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Examining the Factors Influencing the International Expansion of Nigerian Banks

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Introduction

International market entry by Nigerian banks started when some banks established representative offices and branches in New York and London in the 1980s to facilitate trade for some of their clients. In 2000 the Central Bank of Nigeria (CBN) issued universal banking licenses that allowed banks to establish foreign sub-subsidiaries. In 2005 a CBN policy required Nigerian banks to increase their tier 1 capital from N2billion to N25billion. After the consolidation, the Nigerian banking market became the second largest in Sub-Saharan Africa (SSA), after South Africa (Kasekende et al. 2009). Some of Nigeria's largest banks then developed strategies for growth that included international expansion. This happened at a time when a number of established European banks were retreating from Africa (Florian 2012).

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This phenomenal expansion of Nigerian banks and banks from other African countries into SSA (notably South Africa, Togo, Kenya, etc.) has started to elicit the interest of scholars of international business (Boojihawon and Acholonu 2013). Still, few studies have taken a country-specific view of the internationalization of African banks (Luiz and Charalambous 2009). This study notes the phenomenon as it relates to the foreign market entry decisions of Nigerian banks. The originality of the study is its addition of country-specific knowledge on the internationalization strategies of banks from a low-income SSA country.

The study sought to unveil the factors that are most pertinent in shaping the internationalization decisions of Nigerian banks. The study used a mixed quantitative and qualitative research approach. Five Nigerian banks, namely, United Bank for Africa (UBA), Diamond Bank, Keystone Bank, Guaranty Trust Bank (GTB) and Access Bank, were examined in a multiple case study.

After reviewing the literature, propositions were declared prior to the start of field work. For each bank, primary data was obtained from top management staff involved in strategy formulation and implementation. Likert scale questionnaires and interviews were used. Secondary data was obtained from a variety of sources. Data was analyzed using the normal fitting algorithm approach, a statistical tool for converting ordinal scale data into interval data (Stacey 2005). The results and findings were compared to the propositions declared, and the propositions were modified when necessary.

Literature Review

Internationalization by firms has been defined is the process of increasing involvement in international markets. Czinkota (2004) noted that there are a number of proactive and reactive motivations for firms to internationalize. Proactive motives come about when a firm possesses profit or technological advantages, unique products, exclusive information, managerial urge, tax benefits or economies of scale. Reactive motivations are forced on the firm by competitive pressures in the domestic market, such as overproduction, declining domestic sales, excess capacity, saturated domestic markets and lack of proximity to customers or the need to follow clients.

Banks embark on international market entry for most of the reasons that multinational enterprises in general internationalize, but some scholars have observed that the nature and characteristics of banking engender slight variations in their internationalization. Studies have noted that banks follow their clients that have made international market entries (Goldberg and Johnson 1990). Information on clients' banking needs is used to explain the "follow-the-client hypothesis", including the fact that firms prefer to do business with a small number of banks so as not to reveal sensitive information to many financial firms.

The opportunity for profit in host countries, such as a higher expected rate of economic growth and profitability of the host country banking market, is also a main determinant of outward banking foreign direct investment (FDI) (Buch and DeLong 2004). Furthermore, tax, interest and exchange rate differentials between a bank's home and host countries may create opportunities for arbitrage and transfers which banks seek to exploit.

Banks sometimes possess qualities and assets that enable them to operate more efficiently in a foreign market. These advantages include size, distribution channels and managerial competence. A large size enables banks to translate their scale efficiencies to foreign markets at a relatively low cost and compete with local institutions. Tschoegl (2003) found that most of the largest subsidiaries of foreign banks in the United States of America (USA) were also among the largest banks in their domestic markets.

The structure and competitiveness of home banking markets can influence banks' performance and efficiency. A competitive banking market means that some banks are squeezed out of the market and thus might embark on foreign market entry to seek better margins and profits elsewhere. Banks may also react to the actions of their competitors by following them to markets or avoiding some markets that their competitors have already entered. This is the oligopolistic behaviour theory of foreign direct investment (Knickerbocker 1973; William 1997).

When there are restrictions in the home country limiting a bank's home operations, growth or expansion, it might want to "escape" by expanding internationally. In the same vein, a host country's openness to the establishment of new foreign branches and subsidiaries, as well as tax incentives, may also be important (Miller and Prakhe 1998).

Aggarwal and Durnford (1989) noted that a bank can diversify its income base by operating in a foreign country and obtaining gains in terms of its risk/return profile. A common cultural background may also facilitate bank international expansion into a particular geographic market. Guillén and Tschoegl (1999) noted a significant effect of cultural proximity in the expansion of Spanish banks into Latin America.

Banks and Theories of Internationalization

In seeking a better understanding of the determinants of the internationalization of firms, scholars have formulated a number of theories to explain the process. These theories include the process theory of internationalization, eclectic theory, the resource-based view (RBV) and transaction cost analysis (TCA), among others.

The process theory of internationalization states that increased knowledge of foreign markets allows firms to increase their commitment of resources to the market (Johanson and Vahlne 1977). This may be at the heart of the internationalization of banks that seem to enter foreign markets with low commitment and gradually increase their investment with increased knowledge of the market. Process theory also notes the importance of psychic distance as a determinant of banks' foreign market choices, and studies have shown that banks tend to internationalize in foreign markets with low psychic distance (Guillén and Tschoegl 1999).

