹.

¹⁰ Own elaboration based on the individual balance sheet of 2012 of the Portuguese Banking Association.

¹¹ Banco Comercial Português, S.A. (2012). Prospeto de oferta Pública (...) 2012.

What they made Millennium bcp do – Capitalization Strategy

In June of 2012, since the Portuguese government had difficulties to finance the country, the State was forced to request assistance from the European Authorities.

Millennium bcp faced a challenging scenario given the sovereign debt crises, the demanding state regulation and the economic environment in the markets where the company operated. These factors have forced the bank to make an agreement with the Portuguese Government to develop a Recapitalization Program – Recapitalization Plan – in order to allow the Bank to adjust its balance sheets, recover its solvency position¹² and to achieve the minimum levels of Core Tier 1 (CT1).

The program was divided in two different parts: a contingent capital investment underwritten by Government in €3 billion of hybrid capital instruments¹³ convertible into shares (CoCos) and private investment based on €500 million for BCP private investors through the issuance of €12.5 billion of new shares. The bank had until 2017 to pay the investments under penalty of CoCos being converted into social capital¹⁴.

The demands made to the bank regarding the increase in CT1 came from two different players. On the one hand, European Banking Authority (EBA) required banks to obtain a temporary sovereign buffer to achieve the minimum Core Tier 1 (CT1) of 9% in June of 2012. The level reached by BCP was 9.8%¹⁵. On the other hand, with the implementation of Basel III and through Economic and Financial Assistance Program (EFAP), the Bank of Portugal (BoP) required Portuguese banks to achieve a minimum level of CT1 ratio of 10% until 2012. According to the rules of the BoP, BCP achieved a CT1 level of 12.35%¹⁶ in 2012.

In the end, BCP had to repay the total amount of €3 billion of CoCos and “*about €1 billion of interest if we consider an interest rate of approximately 9%*”, said the Head of Corporate Communication of BCP.

¹² The European Central Bank (ECB), the International Monetary Fund (IMF) have acted as EU state aid by providing €12 billion to recapitalize Portuguese banks.

¹³ This value included the provisioning of an additional provision of €450 million for contingent risks related to the Greece’s subsidiary.

¹⁴ Banco Comercial Português, S.A. (2012). Press Release – Banco Comercial Português (...).

¹⁵ European Commission. (2013). State aid n°SA.34724(2013/N) – Portugal Restructuring of the Banco Comercial Português (BCP) Group.

¹⁶ *Ibid.*

What Millennium bcp wanted to do – Internal Strategy

In accordance with the European law, a Recapitalization Plan based on public funds claimed an internal Restructuring Plan, requiring an adjustment of firms' corporate governance. In September 2012, the Group defined a new restructuring strategy plan to be implemented until 2017, which included criteria of a good corporate governance – equity, transparency, accountability, diligence, knowhow, loyalty, responsibility duties, supervision and financial, risk and management control.

Regarding the internal Restructuring Plan, the responsible of the Investor Relation Department of BCP stated that *“the strategic plan was to implement what was accorded with regulators and preserve its attractiveness with temporally State support”*. Through this plan, BCP intended not only to meet the minimum solvency requirements, but also to manage the deleverage process. The strategic plan also helped the bank to regain its business profitability level (ROE) and to develop an international diversification strategy based on the attractiveness of the markets and resources available.

In order to fulfill the strategic objectives, the Bank was forced to:

“Reduce its workforce, the number of branches, its impairments and to limit its business by dividing its activities into core and non-core activities and focus on the first ones.”

The Head of Corporate Communication

To make this possible, the Bank developed a Restructuring Plan divided in three different phases.

First, between 2012 and 2013,

“The main goal of BCP was to survive doing what was imposed by the regulators and keeping the business as robust as possible by eliminating capital intensive business areas.”

The Head of Corporate Communication of BCP

The Group should strengthen the balance sheet by reducing RWA's (risk weighted assets), producing internal capital, divesting non-core activities and strengthening core activities.

The core units formed a sound and viable bank focus its activities on retail and companies. The bank should maintain its presence in international core markets and deleveraging the Loan to Deposit ratio (LTD) which stood at 123%¹⁷ in 2013, by adopting risk limits. Moreover, the

¹⁷ European Commission. (2013). State aid n°SA.34724 (2013/N) – Portugal Restructuring of the Banco Commercial Português (BCP) Group.

company should increase its operation efficiency by reducing the number of branches and employees.

The non-core units were constituted by equity stakes of a non-strategic nature and the high-risk exposure business that did not fit with the standard set of the Group. The Bank should discontinue all assets that were not aligned with the new banking strategy.

The next phase, from 2014 until 2015, is an investment phase,

“Once the survival phase was over, it was time to invest in sustainable geographies as Poland, Angola and Mozambique, look for benchmark shareholders and make profits again.”

The Head of Corporate Communication of BCP

Millennium bcp divested activities in Greece and Romanian since those did not represent any benefit to the Group and run down the loan book in Switzerland and Cayman Islands. Also, the bank privileged the products with higher margins and tried to reduce operations costs in 40%¹⁸, which implied a reduction of more than 30%¹⁸ of its branches (around 200 branches) until 2018 and more than 25%¹⁸ of its workforce. The banks also simplified the administrative process by extinguishing the mutual fund management business and adopting a monistic model of administration and supervision.

Lastly, between 2016 and 2017, the bank was motivated to generate a sustainable growth of the net income.

After the third phase, the digital era forced the bank to improve its business model, promoting the best digital experience for its customers, through online services. Simultaneously, the bank repriced its credit costs and tried to improve the net interest margin. The company believed that by focusing its business culture on the human resources and defining the risk level for each business area (Risk Appetite rules) it would become stronger.

What makes Millennium bcp unique – Facts that make the bank be successful

“The economic crisis felt in the banking sector was due to a crisis felt by most of the companies that could not afford the financing they had requested. What differed in banking sector was the way that each bank responded to this problem.”

The responsible of the Investor Relation Department of BCP

¹⁸ Banco Comercial Português, S.A. (2018). Corporate Presentation October.

In order to accomplish the strategic plan, the development of certain procedures was crucial to ensure the survival of the Millennium bcp during this controversial period of economic crisis.

National and International reputation

Through a large geographical coverage in core markets such as Portugal, Poland, Angola, Mozambique and Macao with modern branches and by using its own resources, BCP transforming itself into a smaller institution offering less services to its clients. However, the quality and innovation of its products and services, transformed the Group into a reference financial institution. According to the Head of Corporate Communication of BCP, over the years the bank has been receiving several awards, which increased its reputation and contributed to overcome this crisis process.

Good communication

The regulators impositions emerged the need to close some branches. Since, this process could influence the way the customers perceived the Group, BCP decided to responsible the employees to communicate the branches closure to their customers, trying to be transparent and close to the community. According to the Head of Corporate Communication of BCP, this procedure contributed favorably to overcome the restructuring process, since clients were informed in a timely manner about the closure of some branches.

Customer and employee's relationship

Concerning the relationship established between the bank, its customers and its employees, the responsible of the Investor Relation Department of BCP claimed that the company believed that these relations *“were two fundamental factors to overcome the situation”*. In this sense, right from the beginning of this period, the bank was concerned to establish close relations with its employees developing some programs to satisfy their needs.

Shareholder relationship

Over the years of the capitalization process, the bank has had the help of its stakeholders, including the State that became a shareholder since its capital injection can be converted into shares. Throughout the years of Restructuring Plan, the bank tried to safeguard the interest of all shareholders, avoiding the possible conflicts of interests between parties. According to the responsible of the Investor Relation Department of BCP, *“in 2012, there was only one major shareholder – Sonangol – who has always shown interest in collaborating in the Recapitalization Plan”*, minimizing possible conflicts that occur among shareholders. In

addition, the bank was fulfilling all the metrics of the various strategic plans, providing security for shareholders to remain in the company. The success of these operations and the fact that the State is part of shareholder structure could encourage shareholders to trust on the success of the process and consequently, remain in the company.

Governance model

An Anglo-Saxonic business model, enable the proximity, identity and organic responsibility of the company with their stakeholders. This change in the firms' corporate governance model, imply changes in the control and inspection functions, and also the dividend distribution policy. The distribution of approximately 40% of the Group's net income was suppressed during the State aid period, with the exception of the State that have priority to receive dividends. Regarding the board of directors, the bank was forced to have non-executive directors with new business perspectives. This coordination had a fundamental role in the union of different stakeholders to successfully overcome this restructuring process.

Well – structured operational restructuring program

In times of recession, it is usual for companies to reduce their operational costs. The bank reduced their workforce through termination of mutual agreement or early retirement. Millennium bcp was forced by DG COMP to reduce its operational costs to below €800 million¹⁹ until the end of the Restructuring Plan.

“The Bank should reduce its workforce to 7500 employees (laying off 1433 employees) and its operating costs equivalent to 400 employees. The reduction of the number of employees included 40 elements of top management.”

The Head of Human Resources

Apart from the process was transversal to all business areas of the bank, it was based on *“transparency and constant communication with all parties involved in order to promote the best solution for employees”*, claimed the Head of Human Resources.

Besides this, the Head of Human Resources defended that the articulation between the CEO and human resources helped the bank to implement a complex internal restructuring process. Once the headcounts for each area have been defined, the human resources compiled a list of the selected employees who were invited to decide between termination of mutual agreement or early retirement. The bank's responsibility and effort to meet worker's needs, wanted to

¹⁹ Banco Comercial Português, S.A. (2012). Prospeto de oferta Pública de subscrição e de admissão à negociação. 2012.

provide its employees the best possible conditions – *“although it is a process involving tensions between the different parts, we try to treat our employees with the greatest dignity possible”* said the Head of Human Resources of BCP. Then, each employee was asked to go to a relocation company that help each worker to prepare their professional future. Simultaneously through these programs of dismissal, Millennium bcp developed a program of voluntary exits, where they left about 500 employees.

Additionally, the involvement and monitoring of highly qualified people, together with the concern to meet employees’ need, contributed to the realization of this process.

Brand

Regarding the unique brand – Millennium bcp,

“The brand was as a flag that denotes the strength of the institution and that also served to protect us. The flag was a symbol of internal pride but at the same time was a protective shield for the outside. The brand was a goodwill that help us to survive.”

The Head of Corporate Communication of BCP

Thus, the brand represented the resiliency and robustness of BCP Group that helps the bank to overcome this period. In addition, according the Head of Corporate Communication of BCP, the brand is a key part of BCP strategy, allowing the Bank to project its credibility and strengthen the trust and loyalty of its customers.

Anticipation of payment of public investment

Finally, regarding the repayment of public investment, the Head of Corporate Communication of BCP alleged the fact that the bank repaid €3 billion before the deadline provided solidity and credibility to the Group, helping it successfully overcome the situation. As Miguel Maya (CEO of Millennium bcp) said, the Bank was *“one of the few banks in Europe to receive state aid that has returned state aid”*²⁰, standing out from competitors.

Challenges for the future

The success of the Recapitalization scheme increased the bank reputation and consequently, the customers confidence to maintain the relationship with the institution.

Despite being successful in this process, the bank was facing some challenges.

Present in the national market where the main banks that operated in 2012 suffered

²⁰Jornal Económico. (2018, June 16). Miguel Maya: A gestão e a liderança do sexto presidente do BCP. Jornal Económico empresas. Retrieved December 12, 2018.

transformations, BCP pretended to maintain its decision center in Portugal and expand its brand to new geographies creating a sustainable growth. Moreover, the bank needed to develop more digital services and products having created the Mobile Plan²¹.

Lastly, after demanding Recapitalization Plan, it was necessary to strengthen the relations with clients and workers, trying to compensate them.

The CEO BCP referred in the letter he wrote to the employees:

"I want to emphasize the firm intention of defending with determination the commitment made to employees regarding the amount not received during the period in which the wage reduction was in force, and also to implement a policy of variable remuneration to be applied already based on the performance we achieve in 2018."

Miguel Maya, CEO of Millennium bcp

The banking sector is a fairly volatile sector. The question now is: Having successfully passed the Recapitalization Plan, will Millennium bcp had become more solid and robust and developed enough strategies to overcome a new economic crisis?

²¹Negócios. (2018, July 25). Miguel Maya lança plano (...). Negócios. Retrieved December 5, 2018.

Exhibits
Exhibit 1 - Consolidated Balance Sheet

	Euro Million	2012	2013	2014	2015	2016	2017
Assets							
Cash and deposits at central banks		3 581	2 940	1 707	1 840	1 574	2 168
Loans and advances to credit institutions		2 717	2 295	2 252	1 698	1 505	1 362
Loans and advances to customers		62 618	56 802	53 686	51 970	48 018	47 633
Financial assets held for trading		1 691	1 290	1 674	1 189	1 049	898
Other financial assets held for trading at fair value through profit or loss		-	-	-	152	147	142
Financial assets available for sale		9 223	9 327	8 263	10 779	10 596	11 472
Assets with repurchase agreement		4	58	36	-	21	-
Hedging derivatives		186	105	75	73	57	234
Financial assets held to maturity		3 569	3 110	2 311	495	511	412
Investments in associated companies		517	579	323	316	599	571
Non current assets held for sale		1 284	1 506	1 622	1 765	2 250	2 165
Investment property		554	196	177	146	13	12
Property and equipment		626	733	755	671	474	490
Goodwill and intangible assets		259	251	253	211	162	164
Current tax assets		34	41	42	44	17	26
Deferred tax assets		1 755	2 181	2 399	2 562	3 185	3 138
Other assets		1 124	593	785	974	1 088	1 052
Total Assets		89 744	82 007	76 361	74 885	71 265	71 939
Liabilities							
Amounts Owed to credit institutions		15 266	13 493	10 966	8 591	9 938	7 487
Amounts Owed to customers		49 390	48 960	49 817	51 539	48 798	51 188
Debt securities		13 548	9 411	5 710	4 768	3 513	3 008
Financial liabilities held for trading		1 393	870	953	723	548	399
Other financial liabilities held for trading at fair value through profit or loss		329	-	-	-	-	-
Hedging derivatives		301	243	353	541	384	177
Non current liabilities held for sale		-	-	-	-	-	-
Provisions for liabilities and charges		253	366	460	285	321	324
Subordinated debt		4 299	4 361	2 026	1 645	1 545	1 169
Current income tax liabilities		16	25	32	22	35	13
Deferred income tax liabilities		3	6	7	15	3	6
Other liabilities		946	997	1 052	1 075	916	988
Total Liabilities		85 744	78 731	71 374	69 204	66 000	64 760
Equity							
Share capital		3 500	3 500	3 707	4 094	4 269	5 601
Treasury Stock		(14)	(23)	(14)	(1)	(3)	-
Share premium		72	-	-	16	16	16
Preference shares		171	171	171	60	60	60
Other capital instruments		10	10	10	3	3	3
Legal and statutory reserves		-	-	-	-	246	253
Fair value reserves		3	22	107	23	(131)	82
Reserves and retained earnings		850	(357)	459	(32)	(102)	(120)
Profit for the year attributable to Shareholders		(1219)	(740)	(227)	235	24	186
Total Equity attributable to Shareholders of the Bank		3 372	2 583	4 213	4 623	4 382	6 081
Non-controlling interests		628	693	774	1 057	883	1 099
Total Equity		89 744	82 007	76 361	74 885	71 265	71 939