The eclectic theory emphasized ownership (O-) advantages of the firms, location (L-) advantages of the host country, and internalization (I-) advantages that makes firms decide on what mode of entry to adopt in a host country. The eclectic theory states that firms must possess some O-advantages that enable them to profit from extending their operations into other national markets. For banks, these O-advantages include specialised banking services, reputation for efficiency, managerial skills, technological edge, size and international experience (Cho 1986).

Similarly, host countries possess L-advantages that make them attractive to multinational banks (MNBs). These include regulations that make banking easier, less risky and less uncertain. They also include market size, profit opportunities and level of governance in the host country (Outreville 2007). According to Cho (1986), I-advantages include availability and cost of fund transfers within the MNB, efficient customer contracting, and transfer price manipulation, which potentially reduces variability.

The resource-based view (RBV) supports the notion that firms are able to leverage unique, valuable and rare resources for competitive advantage (Barney 1991). These resources and capabilities include physical, human and organizational assets that can be used to implement value-creating resources for competitive advantage. For banks, managerial capabilities, brand name, reputation, size and organizational culture are all assets that can confer competitive advantages.

A transaction cost analysis (TCA) approach to the internationalization of banks is focused on factors that hamper banks' ability to mitigate the cost of information about borrowers and enforce contracts (Cull and Peria 2010). These factors include environmental uncertainty brought about by macroeconomic instability and political risk as well as by regulatory, geographic, cultural and institutional distance. Factors that reduce environmental uncertainties, like integration through culture and language spoken in the home and host countries, are found to be significant in the decision to invest abroad. In addition, host country macroeconomic stability, political risks and governance levels are other factors that affect banks' foreign market entry decisions (Outreville 2007).

Theoretical Framework and Propositions

The theoretical framework and propositions are important aspects of positivist case study research. They are used in identifying the unit of analysis, boundary and scope of the research. Piekkari et al. (2009) noted that the positivist tradition for case studies favours a design logic in which field work is preceded by the careful development of a blueprint.

The theory identifies the various concepts in the literature, and propositions are declared statements about causation. The concepts, when developed for measurement, become variables with the causal (independent) and outcome (dependent) variables identified. Yin (2009) advocates that propositions should be declared from the theory and investigated and (sometimes) falsified through empirical findings.

This research used a synthesis of the eclectic theory, RBT and TCA, as well as empirical findings relating to them, are used as the framework for the research. In this light, the dependent variables, namely motivating factors for international market entry by Nigerian banks, were the main focus of the research, which aimed to identify variables influencing the banks' decision to enter foreign markets.

Factors that Influence Bank International Market Entry

Bank-Specific Factors

Banks engage in multinational banking due to certain bank-specific factors, including size and international experience, desire to seek new markets and growth opportunities, desire to follow clients into new foreign markets, as well as the characteristics of managers and decision makers who may try to steer the bank towards a globalization strategy. Furthermore, home country business conditions, such as regulatory laws, competition in the domestic market and the strategic actions of other industry players, can play a role in motivating banks to expand internationally.

When banks follow their home country clients into foreign markets, they need to develop products and managerial competence that make them cost effective and efficient in the new location. These are O-advantages that banks seek to exploit in foreign markets. Banks also seek new markets with profit opportunities. For example, high expected economic growth in the host country that offers profitable business opportunities (Magri et al. 2005) is a host country L-advantage.

Also, managers may intentionally seek entry into foreign markets both to react to the actions of competitors and to exploit excess human and financial resource slack. This so-called *managerial intentionality* has been noted by Hutzschenreuter et al. (2007).

Based on these observations, this proposition is suggested:

Proposition 1 A bank's desire to expand internationally will be influenced by a need to follow its clients into foreign markets, seek growth and profit opportunities, exploit its ownership advantage (O-advantage), and fulfil the aspirations of its managers.

Home Country Conditions

Regulations governing banking sometimes "push" banks to internationalize. Some banks must seek approval from home country regulators before opening operations in foreign markets (Cerrutti et al. 2007). Restrictive regulatory laws may also influence banks' need to expand internationally. It has been noted that government policies like deregulation lead to more competitive banking markets. In the face of increased domestic competitive pressure, banks may internationalize to seek better margins in new markets. Guillén and Tschoegl (1999) found this to be the case with Spanish banks that sought new markets in Latin America following increased domestic competitive pressure after financial integration in the European Union (Fig. 3.1).

Based on these observations, this proposition is suggested:

Proposition 2 A bank's motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market.

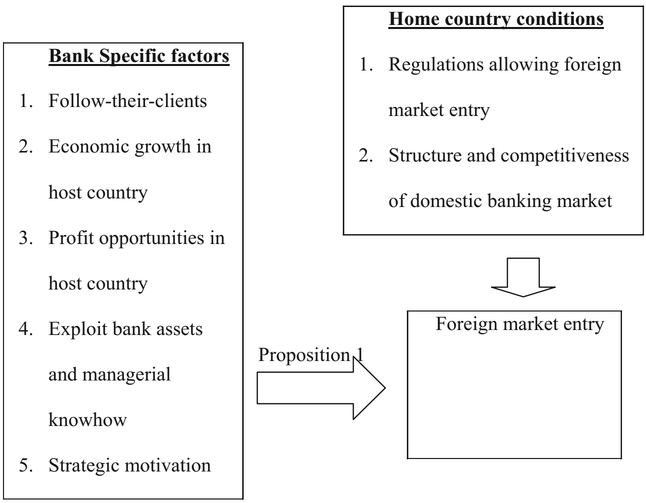

Fig. 3.1 Framework of the research with propositions

Data Collection and Analysis

Sampling Frame

At the end of 2012 there were 21 commercial banks in Nigeria, of which nine were licensed to have international operations. From this population, five banks that embarked on foreign market entries were chosen by purposive sampling as the cases for this study. These five banks made up 40 of the 53 total (75 %) foreign entries made by Nigerian banks between 2005 and 2012.