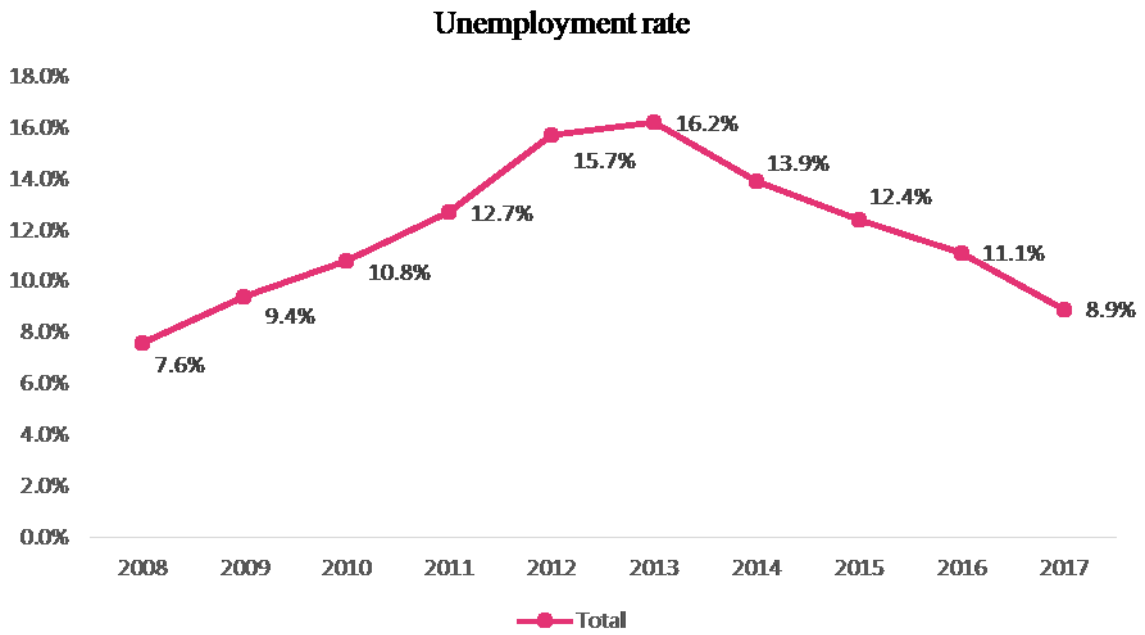
Source: Own elaboration based on BCP Group's Annual Report

Exhibit 2 – Consolidated Income Statement

	Euro Million	2012	2013	2014	2015	2016	2017
Interest and similar income		3,422,798	2,832,912	2,652,638	2,316,101	1,900,997	1,914,210
Interest expenses and similar charges		(2,424,838)	(1,984,825)	(1,536,487)	(1,014,526)	(679,871)	(552,935)
Net interest income		997,960	848,087	1,116,151	1,301,575	1,230,126	1,391,275
Dividends from equity instruments		3,840	3,680	5,888	11,941	7,714	1,754
Net fees and commissions income		655,087	662,974	680,885	692,862	643,834	666,697
Net gains/(losses) arising from trading and hedging activities		391,874	80,385	154,247	173,698	101,827	44,436
Net gains/(losses) arising from financial assets available for sale		44,871	184,065	302,407	421,746	138,540	103,030
Net gains/(losses) arising from financial assets held to maturity		(22)	(278)	(14,492)	-	4,966	4,212
Other operating income/costs		(43,687)	(55,627)	(53,300)	(110,519)	(104,547)	(110,606)
TOTAL		2,049,923	1,723,286	2,191,786	2,491,303	2,022,460	2,202,708
Other net income from non banking activities		20,093	20,502	19,278	18,856	-	-
Total operating income		2,070,016	1,743,788	2,211,064	2,510,159	2,022,460	2,202,708
Staff costs		751,466	767,463	635,616	616,070	356,602	526,577
Other administrative costs		501,725	459,653	448,451	423,833	373,570	374,022
Depreciation		68,050	68,123	65,543	66,623	49,824	53,582
Operating expenses		1,321,241	1,295,239	1,149,610	1,106,526	779,996	954,181
Operating net income before provisions and impairment		748,775	448,549	1,061,454	1,403,633	1,242,464	1,147,527
Loans impairment		(969,600)	(820,827)	(1,106,990)	(833,024)	(1,116,916)	(623,708)
other financial assets impairment		(75,585)	(102,193)	(91,345)	(56,675)	(274,741)	(63,421)
other assets impairment		(258,933)	(210,471)	(36,311)	(79,667)	(66,926)	(163,205)
goodwill impairment		-	(3,043)	(145)	-	(51,022)	(4)
Impairment for investments in associated companies		-	-	-	-	-	(57,764)
other provisions		(15,123)	(150,059)	(81,473)	(24,947)	(88,387)	(16,710)
Operating net income		(570,466)	(838,044)	(254,810)	409,320	(355,528)	222,715
Share of profit of associates under the equity method		55,659	62,260	35,960	23,528	80,525	91,637
Gains/(losses) from the sale of subsidiaries and other assets		(24,193)	(36,759)	45,445	(30,138)	(6,277)	4,139
Net loss before income tax		(539,000)	(812,543)	(173,405)	402,710	(281,280)	318,491
income tax							
current		(81,286)	(115,635)	(100,995)	(99,746)	(113,425)	(102,113)
deferred		213,343	326,434	198,670	43,349	495,292	71,954
Net loss /income after income tax from continuing operations		(406,943)	(601,744)	(75,730)	346,313	100,587	288,332
Income arising from discontinued operations		(730,267)	(45,004)	(40,830)	14,548	45,228	1,225
Net loss after income tax		(406,943)	646,748	(116,560)	360,961	145,815	289,557
Attributable to:							
Shareholders of the bank		(1,219,053)	(740,450)	(226,620)	235,344	23,938	186,391
Non-controlling interests		81,843	93,702	110,060	125,617	121,877	103,166
Net loss for the year		(1,137,210)	(646,748)	(116,560)	360,961	145,815	289,557
Earning per share							
Basic		(0.10)	(0.022)	(0.005)	(0.005)	0.019	0.014
Diluted		(0.10)	(0.022)	(0.005)	(0.005)	0.019	0.014

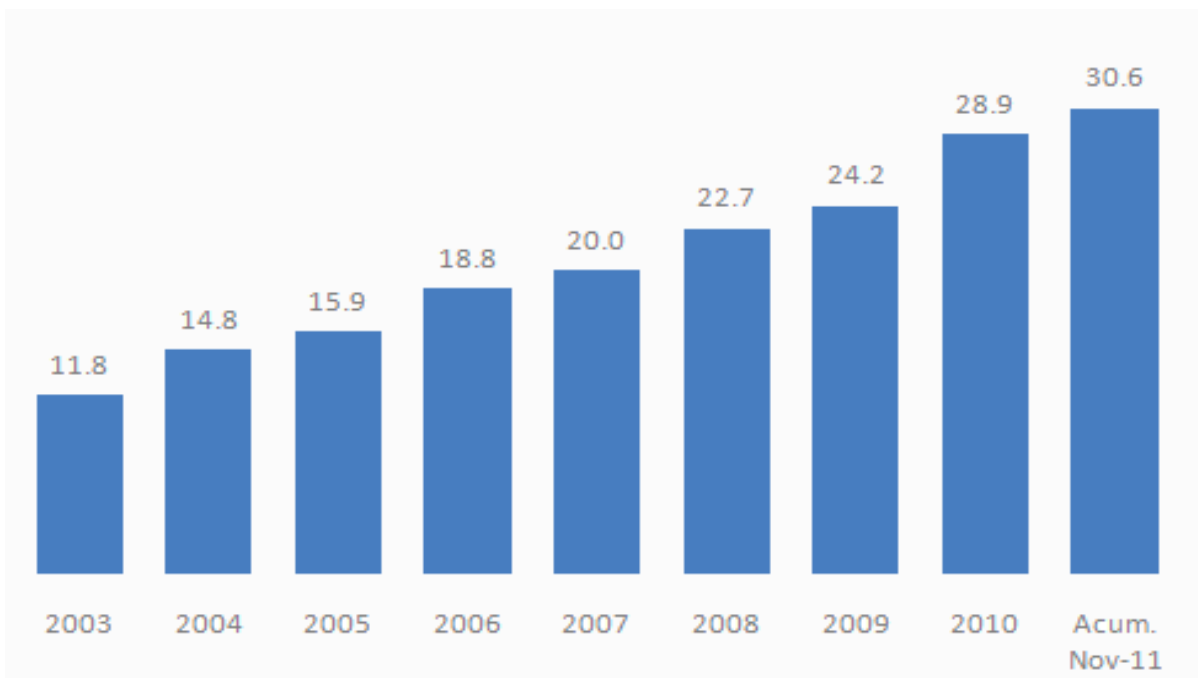
Source: Own elaboration based on BCP Group's Annual Report

Exhibit 3 – Unemployment rate in Portugal between 2008 and 2017



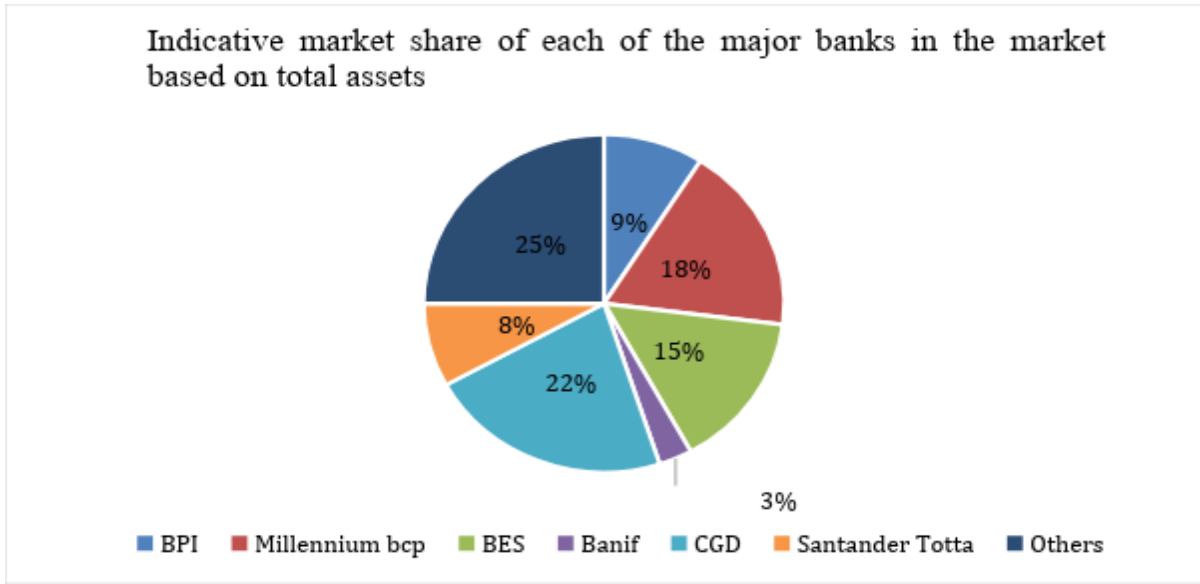
Source: Own elaboration based on data provided by Pordata

Exhibit 4 - Internet Banking Penetration (in %)



Source: Markttest. (2012, January 3). Aumenta penetração de Internet Banking. Markttest. Retrieved December 5, 2018 from <https://www.markttest.com/wap/a/n/id~18e4.aspx>.

Exhibit 5 - Total assets of each of the major banks in the market in 2012 and indicative market share of each of the major banks in the market based on total assets



	BPI	Millennium bcp	BES	Banif	CGD	Santander Totta	(...)	Total
Total Assets	44 461 404	85 587 856	68 747 766	15 203 783	38 501 791	38 501 791	(...)	471 838 150

Source: Own elaboration based on data provided by APB data

III. Literature Review

1. Economic Crisis

According to Claessens and Kose (2013), crises are a result of the interactions between economy and financial sector. Financial crises can have multiple types: currency crises, sudden stop, debt crises and banking crises.

Banking crisis is characterized by the suspension of the conversion of financial institutions liabilities. The increase of asset price and systemic risk, the excessive debt, the regulation and supervision problems can also contribute to the existence of this episode (Claessens & Kose, 2013). Banking crisis has a direct and pervasive impact on economy, since it tends to restrict consumers' access to credit and consequently, may decrease private consumption, the Gross Domestic Product (GDP) and increase the business fixed and residential investment (European Commission, 2009).

2. Strategic Options

2.1. Restructuring Strategy

Facing a difficult economic environment arise by a sovereign debt crisis, a capital increase of some credit institutions would be crucial to survive. In this sense, a restructuring process will help companies to minimize the likelihood of bankruptcy (Landier & Ueda, 2009). According to Sudarsanam and Lai (2001), when a company experiences a potential bankruptcy effect it can be applied different methods of turnaround strategies: managerial restructuring, operational restructuring, asset restructuring and financial restructuring process.

Managerial restructuring

The main goal of this strategy is to demonstrate the importance of communication and motivation among employees (Daily & Dalton, 1994). In this sense, the company's management integrates a set of processes that involve the management of human and technological resources to improve the relationship with stakeholders by evidencing a positive confirmation that is safe to invest in the company (Sudarsanam & Lai, 2001).

Operational Restructuring

As reported by Sudarsanam and Lai (2001), the reorganization of the company structure can generate cash flow and, consequently, maximize profits. This strategy is divided in two different stages: the efficiency/operating stage that encourages the company to recover

profitability and improve efficiency by reducing operational costs and the entrepreneurial/strategy stage that involves the restructuring of asset portfolio in order to achieve a positive long-term growth.

Asset Restructuring

Asset restructuring incorporates changes in company assets, by dividing its business into core and non-core units. The company must divest all non-core units, since they do not represent any benefit to it, helping firms to recover money and relieve financial distress. On the other hand, the asset investment incorporates activities that allow to obtain greater productivity and efficiency through the reduction of costs, representing a strategy of success as long as they adapt to the competences of the company (Sudarsanam & Lai, 2001).

Financial Restructuring

During financial distress period, the reorganization of firm's capital structure is crucial to decrease interest and debt payment. The capital reorganization can be classified according to the purpose for which it is intended: equity-based strategies (dividend cuts) and debt-based strategies that help the company to minimize financial distress (Sudarsanam & Lai, 2001).

3. Recapitalization Strategy and State aid

3.1. Recapitalization Strategy

Recapitalization Strategy is part of financial restructuring strategy that helps firms to have a stable capital structure by using private or market sources (European Commission, 2017).

The capitalization process can be made through two different processes: the subscription of shares or debt securities and through the increase of capital stock (Law No. 63 – A/2008).

As described by BCP (2012)²², the capitalization process can be implemented through one of three approaches: business shaping, controlling stake or financing bridge (Figure 3):

²² Banco Comercial Português, S.A. (2012). Plano de Recapitalização – Lei nº 63 – A/2008

Figure 3 – Different types of capitalization process

Business Shapping	Controlling Stake	Financing Bridge
<p>This strategy can be implemented when credit institutions are inadequately capitalized;</p> <p>By using the intermediate seniority instruments (with limited vote right), the authorities have the opportunity to shape firms' business model with medium-term focus.</p>	<p>This strategy can be implemented at insolvente credit institutions with restructuring needs;</p> <p>The authorities had higher control over credit institutions, having the opportunity to shape company's business model, defining their activities and divesting non-core assets.</p>	<p>This strategy is implemented when credit institutios are financial strength but have low liquidity or limited market access;</p> <p>The government defines generic business orientations not having control rights. Banks issue senior instruments that might be convertible on ordinary shares.</p>

Source: Own elaboration based on Banco Comercial Português, S.A. (2012). Plano de Recapitalização – Lei nº 63 – A/2008

3.2. State aid

The State aid is an agreement between the credit institution, the Government and the Directorate-general for Competition (DG COMP) of the European Commission. In this agreement, in addition to the amount to be lent, the obligations of the credit institutions are defined ensuring the receipt of the capital amount.

As stated in Law No. 63 – A/2008 of 24 November, when choosing State aid, a credit institution can recover its sustainability and financial strength in two different ways: through public investments that increase its own funds or through a recovery and lending plan.

To be considered compatible in the market, credit institutions must comply with specific rules defined by DG COMP. The State aid should enhance the development of economic areas, economic activities or locals with high level of unemployment rate. The State intervention must also promote culture, heritage conservation and the development of global interest projects.²³

Moreover, since the process can be seen as an advantage over competitors, credit institutions are required by DG COMP to implement specific strategies to avoid these distortions. In these cases, firms should not benefit from this aid to improve the development of their products and services to be in a better competitive position.²⁴

As described in Millennium bcp (2012)²⁵, the full and timely repayment of public investment can compromise the capitalization process. A situation of economic fragility to the obligations imposed in Economic and Financial Assistance Program (EFAP) can have an

²³ According to Article 107 (3) of the TFEU.