The five banks chosen were United Bank for Africa (eighteen international subsidiaries), Access Bank (nine international subsidiaries), Guaranty Trust Bank (seven international subsidiaries), Diamond Bank (four international subsidiaries) and Keystone Bank (four international subsidiaries). The selection criteria were that all the banks have operations in international markets for the period of the study (2005–2012) and that all have operations in four or more countries.

Sampling of respondents and interviewees emphasized top management at the banks' headquarters and managing directors of international subsidiaries. Likert scale questionnaires were sent to four top management and board members of each bank. The questionnaire was designed to appraise how important certain stated factors were to a bank's management decision to embark on foreign market entry. Additionally, two managers out of the four from each bank who responded to the questionnaire were interviewed to gain further insight into their bank's strategies. In order to triangulate primary evidence, secondary data was also employed in a mixed methodology approach. The secondary data was sourced from bank annual reports and websites and databases of agencies like the World Bank and the International Monetary Fund (IMF).

Analysis of Likert Scale Data

Primary data was analyzed using the normal distribution fitting analysis (NDFA) approach. Stacey (2005) has shown this approach to be more reliable and valid in converting ordinal level data into interval level data, thus creating a numeric scale. According to Stacey (2005), constructs such as attitudes, perceptions and preferences are generally impossible to evaluate through direct observation; therefore, researchers resort to indirect data sources, typically using some sort of self-report methodology. The data gathered in the present study was qualitative and thus needed to be subjected to statistical transformation into quantitative data if parametric statistical methods were to be used. With NDFA this transformation can be done with greater reliability and validity than with most other stated methods, including the correspondence analysis method.

Essentially, the fundamental assumption of the methodology is that there is a distribution of perceptions about the range of issues/factors/items/variables presented in the survey. Because the response format is ordinal, it has no absolute, measurable, calibrated numeric values; therefore, the numeric measurement scale may be defined such that the distribution of responses follows a normal distribution (Stacey 2005). Along this numeric measurement scale, there are threshold values that separate participants' responses into ordinal categories. In the case of this research, the categories were "Not important", "Less important", "Important", "Very important" and "Extremely important". Four thresholds separated the five response categories.

Using normal statistical distribution parameters, such as population means and variance, the distribution of responses that is expected for each survey item can be calculated using the NORM.DIST function in Microsoft Excel. However, from the field data gathered from the questionnaire, we had the actual (i.e. observed) number of responses.

The methodology assumes arbitrary values for the means and variance of each of the survey items as well as the threshold values. While still using Microsoft Excel, the next step is to calculate a Chi-square goodness-of-fit statistic between the observed frequencies and the numeric model. If the Chi-square statistic is insignificant, there is no significant difference between the observed data and the numeric model and the means and variance in the model are reliable estimates of the means and variance of the survey responses.

Results

The data was collected and analyzed with the aim of answering the main question of this research. Evidence from the primary and secondary data was used to seek support for or to guide modifications to the propositions. Using these results, Proposition 1 was addressed.

Primary data was gathered from questionnaire responses, and the average responses to each question were collated, tabulated and analyzed using the NDFA approach (Tables A1 and A2, see appendix). In the sections that follow, this primary data is supplemented by secondary evidence from a variety of cited sources.

Internationalization to Follow Clients into Foreign Markets

Managers stated that client-following was a "very important" motivation for international expansion by Nigerian banks. Secondary data shows significant trade flows between Nigeria and other African countries. A report by the Brookings Institution points out that Africa's biggest economies are the biggest inter-regional traders. The report further states that Nigeria was Africa's second-biggest intra-regional exporter (Brookings Institution 2012). Additionally, comparative data also shows a high concentration of Nigerian banks in the countries that enjoy the largest exports from Nigeria, namely, Ghana, Côte D' Ivoire and Senegal. These are also countries that enjoy significant FDI from Nigerian firms (Table 3.1).

Thus, secondary data showing trade flows generally seems to support the primary response that client-following was a very important factor in a bank's foreign market entry decision.

Internationalization to Seek Opportunities in Growth Economies

Decision makers in the banks viewed the gross domestic product (GDP) growth rates of host countries as "very important" determinants of foreign

Table 3.1 Exports from Nigeria and the number of Nigerian bank subsidiaries in select SSA countries

Country	Number of Nigerian banks in the country	Exports from Nigeria		
		2008	2009	2010
Ghana	5	1847.47	301.93	437.44
Côte d' Ivoire	6	1818.50	1496.56	1256.43
Sierra Leone	7	7.41	4.56	3.44
Senegal	3	927.61	283.66	190.82
Burkina Faso	1	1085	8.30	51.40

Source: Africa Union Commission Yearbook on status of intra-African trade (2012)

market entry. This item was the highest ranked item according to the data analysis.

SSA countries have been the primary destination of Nigerian banks, and data from the IMF indicates that most SSA countries have been experiencing high growth rates in the past decade. Greater political stability has fuelled the economic growth in many SSA countries (World Bank 2010; IMF 2010).

In support of the primary data, secondary evidence shows that the countries with the highest population of Nigerian banks, namely Ghana (four banks), Sierra Leone (six banks) and Côte D' Ivoire (six banks), have experienced some of the highest GDP growth rates in SSA, and indeed in the world (see Table 3.2).