²⁴ According to Ordinance No. 150 – A/ 2012.

²⁵ Banco Comercial Português, S.A. (2012). Plano de Recapitalização – Lei nº 63 – A/2008

adverse effect on the economic situation of a country and, consequently, on its credit institutions. In addition, sovereign debt situations and government changes may also have a negative impact on the implementation of capitalization plans.

4. Corporate Governance

4.1. Definition

Corporate Governance is a system through firms are controlled and directed (OECD, 2010). To ensure the relationship between different stakeholders (Bank for International Settlements, 2015), each party has different responsibilities and rights that allow them to intervene in the decision-making process (OECD, 2010).

In a banking industry perspective, Corporate Governance include how banks are controlled by boards of directors and senior management. This system influences banks objectives, day-to-day activities, depositors and shareholders' interests by securing banks behaviors are aligned with clients' expectations (Bank for International Settlements, 2006).

4.2. The need for an adequate Corporate Governance in financial institutions

An adequate Corporate Governance will not only help companies to achieve stakeholders' interests, but also can minimize some problems of financial institutions (Bank for International Settlements, 2006). Since banks have very specific functions in which different stakeholders are involved, an adequate Corporate Governance can avoid conflicts of interest between them.

On the other hand, the nature and the interdependencies of financial services activities can transform a single-bank problem into a systemic one, promoting the bankruptcy of other firms. Once again, an adequate Corporate Governance can avoid an economic crisis, preventing credit services from decrease significantly (OECD, 2010).

In addition, poor governance mechanisms, coupled with Corporate Governance gaps, such as risk management, board practices and stakeholder' rights, can decrease clients' confidence (Bank for International Settlements, 2006), contributing to banks failures and, consequently, increasing the probability to develop an economic crisis (OECD, 2010).

Thus, supervisory authorities play a key role to maintain the stability of financial institutions. For this, the authorities adopt strict regulatory and supervisory strategies to promote companies' transparency and efficiency (OECD, 2010).

4.3. Recapitalization Plan and Corporate Governance of financial institutions

Regarding the Recapitalization Plan, in order to understand the different Corporate Governance policies, it is crucial to consider the Recapitalization law (Law No. 63 – A/2008) and the Ordinance 150 – A/2012, analyzing this strategy in different perspectives:

Board of Directors perspective

Board of directors are responsible to implement some rules and the strategic objectives that ensure an adequate Corporate Governance approach.

Firstly, it is essential to strengthen the number of independent directors, since it increases the independence and objectivity of management, which contribute to an adequate Corporate Governance.²⁶ In addition, being able to bring new business perspectives, they can also minimize possible conflicts of interest since their judgments are independent of the interests of the company (Bank for International Settlements, 2006).

If banks do not meet the minimum capital requirements, the Bank of Portugal has the possibility to intervene and appoint a provisional administration. This intervention can play a positive or negative role. On the one hand, by being a shareholder, the State can define the most appropriate strategy to be implemented.²⁷ However, this intervention may lead to conflicts of interest, since the State has a wide range of interests that can be opposite to banks interests. Additionally, the transparency of its intervention, the independence and objectivity of the bank's activities may be jeopardized (Bank for International Settlements, 2006).

Shareholders and rights perspective

When a Recapitalization Plan takes place, the State will be considered as one of the shareholders of the financial institution, since its capital injection can be translated in a shares' subscription (the Law No. 63 – A/2008).

As previously mentioned, the state's ownership as a shareholder of a bank may lead to conflicts of interest, since the State has a wide range of interests that can be opposite to financial institution interests. In fact, in this situation, State wants to define an efficient long-term strategy that will ensure the bank's survival. (Bank for International Settlements, 2006).

²⁶ Article 14(1) (b) of the Law No. 63 – A/2008.

²⁷ Article 142 (3) of Decree – law No. 298/92.

As a shareholder, the State' voting right exists based on some restrictions.²⁸ However, this right help the government to contribute to development of the company's activities, ensuring an adequate corporate governance (Bank for International Settlements, 2006).

Regarding the policy of dividend distribution and remuneration will also have to undergo some adjustments based on company' culture, goals and strategies. The state has the priority payment right, even if it is decided not to be paid, only when the minimum capital requirement is fulfilled.²⁹ This priority treatment in relation to other shareholders may jeopardize the company's Corporate Governance. However, since the State has interests that go beyond the bank and other shareholders scope, the payment of this type of dividends can be seen as an incentive for them to fulfill their objective.

Supervisions and Regulation policies perspective

Concerning the role of supervisors, they are interest in an adequate Corporate Governance approach, since it may contribute to the bank's robustness and it can affect its risk profile, if not implemented properly. In case of non-compliance, the State has the possibility to appoint supervisory body that will have an active role in supervising the bank's activities.³⁰

5. Resources and Capabilities as the base of strategy

5.1. Resource-Based View of the Firm (RBV)

Since external environment is extremely volatile, strategy can be classified as the match between firm's resources and capabilities (R&C) and the opportunities that emerge from the market. In other words, firm's strategy depends upon internal resources and capabilities (Grant, 1991).

Assuming that resources and capabilities are heterogeneity distributed across firms and are mobile in the market, the Resource-Based View (RBV) explains how these R&C can be exploited to differentiate a company from its competitors (Peteraf & Barney, 2003). In this sense, singularity and profitability of each firm depends on its capacity to explore different resources and capabilities to achieve competitive advantage (Helfat & Peteraf, 2003).

²⁸ Article 4(9) of the Law No. 63 – A/2008 and Article 3 of the Ordinance No. 150 – A/2012.

²⁹ Article 6 (3) and 12 of the Ordinance No. 150 – A/2012.

³⁰ Article 16(1)(b) of the Law No. 63 – A/2008

5.2. Firm’s Resources and Capabilities

Because competitive advantage depends on the resources and capabilities it is important to clarify each concept.

Firm’s Resources

According to Wernerfelt (1984), resources consist on a tangible or intangible asset held by the company as an input of the production process (Grant, 1991). These sources combine, among others, the assets, processes and information (Barney, 1991) that help companies to adopt strategies to enhance their efficiency and effectiveness (Daft, 1983).

Tangible resources are group into financial and physical resources. The financial resources determined the firm’s investment capacity, while the physical resources represent the firm’ size and location, raw material and firm’s equipment (Grant, 1991).

According to Grant (1991), intangible resources are defined as the intellectual property right and can be grouped in technology, reputation, organization and human resources (Figure 4):

Figure 4 – Different types of intangible resources

Technology resources	Reputation resources	Organization resources	Human resources
Patents, copyrights and trade secret (Grant, 1991).	Opinion that customers and suppliers have about the company, evidencing the quality of the products/services (Grant,1991).	Combine values, beliefs and expectations that define the firm’s business model (Barney, 1986). In addition, it also represents firms’ structure, the control and coordination systems and the relations between the company and its employees, the trade secret and the organization culture (Hall, 1993).	It involves the relationships between human capital, in particular the relations established with employees. This resource includes training process, the experience and workers perceptions about the company (Grant,1991).

Source: Own elaboration based on Grant (1991), Barney (1986), Hall (1993)

Firm’s capabilities

Helfat and Peteraf (2003) argued that firm’s capabilities are the capacity to perform and coordinate business tasks by combine company’s internal resources to achieve competitive advantage. As reported by Grant (1991), core competencies differ in their complexity, since a capability may depend on a single resource or the interaction of different resources (Grant, 1991).

Helfat and Peteraf (2003) classified capabilities as operational and dynamic. The first one involve a high level of routines that confer the possibility to produce a good or a service provision. Dynamic capabilities represent the company's routines and processes that explain how resources and capabilities can be combined (Cardeal & António, 2012), exploited and adjusted to achieve competitive advantage, when exposed to external changes (Helfat & Peteraf, 2003).

5.3. Competitive Advantage and Sustained Competitive Advantage

Competitive Advantage

A firm has competitive advantage when its strategies, apart from creating value, also cannot be imitated by any current or potential competitor (Barney, 1991).

Sustained Competitive Advantage

The Resource-Based View (RBV) defends that for a company differentiate itself in the market, it needs to create sustainable competitive advantage. Consequently, the existence of sustainable competitive advantage depends on four attributes: value, rarity, imitability and the organization (VRIO) (Barney, 1997).

Resources can be considered valuable if they contribute to the development of efficiency and effectiveness of the firm. For this, they must exploit the firm's strengths and adopt strategies that answer to external opportunities, minimizing their threats and weakness (Barney, 1991).

On the other hand, to be rare, the valuable resources held by a large number of competitors or potential competitors cannot be classified as sources of competitive advantages or sustained competitive advantage (Barney, 1991).

Valuable and rare resources can be sources of sustained competitive advantage if these sources cannot be obtained by competitors or potential competitors, meaning they are imperfectly imitable resources (Barney, 1991). To be imperfectly imitable resources, besides unique historical conditions and social complexity to create advantage, the firms' resources should not evidence the connection between the company's resources and its advantages (causal ambiguity) (Barney, 1991).

Once understand the value, rarity and the imitability of firm's resources, it is necessary to organize the company, especially through the control systems, processes, policies and strategies to capture value from its resources and thereby, create sustainable competitive advantage (Barney, 1997).

6. Stakeholders Theory

As a result of globalization and the growth of financial dependence, economic crises have appeared more frequently. In this context, it is usual that stakeholders are affected by the consequences of this negative incident.

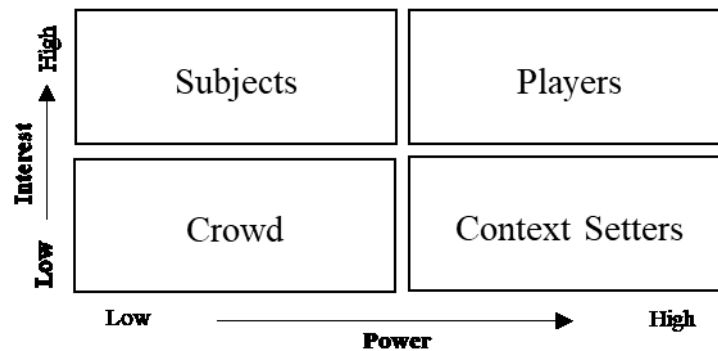
According to Freeman and McVea (2001), stakeholder is defined as an individual or groups of people that more than influence or is influenced by the company, also have interests in firm activities to obtain benefits for them (Donalson & Preston, 1995).

In a scenario of economic crisis, it is important not only to understand how firms' resources should be used but also how conflicts between different stakeholders must be resolved to avoid or recover crisis situations (Alpaslan, Green & Mitroff, 2009). The success of business strategy depends on the ability of the company to frame the interest of the parties, behaving proactively, telling the truth and managing the relationship of stakeholders with the company in the best possible way to achieve its objectives (Freeman & McVea, 2001).

According to Ulmer (2001), if the company establishes strong and true relationships with all stakeholders, based on trust and cooperation, the possibility of preventing and recovering from a crisis situation increases, since stakeholders are more predisposed to not withhold resources and information or to apply manipulative strategies (Frooman, 1999). It is also crucial that the company behave in a proactive way by telling the truth to prevent crises situations or to be prepared to a variety of crises. In addition, companies should behave in a defensive, reactive and accommodative way (Alpaslan, Green & Mitroff, 2009).

Given a volatile environment, it is important not only to identify the stakeholder's interests, but also their power in the company, in order to establish a win-win relationship between the company and its stakeholders. In this sense, through Stakeholder Matrix Approach it is possible to identify stakeholder's interest and recognize their power to affect the organization. Stakeholder Matrix Approach allows to organize the stakeholders in four groups (Figure 5) (Bryson, 2004):

Figure 5 - Stakeholder Matrix Power/Interest



Source: Bryson, J. M. (2004). What to do when stakeholders matter: stakeholder identification and analysis techniques. *Public Management Review*, 6(1), 21-53.

This framework is useful to understand each stakeholder relevance (Miano, 2017) and to identify which stakeholders require preferential treatment (players) (Bryson, 2004). In addition, it helps companies to incorporate different views of stakeholders and their importance, allowing the company to adjust or change stakeholders' view (Miano, 2017).

Summarizing, stakeholders model holds that all stakeholders have intrinsic value. This value will help the company to establish connections with different stakeholders to improve company and stakeholder's performance. In this sense, this model requires time and resources' investment. However, if the relationships between the parties are based on trust and cooperation, there is a greater likelihood of avoiding economic crises and the consequence of these events (Alpaslan, Green & Mitroff, 2009).

IV. Teaching Notes

1. Synopsis

This case study focuses on Millennium bcp Recapitalization strategy that occurred between 2012 and 2017.

In 2012, the sustainability and Corporate Governance of financial institutions were compromised by the negative economic environment that has taken place in Europe. Besides this, banks' profitability was also affected by the austerity measures and restriction to which financial institutions were subject. BCP, the largest Portuguese listed bank focus on the retail market segmented was one of the financial institutions affected by this economic context.

The case gives the necessary information to analyze BCP strategies to recover its economic performance. Students can reflect about BCP internal resources and capabilities responsible for the competitive advantage of the bank. Students can also analyze the necessary adjustments of Corporate Governance, namely the restructuring strategy process, as well as the Recapitalization and Financial Plan, to maintain an adequate solvency and liquidity.

2. Teaching Objectives

Through this Case Study, the students have the opportunity to examine in detail a practical case of the public-funded Recapitalization program, but also the internal BCP restructuring strategy. In addition, this case study helps students to identify internal resources and capabilities (R&C) and understand how these R&C can grant competitive advantage to survive to an economic crisis.

Finally, the case study explores some challenges that BCP was facing after the economic controversial period, such as the hypothesis to maintain its decision center in Portugal, the sustainable growth, the penetration of the digital world in financial service sector and the recovery of worker optimism.

This case should be used in a strategy courses, in a class that addresses the issue of corporate restructuring process. It can also be analyzed in a class where Corporate Governance is addressed in a context of a Recapitalization Plan. Finally, it may also be used in a class where the subject of resources and capabilities responsible for sustainable competitive advantage is addressed. The professor should submit the case at the end of the class of previously topics and ask the students to analyze and prepare to discuss it in following class.

3. Suggested Assignment Questions

The following assignment questions should help students and the professor to analyze and discuss the case study.

1. Characterized BCP Recapitalization Plan and identify what policies were applied at the bank to comply with the requirements? (Give a brief description of the financial sector during economic crises period).
2. What kind of restructuring strategies has been used in Millennium bcp case? (Give a brief explanation about the restructuring need in this specific case).
3. Considering an adequate Corporate Governance, the existence of different stakeholders could lead to problems and tensions among them. Identify these potential tensions and analyse how BCP managed these tensions in order to satisfy everyone equally?
4. There are unique characteristics of BCP that have enable the bank to survive during the period of economic crises. So, what are the internal resources and capabilities of Millennium bcp responsible for the bank's competitive advantage to survive in a crisis context?

4. Case Analysis and Discussion

Question 1

Brief description of the financial sector during economic crisis period

To analyze the financial sector during economic crisis, the students can start its analysis by describing the macroeconomic and financial Portuguese environment and identifying the type of crisis that characterize BCP situation. Then, the students can complete their analysis by characterizing Portuguese financial sector, through the identification of Portuguese banks that dominate the market as well as their market shares.

Regarding the macroeconomic and financial environment:

In 2012, there was an adverse economic and financial environment, marked “*by high levels of indebtedness*” (p.12) and an inadequate business model based on “*the non-tradable sector and focused in the domestic market*” (p.12) claimed the responsible of the Investor Department of BCP. This environment was also characterized by the decrease of private consumption, the increase of unemployment rate (15.7%) and the deterioration of labour conditions, which contributed to the contraction of Portuguese economy (GDP decrease 7.7 p.p.) (p.12). In this sense, banking activity has developed in this adverse environment, highlighted by the difficult

to adapt its strategies to monetary union policies and the difficult in accessing the international wholesale markets. Besides the restrictive austerity measures, “*the impairment and provisions for financial assets and the transference of part of the employees’ pension plans from some banks to the General Social Security System*” (p.13) also harm the solvency and liquidity of financial institutions.