Internationalization to Seek Profit Opportunities in Host Countries

Responses by managers indicated that profit opportunities in host countries were a significant determinant of international expansion. Profit opportunities due to differentials in exchange rates and tax rates were considered "less important" than profit opportunities due to differentials in interest rates; profitability of the host countries' banking markets was found to be "important".

Table 3.2 GDP growth rates and macroeconomic indices of select SSA countries as compared to some Organisation for Economic Co-operation and Development (OECD) countries

Country	GDP growth rate(2010)	Interest rate (prime lending rates of commercial banks) 2011	Corporate tax rate (2011)
Cameroon	2.6	14.0	49.1
Congo DR	7.2	43.75	337.7
Côte d'Ivoire	3.0	4.3	44.3
Gabon	5.7	15.0	43.5
Gambia	5.0	28.0	283.5
Ghana	6.6	18.0	33.6
Kenya	5.3	15.05	42.6
Liberia	5.5	13.0	43.7
Nigeria	7.9	16.0	32.7
Sierra Leone	4.9	21.0	32.0
South Africa	2.8	9.0	31.0
UK	2.1	4.06	37.3
USA	3.0	3.25	46.7

Source: World Bank Development Indicators (2012), CIA factfile

Secondary data seems to support this finding. Regarding interest rate differentials between home and host countries, the two interest rate measures used in extant research are the prime lending rate of commercial banks to borrowers and the risk-free interest rate, which measures the rate at which governments sell so-called risk-free treasury bills. Analysis of secondary evidence seems to suggest that interest rate differentials between home and host countries were unlikely to be an important consideration for international expansion. Managers did not consider exchange rate differentials between their home and host countries to be important in their decision to enter foreign markets. Respondents noted that host country tax rate differentials were "less important" in their foreign market entry decisions.

Primary evidence shows that the profitability of SSA banking markets was an "important" factor for entry by Nigerian banks. The profitability of a banking market may be measured by returns on assets (ROAs) and returns on equity (ROEs), and secondary data shows that SSA banks have high values for both measures. In an empirical study of the profitability of banks in SSA, Flamini et al. (2009) found that commercial banks are very profitable in SSA, and they posited that apart from credit risk, higher ROAs are associated with larger bank size, activity diversification and private ownership of banks.

Internalization to Exploit Banks' Assets, Processes and Management Skills

Primary evidence shows that expansion to exploit O-advantages was an "important" factor in foreign market entry decisions. These O-advantages include a bank's reputation, size and capital, management processes and know-how, risk management and credit appraisal skills, and technology. Additional secondary evidence seems to support these primary responses.

Size

Respondents noted that the size and capital of their banks was a "very important" consideration for managers in their foreign market entry decision. Following its consolidation in 2005, the Nigerian banking market became the second biggest in SSA (Kasekende et al. 2009). Data from *The Banker* magazine shows that by 2010 Nigerian banks were among the largest banks in Africa by tier 1 capital and assets, at the time several were ranked among the top 1000 banks in the world (Table 3.3). Additional evidence shows that international market entry is typically pursued as a strategy mainly by the banks with the greatest capital and assets.

Reputation

Managers stated that the reputation of their banks was an "important" O-advantage to exploit in host markets. Studies have used the ranking of a bank in *The Banker* magazine as a proxy for its reputation (Qian and Delios 2008). Secondary data shows that by 2007 seven Nigerian banks were ranked among the top 1000 banks in the world according to the size of their tier 1 capital and assets. Additionally, ten Nigerian banks were ranked among the top twenty banks in Africa by 2010 (see Table 3.3).

Table 3.3 Size, capital, profitability, ranking and number of foreign market entries of Nigerian banks

Bank	Tier 1 capital ($M)	Assets ($M)	ROA (%)	ROE (%)	Ranking in Africa (2011)	No. of foreign operations (2012)
GTB	1362	7646	4.2	23.6	15	6
UBA	1084	10,737	0.2	1.9	20	18
Access Bank	1149	5342	2.0	9.3	18	10
Diamond Bank	750	3948	0.8	4.5	30	4
First Bank	2221	15,301	1.9	12.9	9	5
Zenith Bank	2405	12,578	2.6	13.8	8	5
Skye Bank	695	4474	1.7	10.9	31	3

Source: The Banker's Magazine, The African Banker Magazine, banks annual reports

Management Skills, Processes and Know-How

Primary evidence from the respondents denotes that managerial know-how and processes are valuable and "important" assets that can be exploited in foreign markets. Managers interviewed for additional insights pointed out that some Nigerian banks have developed unique management skills and processes that provide them with a competitive advantage in other SSA countries. Managers listed cost and profit efficiencies and expertise in doing business in a challenging environment as unique management knowledge.

Secondary evidence supports this finding. The profitability of a bank or banking market has been used as a proxy for management competence and performance (Focarelli and Pozzolo 2001). With an ROA averaging 3.01 in 2005 and 2.07 in 2006, the Nigerian banking market was one of the most profitable in SSA. Kasekende et al. (2009) stated that following the reform program of 2005 in Nigerian banking, most of the performance indicators of Nigerian banks satisfied high quality benchmarks, such as ROA, ROE, capital strength, asset size and soundness. Furthermore, Kiyota (2011) found that Nigerian banks, along with other SSA-owned international banks, developed profit and cost efficiencies that enabled them to expand and compete against domestic banks in SSA.

Added to this, bank managements have developed unique capabilities in the cause of providing banking services in Nigeria. Managers interviewed believed that the most important aspect of this know-how was their expertise in doing business in a challenging business environment.

Secondary evidence reveals similarities in the physical and institutional environments between Nigeria and many SSA countries, but circumstances have sometimes presented more difficulty for banks in Nigeria. These physical similarities include low levels of electricity generation and consumption per capita and poor telecommunications infrastructure. Similarities in the level of institutional development include the same levels of development of borrower information and of the judiciary. Nigeria and many SSA countries also share similarities in levels of corruption and rule-based governance, like creditor protection and property rights (Table 3.4).

Table 3.4 Indicators of development in select SSA, South American, Asian and OECD countries

Country	Telephone subscriptions per 100 (2009)		Electricity per capita (2009)	Dept. of credit information (1–10)	Ease of Doing Business ranking (2012)	Property rights and rule-based governance (2011)
	Fixed line	Mobile				
Cameroon	3	44	271	2		2.5
Congo DR	0	18	104	0	178	2.0
Côte d'Ivoire	1	76	203	1	167	2.0
Gabon	2	107	922	2	156	
Gambia	3	86	–	0	149	3.0
Ghana	1	71	265	3	63	3.5
Kenya	1	62	147	4	109	2.5
Liberia	0	39		1	151	2.5
Nigeria	1	55	121	0	137	2.5
Sierra Leone	0	34	–	0	141	2.5
South Africa	8	101	532	6	35	
UK	4	130	5692	6	6	
USA	49	90	12,914	6	4	

Source: WD Source: WDI, World Bank Doing Business Index (2012)

The challenges faced by businesses due to the low levels of institutional development in Nigeria are revealed by the country's low rank of 137 in the 2012 World Bank Ease of Doing Business Index. This index outlines the level of development of institutions and the availability of regulations that facilitate the setting up and enforcement of property rights for businesses in various country's.

This evidence suggests that Nigerian banks have developed capabilities, know-how and processes for conducting business profitably in an environment with low infrastructural and institutional development. It is these capabilities that give them a competitive advantage in other SSA countries (Claessens and van Horen 2008).

Risk Management and Credit Appraisal Know-How

A bank's credit risk appraisal knowledge was viewed as an "important" asset. The managers interviewed saw the ability of their officers to appraise risk when lending money to borrowers, especially in markets with little or no credit information on borrowers, as an intangible asset that gave them a competitive advantage when transferring to foreign markets.

Credit risk is high in most SSA countries, including Nigeria, because of limited information on borrowers and low creditors' rights (see Table 3.4). Despite these risks, data shows that credit to the private sector as a percentage of GDP by banks in Nigeria is among the highest in SSA. Thus, secondary data, in line with the primary responses, suggests that Nigerian banks have developed other means of risk appraisal and information generation about borrowers. Most notable among these measures to mitigate risk is relationship banking. Kasekende et al. (2009) noted the increased investment of Nigerian banks in personal (relationship) banking following the consolidation program of 2005.

Secondary data shows the investment of Nigerian banks in branch networks to mobilize information on clients and deposits (Table 3.5).

Table 3.5 Number of branches of case study banks in selected SSA countries at the end of 2012

Bank	Ghana	Sierra Leone	Gambia	Burkina Faso	Benin	Côte d'Ivoire
Access	32	4	5	–	–	2
UBA	24	5	–	20	11	5
GTB	22	9	15	–	–	1
Diamond	–	–	–	–	18	1
Keystone	–	–	6	–	–	–

Source: Banks' annual reports

Knowledge of Business Cultures in Host Markets

Managers asserted that knowledge of the business cultures and institutions of host countries was a "less important" factor for the banks in their decisions to enter foreign markets. Secondary evidence corroborates the assertion of the respondents, as most Nigerian banks entered foreign markets in SSA with a high equity entry mode (subsidiaries) despite not having operated in these markets before and without any prior experience of foreign market entry.

Technological Assets

Primary evidence from interviewees shows that exploitation of the technological assets of a bank was a "very important" motive for internationalization. Secondary evidence also shows increased investment in distribution channels like ATM machines made by Nigerian banks in both their home and international operations.

International Expansion for Strategic Reasons

Bank internationalization can be a deliberate strategic decision. Primary data reveals the relative importance of different components of strategic motivation as factors that influenced international market entry. These may include risk diversification, oligopolistic reaction and management's intentional decision to expand. Interviewees noted that risk diversification was an "important" motivating factor for international expansion. Managers also asserted that oligopolistic reaction was an "important" factor in their decision to enter foreign markets. Qian and Delios (2008) used the pace of international market entry by banks from the same country into a particular host country as a proxy for oligopolistic reaction.

Secondary evidence seems to suggest a "bandwagon effect" in the expansion of Nigerian banks into foreign markets. An example is the pace of entry into Ghana by Nigerian banks. Entry into Ghana by UBA in 2004 was followed swiftly by entry by other Nigerian banks. By 2008 there were six Nigerian banks in Ghana. This suggests that entry into Ghana by UBA may have triggered a bandwagon effect that led other banks to enter also (Table 3.6). Thus, primary and secondary evidence show that Nigerian banks reacted to the actions of their competitors in expanding internationally.