Therefore, it is possible to characterize Millennium bcp case such as a banking crisis episode, since its profitability was compromised “*through higher levels of credit risk*” (p.12) and the decrease of “*interest rates levels*” (p.12).

Given this controversial scenario in Portugal, the banking system in 2012 was dominated by six banking institutions (Exhibit 5).

BCP Recapitalization Plan and policies applied by the bank

To characterize the BCP Recapitalization Plan the students can start by defining its intervention as a State aid intervention and identify its utility for financial institutions.

Since the Portuguese government did not have possibilities to help financial institutions to recover its solvency positions, it “*was forced to request assistance from the European Authorities*” (p.14) through a capitalization and financial Scheme – Recapitalization Plan (p.14).

Aligned with capital requirements, this State aid consists in an agreement between the bank, the Government and DG COMP that intends to define not only the value of investment and the banks’ obligations, but also allow the company to recover its sustainability and financial strength through a public investment or through a recovery and lending plan (Law No. 63 – A/2008 of 24 November).

Since the State aid implies the existence of rules to be fulfilled by the bank, the students should try to identify some of these rules imposed by the DG COMP:

- During a Recapitalization Scheme the bank was forced to “*reduce its operational costs to below €800 million until the end of the Recapitalization Plan*” (p.18). In practice, according to the Head of Human Resources, this obligation implies a reduction of 1433 employees (p.18) and around 200 branches closure (p.16);
- The company should achieve the minimum capital buffer requirements. Based on the case analysis, it is evidence that this requirement came from two different players: European Banking Authority (EBA) and the Bank of Portugal. The first one requires the

minimum Core Tier 1 of 9% and the second one requires the minimum Core Tier 1 of 10%. Millennium bcp reached 9.8% of EBA requirements and 12.35% of Bank of Portugal requirements (p. 14);

- Since this strategy can distort the competition, giving unfair advantage over its competitors, BCP was forced to implement specific strategies, imposed by DG COMP, to avoid this situation and to promote the development of economic activities and areas (p.11).

Then, students can classify and describe the Recapitalization strategy:

The Recapitalization Plan used by Millennium bcp can be classified as a financing bridge. Despite the bank having low liquidity and difficult in accessing the international wholesale market, it possesses a strength financial structure (p.12 and Exhibit 2).

The program was divided in two different parts: *“a contingent capital investment underwritten by Government in €3 billion of hybrid capital instruments convertible into shares (CoCos) and private investment based on €500 million for BCP private investors through the issuance of €12.5 billion of new shares”* (p.14). In the end of this program, Millennium bcp had to repay the total amount of CoCos and *“about €1 billion of interest”* (p.14).

Question 2

Restructuring strategies used by Millennium bcp

To answer this question students should start by identifying the bank’s restructuring need and its purpose in this specific case. Then, students can identify the different types of restructuring strategies that happen in Millennium bcp case.

Restructuring need and its purpose:

According the European Law, when a company request financial assistance based on public funds, it was crucial to adjust its Corporate Governance model, creating an internal Restructuring Plan focus on firm’s financial strength (p.15). According to the responsible of the Investor Relation Department of BCP *“the strategy plan was to implement what was accorded with regulators and preserve its attractiveness with temporally State support”* (p. 15).

In this context, in September 2012, the bank developed a new restructuring strategy to be implemented until 2017 and defined criteria of an adequate Corporate Governance, such as *“equity, transparency, accountability, diligence, knowhow, loyalty, responsibility, duties, supervision, financial, risk and management control”* (p.15) to incorporate in its strategy.

This plan helped the bank to manage the deleverage process and to meet the minimum solvency requirements. Furthermore, the restructuring strategy also helped BCP to develop an international diversification strategy and to achieve its business profitability level (p.15).

It is possible to identify three different phases of the Restructuring Plan (p.15 and 16) (Figure 6):

Figure 6 - Different phases of the Restructuring Plan

	2012-2013	2014-2015	2016-2017
1st phase- survival phase	The bank must to do what was imposed by regulators, eliminating non-core units and investing into core units.		
2nd phase – investment phase	After the survival phase, the bank pretended to invest in sustainable markets.		
3rd phase – sustainable growth phase	The bank pretended to generate a sustainable growth of its net income.		

Source: Own elaboration

Different types of restructuring strategies:

In this sense, since the restructuring process will help companies to minimize the likelihood of bankruptcy, the students can identify different types of turnaround strategies applied by BCP to minimize the potential bankruptcy effect:

- **Managerial restructuring:** through this strategy the bank communicated and motivated employees, by involving human and technological resources to develop a good relationship with other stakeholders, based on transparency (p.18);
- **Operational restructuring:** the reorganization of BCP structure, helped the bank to generate cash flow and consequently, maximized profits. The strategy was divided in two different stages (p.15 and 16):
 - **Efficiency/operating Stage** – the bank was encouraged to reduce its operational costs in 40%, which imply the reduction of around 30% of its branches (around 200 branches) and more than 25% of its workforce (1433 employees) to recover profitability and efficiency.

- Entrepreneurial/strategy Stage – the Bank restructured its asset portfolio divesting its non-core activities and reinforce its core activities to achieve a positive long-term growth.
- Asset restructuring: through this strategy the bank incorporated changes in business assets, diving them into core and non-core units.

On the one hand, the core units create a sound and viable institution focusing its activities in retail and companies that allowed to obtain better productivity and efficiency (p.15). The bank privileged products with higher margins and “*invest in sustainable geographies as Poland, Angola and Mozambique*” (p.16), since these core markets increased its operation efficiency.

On the other hand, the non-core units represent the equity stakes and the high-risk exposure business that not fit with business strategy and which be divested by the firm, such as activities in Greece and Romanian (p.16).

- Financial restructuring: during economic crisis, BCP was forced to reinforce its balance sheets, reduce its impairments, produce internal capital, divest in non-core units and invest in core units in order to survive and kept “*the business as robust as possible*” (p.15 and 16). Additionally, the adjustments of BCP Corporate Governance (e.g. dividends distribution policy) also contributed to the company survival (p.18).

Question 3

To answer this question, the students can start their analysis, by identifying different BCP’s stakeholders and their power to affect the institution. Consequently, based on this diversification, it is expected that students are able to recognize not only the tensions that may occurred between them, but also how BCP mobilized resources to minimize this problem.

Different stakeholders’ interests

Based on the case analysis, it is possible to identify different stakeholders of BCP – clients, workers, suppliers, shareholders – each of them with their own interests (Figure 7):

Figure 7 - Different stakeholders' interests of BCP

	Clients	Workers	Suppliers	Shareholders
Interests	They want to see their needs fulfilled without being affected by the operational restructuring process, namely the clousure of some branches.	During the restructuring process, workers want their rights to be fulfilled and that they can stay in the company.	As other stakeholders, suppliers also want the restructuring process not to affect their relationship with the bank, in order to keep theirs contracts available.	Regarding the shareholders, according to the case study, it is possible to identify two main shareholders – State and Sonangol. On the one hand, the State intends that the restructuring process does not affect the reimbursement of public investment. On the other hand, Sonangol pretended that its rights (dividend payment) be fulfilled. In both case, the European Authorities requirements (e.g. reduction of the number of branches and workers) must be comply.

Source: Own elaboration

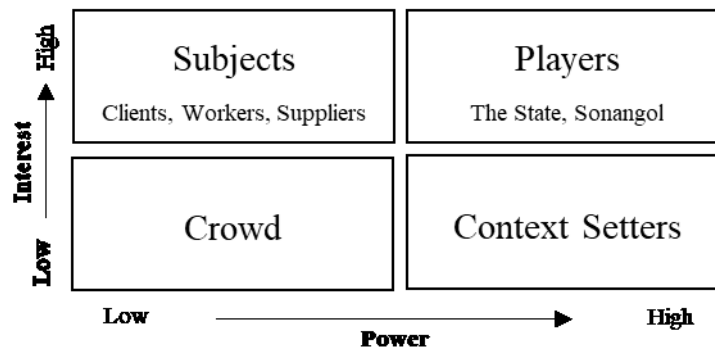
In all cases, the European Authorities requirements (e.g. reduction of the number of branches and workers, the contribution to the development of national economy, etc) must be fulfilled, even if it implies the suspension of any stakeholders' rights (Figure 7), with the exception of the State as a shareholder.