Respondents noted that the role of managerial intentionality was cited as a "very important" reason for the decision to internationalize. Indeed, this item was ranked third by respondents. Secondary evidence on managerial intentionality can also be inferred from the official vision statements of the banks. Access Bank desires "to be the most respected bank in Africa". GTB wants "to be one of the top three banks in Africa by 2016". UBA yearns "to be Africa's global bank", while Diamond Bank aims to be "a strong financial services institution with effective presence in Nigeria, Africa and indeed all key financial centres of the world".

Thus, both the primary and secondary evidence agree that managerial intentionality is a significant strategic reason for banks' international expansion (Table 3.7).

Table 3.6 Foreign market entries made by some Nigerian banks between 2000 and 2012

	Number of foreign market entries					
Bank	2000	2004	2006	2008	2010	2012
GTB	–	2	3	4	5	6
UBA	–	1	2	7	16	18
Access	–	–	1	7	10	10
Diamond	–	1	1	1	1	4
Zenith	–	–	2	3	4	5
Keystone Bank	–	–	1	2	4	4
Skye	–	–	–	2	3	3

Source: Banks' annual reports

Table 3.7 Primary and secondary evidence for Proposition 1 (P1)

P1: Interview question topics	Primary evidence	Secondary evidence	Conclusions on P1
Client-following	Very Important	Consistent	Consistent
GDP growth rate of host	Very Important	Consistent	Consistent
Interest rate differentials	Important	Consistent	Consistent
Exchange rate differentials	Less important	Contradictory	Inconsistent
Tax rate differentials	Less important	Contradictory	Inconsistent
Profitability of host banking market	Important	Consistent	Consistent
To exploit bank's size	Very important	Consistent	Consistent
To exploit bank's reputation	Important	Consistent	Consistent
To exploit bank's management skill	Important	Consistent	Consistent
To exploit credit appraisal know-how	Important	Consistent	Consistent
To exploit bank's knowledge of host country business culture	Less Important	Contradictory	Inconsistent
To exploit bank's technology assets	Very important	Consistent	Consistent
Strategic motivation to diversify risk	Important	Consistent	Consistent
Strategic reaction to competitor action	Important	Consistent	Consistent
Management's desire to expand brand	Very important	Consistent	Consistent

Conclusions on Proposition 1

From the evidence, therefore, Proposition 1 is largely supported. We now address the evidence relating to Proposition 2, which states that "a bank's motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market".

Home Country Conditions

Regulations

Primary evidence shows that regulations by the CBN that permitted foreign market entry by Nigerian banks were an "important" factor in the decision by individual banks to enter foreign markets. Secondary evidence shows that there were extant regulations from the CBN permitting international market entry by the banks

Structure and Competitiveness of the Domestic Banking Market

Respondents stated that the structure and competitiveness of the Nigerian banking market was a "less important" factor influencing their decision to expand internationally. Managers who were interviewed denied the notion that their foreign market entry was due to competitive pressure in the Nigerian banking market.

Secondary evidence on the structure and competitiveness of the Nigerian banking market can be inferred from the findings of several empirical studies that found the structure to be oligopolistic (Bikker and Spierdijk 2008; Zhao and Murinde 2011; Okulue et al. 2012)

An oligopolistic structure suggests that the Nigerian banking market is neither monopolistic nor perfectly competitive. Thus, the industry was not so concentrated as to confer market power on only a few banks and force others to seek new markets, nor was it very competitive.

Thus, secondary evidence suggests that the structure of the Nigerian banking market might not have been a determining factor in the foreign market entry by Nigerian banks (Table 3.8).

Table 3.8 Primary and secondary findings for Proposition 2 (P2)

P2: Interview question topics	Primary evidence	Secondary evidence	Conclusions on P2
Home country regulations	Important	Consistent	Consistent
Structure and competitiveness of home country banking market	Less Important	Contradictory	Inconsistent

Conclusions on Proposition 2

Thus, Proposition 2 is only partially supported by the evidence gathered.

Findings and Revisions to Propositions

Some measure of inconsistency was found between the propositions declared at the beginning of the research and the findings from the primary and secondary evidence gathered. In line with the positivist case study approach, these propositions may be revised or modified.

Proposition 1

Primary and secondary evidence indicate that foreign market entry by Nigerian banks was driven mainly by managerial intentionality, client-following, exploitation of the assets that the banks possessed and profit opportunities in most SSA banking markets. Internationalization was a deliberate strategic objective of Nigerian banks to become dominant players in the financial services sector in Africa. Africa has become the strategic scope of many Nigerian banks, and the banks' mission and vision statements focus on the African banking market. Additionally, these banks possess tangible and intangible assets that they sought to exploit in SSA markets and which helped them to overcome the liability of foreignness. These assets include the banks' size and capital, reputation and brand name, management skills, credit appraisal know-how and technological assets.

Regarding profit opportunities in the host countries, some factors that previous studies had identified as being important in determining foreign market entry by MNBs were found to be less important to the foreign market entry decisions of Nigerian banks. Arbitrage from differentials in interest, exchange and tax rates between home and host countries were found to be less important, while the profitability of the host country banking market was found to be important.

Evidence on the strategic motivation for foreign market entry shows that banks found the diversification of risk and the need to respond to competitors' actions to be "important" factors for foreign market entry. Managerial intentionality, on the other hand, was found to be "very important". Managerial intentionality was manifested by the desire of Nigerian banks to be dominant financial services providers across Africa. Proposition 1 was found to be largely supported, but the proposition has been reordered to reflect the most important factors that prompted foreign market entry by the banks.

Thus, Proposition 1 has therefore been revised (changes in italics) to

"A bank's motivation to expand internationally will be influenced by a need to *follow its clients into foreign markets*, *seek profit opportunities in the hosts' banking markets*, and *fulfil the strategic aspirations of its managers*."

Proposition 2

Evidence shows that home country regulations were important to the banks investigated in determining foreign market entry. On the other hand, competitive pressure in the home country banking market was found to be less important. Thus, Proposition 2 was only partially supported.

Proposition 2 has therefore been revised to

"A bank's motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market, *unless the banks are from home countries with low levels of financial development.*"

Implications of the Research Findings

This research has revealed strong relationships between bank motivations for internationalization and factors that are under the control of governments. The CBN-initiated consolidation of the Nigerian banking market in 2005 was successful and led to an increase in the capital and assets of banks. A significant effect of this increased capital was a quest by the managers of several Nigerian banks to have their banks become dominant financial service providers in Africa. This change in the strategic scope of these banks led to a scramble to enter SSA markets. At the same time, host country governments were active in attracting banking FDI. Additionally, it was found that banks that possess significant amounts of tangible and intangible assets can operate profitably in host markets. This effect is amplified if those markets possess significant opportunities for profit.

Contributions

This research has essentially developed an explorative explanation of the phenomenon of internationalization of Nigerian banks. The research emphasized the various national, cultural and institutional contexts of SSA countries that may have influenced the findings. For these reasons, this research was highly contextual and the findings are largely idiosyncratic, but it should be noted that the research has sought high levels of validity and reliability through the positivist case study approach.

Limitations and Suggestions for Further Studies

This research was mainly explorative. It relied on a small sample of banks and respondents in Nigeria and some SSA countries chosen through non-parametric sampling methods. Despite methodological measures taken to increase validity and reliability, the realist leanings of the study emphasized the local context of individual respondents as well as the local context in which the research was conducted. This, however, implies multiple realities and the inapplicability of highly generalized, deductive theories.

There are now a number of companies in Africa that can be called "African multinationals". These include South African telecommunications firm MTN and retailer ShopRite and Nigerian cement manufacturer Dangote Industries, among others. These firms have made significant market entries into many countries in SSA and the Middle East. Factors influencing their decisions to enter foreign markets and the chosen mode of entry of these African multinational companies should be further studied.

Appendix

Table A1 Tabulation of observed and expected responses and distribution parameters and analysis using normal distribution fitting analysis (NDFA) algorithm

	1	2	31	32	33	34	41	42
Observed frequencies	To extend banking services to your clients who have expanded abroad	GDP growth rate of host country	3.1. Interest rate differential between Nigeria and host country	3.2. Exchange rate differential between Nigeria and host country currency	3.3. Tax rate differential between Nigeria and host country	3.4. Profitability of host country banking market (high returns on asset [ROA] & returns on equity [ROE])	4.1 To exploit the bank's size and capital	4.2 To exploit the bank's reputation
Not important	0	0	0	0	1	0	0	1
Less important	1	1	8	13	14	2	0	0
Important	5	5	4	4	4	8	6	6
Very important	7	6	6	3	1	7	12	11
Extremely important	7	8	2	0	0	3	2	2
n =	20	20	20	20	20	20	20	20
Distribution parameters								
μ =	0.7074	0.7889	−0.2976	−0.8399	−1.0837	0.2114	0.4073	0.1099
σ^2 =	0.9406	1.1240	1.1415	0.5714	0.4328	0.6427	0.2934	1.0719
Expected frequencies								
Not important	0.0	0.1	0.9	1.0	1.2	0.0	0.0	0.3
Less important	1.4	1.5	6.1	10.4	13.1	2.5	0.4	4.0
Important	3.9	3.6	5.9	6.5	4.9	6.4	5.4	5.7
Very important	8.0	7.4	5.3	2.0	0.7	8.5	12.4	6.8
Extremely important	6.6	7.5	1.8	0.1	0.0	2.5	1.8	3.2
χ^2 contributions								
Not important	0.0384	0.0650	0.9223	0.9645	0.0452	0.0399	0.0000	1.3539
Less important	0.1207	0.1787	0.5896	0.6245	0.0606	0.0952	0.3989	3.9780
Important	0.3139	0.5417	0.6184	0.9474	0.1814	0.3900	0.0742	0.0212
Very important	0.1350	0.2484	0.1056	0.4734	0.1286	0.2807	0.0146	2.5882
Extremely important	0.0227	0.0392	0.0205	0.0908	0.0076	0.0972	0.0206	0.4705
40.5926	0.6307	1.0730	2.2564	3.1006	0.4234	0.9030	0.5083	8.4118
Solver parameters	τ1	τ2	τ3	τw4				
Thresholds	−2.0965	−0.7056	0.1051	1.1324				
Means	0.7768	0.8662	−0.3268	−0.9223	−1.1900	0.2322	0.4473	0.1207
Variances	1.1342	1.3553	1.3763	0.6890	0.5218	0.7749	0.35537	1.2924
To prevent division by zero: 0								
t-value	3.2618	3.3276	−1.2457	−4.9692	−7.3672	1.1795	3.3633	0.4746
p-value	0.0043	0.0037	0.2288	0.0001	0.0000	0.2536	0.0035	0.6408