In this way, the students must conclude that the BCP's stakeholders have diversified interests and, in some cases, contrary to each other. In this sense, BCP has developed some strategies that helped to minimize the likelihood of conflicts of interest.

Possible solutions for conflicts of interests

To analyze the strategies developed to avoid these conflicts, first, it was necessary to define the stakeholders that have more power in the company in order to prioritize their interests. For this, the students can use Stakeholder Matrix. One possible approach would be (Figure 8):

Figure 8 - One possible approach of Stakeholder Matrix Approach



Source: Own elaboration

After that, students are able to explain what was done by BCP to minimize the conflicts of interest between the stakeholders that had more influence in the company (State and Sonangol):

Since the implementation of an adequate Corporate Governance can minimize stakeholder conflicts and improve the bank’s performance, the students must be able to explain the crucial elements of this Corporate Governance, considering three main focuses (Figure 9):

Figure 9 - Crucial elements of an adequate corporate governance model

Board of Directors	Shareholders and Supervision	Regulation policies
The bank should include independent directors, since it increased independence and objectivity, giving new firm perspectives. The Board of Directors and the bank had independent interests, which may minimize the conflicts of interest problem.	The bank should be aware of the State role during the Recapitalization Plan, since it may have a contradictory effect. If, on the one hand, the State main focus is to ensure BCP survival by helping the bank to define the activities that ensure a good Corporate Governance, on the other, the State interests are opposed to other stakeholders’ interests (as described above) which can generate conflicts.	BCP should improve its regulation policies, through supervisors (internal and external – State supervisory body), since they contributed to the increase of the bank’s robustness. Additionally, BCP had an incentive to comply with the Recapitalization Plan requirements in order to avoid bank failure.

Source: Own elaboration based on the Recapitalization Law and the Ordinance 150 – A/2012

To conclude, it is possible to say that meeting the European Authority requirements combining with an adequate Corporate Governance can minimize the tensions between stakeholders.

Question 4

In order to analyze Millennium bcp's competitive advantage during economic crises, students should identify internal resources and capabilities (R&C), analyzing functional areas and main activities of the company. Through the Resource-Based View model (RBV), the students can analyze how the Bank has developed distinctive R&C to differentiate itself in the market and achieve competitive advantage.

Firm resources and capabilities

Students can identify different R&C that are crucial to help BCP to survive:

- Organization and management:
 - International reputation recognized by different awards obtained due to the quality and innovation of BCP products and services. The bank has become an international reference institution, enhancing its reputation and improving consumers opinion about the company (p. 17);
 - Strategic location in core markets: Portugal, Poland, Angola, Mozambique and Macao (p.17);
 - By implemented the new business model – Anglo-Saxonic – BCP became a smaller institution, operating in less countries and offering less but specialized service to its customers (p.18);
 - Slight digital approach evidenced by the new modern branches and digital services in order to satisfy new customers preferences (p.13 and 16).
- Human Resources management:
 - Focus on employees, evidenced through the programs created by BCP to be close and meet their needs, since the bank believed that workers were crucial to overcome the economic situation (p.17);
 - Personalized follow-up to each worker during restructuring process (p.18 and 19);
 - Closer relation between CEO and human resources which help the institution to implement this complex restructuring process (p.18).
- Shareholders relationship:
 - The existence of only one major shareholder, Sonangol, and the adaptation of Bank corporate business model, minimized possible conflicts of interest between shareholders (p.17);

- State as a shareholder which can become advantageous in this process, since its main objective is to ensure the bank's survival in this scenario, contributing to the definition of an appropriate strategy (p.17);
- Permanence of shareholders in the company, during the restructuring process, since BCP ensured their safety by complying with the metrics and requirements demanded by the European Authorities (p.18).
- Relation with customers:
 - Focus on customers, once the new business model implied some “*changes in the control and inspection functions*” (p.18) and allowed the proximity between bank, employees, customers and suppliers. In this sense, since the bank believed that the relationships with customers were a “*fundamental factor to overcome the situation*” (p.17), BCP empowered its workers to announce the closure of the branches. This procedure aims to convey the whole process in a transparent way, which contributed to overcome favorably the economic crisis situation, being present in customers' lives and recovering their confidence.
- Marketing management:
 - “*Resiliency and robustness of BCP Group*”, demonstrated through the Millennium bcp unique brand (p.19);
 - The Head of Corporate Communication stated that this intangible resource “*is a key part of BCP strategy*” (p.19), having contributed to improve consumer loyalty (p.19).
- Financial consistency:
 - Advance repayment of public investment which allowed BCP to stand out from competitors, fulfilling the requirements and being “*one of the few banks in Europe to receive state aid that has returned state aid*” (p.19).

Evaluate which R&C confer sustained competitive advantage

After identifying all the R&C, students should identify which of them are the core competences of BCP, giving the bank the opportunity to gain competitive advantage. For this, the students should use the VRIO analysis (Figure 10):

Figure 10 - R&C: evaluation of value, rarity and inimitability

	R&C	Valuable	Rare	Inimitable
Organization and Management	International reputation	X	X	X
	Strategic location in core markets	X		
	Anglo-Saxonic (new business model)	X		
	Slight digital approach			
Human Resources Management	Culture, values, strategic objectives and routines	X	X	X
	Employees focus	X		
	Personalized follow-up to each worker	X	X	X
Shareholder Relationship	Closer relation between CEO and human resources	X	X	X
	One major shareholder- Sonangol	X	X	
	State as a shareholder	X		
Relation with Customers	Permanence of shareholders in the company during restructuring process	X	X	
	Customer focus to announce the closure of the branches, transmitting the information in a transparent way	X	X	X
Marketing Management	Unique brand	X	X	X
Financial Consistency	Advance repayment of public investment	X		

Source: Own elaboration

The R&C, identified above, as valuable, rare and inimitable can create competitive advantage, however, to have sustainable competitive advantage it is important to organize the company in order to exploit these R&C, capturing value for the firm. In this sense, BCP should adapt its corporate governance model, meaning that the bank need to adjust its processes, policies and control and supervisory systems, incorporating specific criteria of good Corporate Governance: “*equity, transparency, accountability, diligence, knowhow, loyalty, responsibility, duties, supervision and financial, risk and management control*” (p.14 and 15).

To conclude, the students should refer that the core competences are mostly related to Organization and Management, Human Resources Management and Relation with Customers areas, which are fundamental to implement the firm’s strategy during economic crisis.

Conclusion

This dissertation gave the opportunity to have a direct contact with Millennium bcp and understand how a financial institution lead with an economic crisis episode. More precisely, it was possible to see in detail which were the fundamental elements of the BCP strategy that allowed it to overcome the controversial period that has been experienced in Europe between 2012 and 2017.

Beginning by studying BCP' history, it was possible to understand that the bank is present in several markets with a different culture from other financial institutions.

Faced a challenging scenario BCP's sustainability was compromised, wherefore it was necessary to resort to state aid through a Recapitalization Plan. Consequently, the bank had to readjust its Corporate Governance model creating an internal Restructuring Plan to overcome the recession period and fulfilled the European Authority requirements.

Regarding the BCP's performance, the strategic analysis demonstrates that there were some facts that made the bank succeed in the restructuring process. Thus, around an instability environment, the adaptation of BCP's resources and capabilities, proved to be the responsible for the bank's competitive advantage and the success of the new strategy.

Additionally, focusing on customer satisfaction, this case study also served to prove that the BCP, as well as other financial institutions, after a period of recession, face some challenges that require an adaptation of the companies' strategies in order to follow the new industry trends.

In this way, this case study illustrates a real problem experienced by several companies. Based on a theoretical support, it was possible to study the Recapitalization Plan adopted by the bank and its reestablishment and adaptation in its corporate governance model.

Since the banking sector is a fairly volatile sector, in future research it may be interesting to study whether the bank, after successfully overcoming the period of economic crisis, has become a more solid and robust institution, having developed enough strategies to overcome another controversial period like this.

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