The results reported in Table A1 are now summarized in Table A2

43	44	45	46	51	52	53	61	62	
4.3. To exploit the bank's management skills, processes and know-how	4.4. To exploit the bank's management and credit appraisal know-how	4.5. To exploit the bank's knowledge of institutional and business culture of various international markets	4.6 To exploit the bank's technological assets	5.1. To diversify risk	5.2. To respond to other industry players' expansion (oligo-polistic reaction)	5.3. Manage-ment's desire to expand brand internatio-nally (managerial intentionality)	6.1 Regula-tions of CBN regarding international expansion (as of 2005)	6.2. Structure and compe-titiveness of Nigerian banking market	
1	0	0	0	0	1	0	0		
0	1	4	0	7	5	1	5	8	
8	8	11	9	4	8	2	6	8	
9	9	5	11	9	4	14	3	2	
2	2	0	0	0	2	3	6	2	
20	20	20	20	20	20	20	20	20	
−0.0041	0.2421	−0.2564	0.1354	−0.1879	−0.2850	0.5331	0.2137	−0.3946	
1.0083	0.4180	0.2762	0.0574	0.7339	1.0636	0.3988	1.8050	0.9619	
0.4	0.0	0.0	0.3	0.8	0.0	0.9	0.8		
4.5	1.4	3.9	0.0	5.2	6.0	0.5	4.1	6.7	
6.0	6.9	11.2	9.0	7.2	6.1	4.5	4.4	6.4	
6.6	10.0	4.8	11.0	6.1	5.4	11.6	5.7	4.9	
2.6	1.7	0.1	0.0	1.2	1.7	3.4	4.9	1.2	
1.0614	0.0030	0.0046	0.0000	0.2588	0.0558	0.0003	0.8550	0.8268	
4.4760	0.1261	0.0016	0.0027	0.6254	0.1803	0.5068	0.2061	0.2589	
0.6529	0.1773	0.0022	0.0000	1.4361	0.5821	1.3733	0.5669	0.4088	
0.9102	0.0988	0.0058	0.0000	1.3893	0.3447	0.4989	1.2815	1.7242	
0.1293	0.0588	0.0822	0.0015	1.2329	0.0555	0.0531	0.2269	0.5426	
7.2298	0.4640	0.0964	0.0042	4.9425	1.2185	2.4324	3.1364	3.7612	Chi-text *p*-value 0.9925
−0.0045	0.2659	−0.2816	0.1486	−0.2063	−0.3130	0.5854	0.2347	−0.4333	
1.2158	0.5040	0.3330	0.0692	0.8849	1.2824	0.4808	2.1763	1.1598	
−0.0183	1.6748	−2.1822	2.5278	−0.9808	−1.2359	3.7755	0.7115	−1.7993	
0.9856	0.1113	0.0426	0.0211	0.3397	0.2324	0.0014	0.4859	0.0888	

Table A2 Summary of values and their interpretation following analysis of responses to questionnaire

Item/factor	n	μ	σ^2	Rank	t-value	p-value	Significance	Degree of importance of factor
1. To extend banking services to your clients who have expanded abroad	20	0.71	0.94	2	0.26	043	Significantly greater than average, at $\alpha = 0.01$	Very Important
2. GDP growth rate of host country	20	0.79	1.12	1	3.33	0.0037	Significantly greater than average, at $\alpha = 0.01$	Very Important
3.i. Interest rate differential between Nigeria and host country	20	−0.30	1.14	14	−1.25	0.2288	Not significantly different from average	Important
3.ii. Exchange rate differential between Nigerian and host country currency	20	−0.84	0.57	16	−4.97	0.0001	Significantly less than average, at $\alpha = 0.01$	Less Important
3. iii. Tax rate differential between Nigeria and host country	20	−1.08	0.43	17	7.37	0.0000	Significantly less than average, at $\alpha = 0.01$	Less Important
3. iv. Profitability of host country banking market (high ROA and ROE)	20	0.21	0.64	7	1.18	0.2536	Not significantly different from average	Important
4. i. To exploit the bank's size and capital	20	0.41	0.29	4	3.36	0.0035	Significantly greater than average, at $\alpha = 0.01$	Very Important
4. ii. To exploit the bank's reputation	20	0.11	1.07	9	0.47	0.6408	Not significantly different from average	Important
4. iii. To exploit the bank's management skills, processes and know-how	20	0.00	1.01	10	−0.02	0.9856	Not significantly different from average	Important

4. iv.	To exploit the bank's risk management and credit appraisal know-how	20	0.24	0.42	5	0.67	1113	Not significantly different from average	Important
4. v.	To exploit the bank's knowledge of institutional and business culture of various international markets	20	–0.26	0.28	12	–2.18	0.0426	Significantly less than average, at $\alpha = 0.05$	Less Important
4. vi.	To exploit the bank's technological assets	20	0.14	0.06	8	2.53	0211	Significantly greater than average, at $\alpha = 0.05$	Very Important
5. i.	To diversify risk	20	–0.19	0.73	11	–0.98	0.3397	Not significantly different from average	Important
5. ii.	To respond to other industry players' expansion (oligopolistic reaction)	20	–0.29	1.06	13	–1.24	0.2324	Not significantly different from average	Important
5. iii.	Management's desire to expand brand internationally (managerial intentionality)	20	0.53	0.40	3	3.78	0.0014	Significantly greater than average, at $\alpha = 0.01$	Very Important
6. i.	Regulations of CBN regarding international expansion (as of 2005)	20	0.21	1.80	6	0.71	0.4859	Not significantly different from average	Important
6. ii.	Structure and competitiveness of Nigerian banking market	20	–0.39	0.96	15	–1.80	0.0888	Significantly less than average, at $\alpha = 0.01$	Less Important

Legend: n, sample size; μ, mean; σ^2 standard deviation

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