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## Global vs. regional approaches to the internationalisation process of Nigerian banks: some preliminary evidences

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Day 1

**Global vs. Regional Approaches to the Internationalisation Process of Nigerian Banks:  
Some preliminary evidences**

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Abstract

Research investigating internationalisation process of service firms from developing countries is limited. This paper draws on extant work on internationalisation of the firm, services' internationalisation and proposes conceptual framework that investigates the internationalisation process of three leading Nigerian banks namely; Zenith Bank Nigeria (ZBN)Plc, First Bank of Nigeria (FBN) Plc and Intercontinental Bank Plc. This work attempts to evaluate the internationalisation process of these financial service firms to the UK market. It seeks to understand the driving forces behind these banks' motives for internationalisation to UK; the various influences that might have affected their decisions, the several internationalisation routes and strategies they might have followed in doing so; and the next strategies they might adopt in furthering their internationalisation process. This work contributes to some understanding of the reasons why service firms from developing countries internationalising to advanced locations like the UK. The analyses and findings of this study offer unique insights into the internationalisation processes of the three case banks,

and examines how their different pathways was determined by a balancing act of leveraging accumulated global and regional strengths to achieved sustained international growth.

*Key words: global, regional, internationalisation process, banking, Nigeria*

### 1.0 INTRODUCTION

The last two decades have seen a continuous surge in the international expansion of firms from developing economies. In addition to their growing role in global trade, leading emerging economies (mainly the BRIC) are contributing significantly to increasing outflows of foreign direct investment (FDI) and cross-border mergers and acquisitions from these countries (de Caldas Lima, 2008). According to the 2008 World Investment Report, outward flows of FDI from developing countries rose from about US\$6 billion between 1989 and 1991 to US\$225 billion in 2007. As a percentage of total global outflows, the share of developing countries grew from 2.7% to nearly 13.0% during this period ((Athreye and Kapur, 2009, p.1). Given that the foremost contributors to this trend have been the BRIC economies, most research to date concerned with the internationalisation process of firms from developing countries have focused mainly on the evidences from these countries. However, joining this trend at a much gradual pace are firms from Sub-Saharan Africa (SSA) whose internationalisation process but have received even lesser academic attention (Bakunda, 2003; Mtigwe, 2005). This research attempts to make a small contribution in that respect by analysing the internationalisation process of three of some case banks in Nigeria. The gist of this research revolves around the following question: What are the strategic motives, challenges and pathways underpinning the internationalisation process of financial service firms (like banks) from a developing country context (here, Nigeria) to a developed country context (here, the UK)?

The contributions of this paper to the contemporary literature are three-fold: First, it explores the theoretical arguments in support of an integrated conceptualisation of the internationalisation of developing country firms. Second, it proposes a framework to enable such an integration noting its implications for studying some of the key questions addressed in internationalisation studies, e.g. motives and modes of internationalisation, whilst integrating the-not-so necessarily divergent perspectives of regionalisation and globalisation. Third, it frames a ‘regional-global expansion playspace’ to strategise the internationalisation for developing country firms, based on extant internationalisation literature and explores some of the implications for the international strategy of firms from SSA.

The remainder of the paper is organised as follows: The next section provides an overview of the main theories of internationalisation and draws attention to their limitations with regards to the analysis of the internationalisation process of developing country firms. Based on these discussions, an alternative conceptual framework is discussed that effectively combines the degree of a firm’s international involvement to the scope of leveraging their global and regional strengths for international advantage and expansion. This is followed by the presentation and discussion of the findings of the study before elaborating on the research implications of the proposed conceptualisations.

### 2.0 LITERATURE REVIEW

Rugman and Collinson (2006, p.42) simply express internationalisation as “*the process by which a firm enters foreign markets.*” This could arguably be one of the simplest definitions to have emerged out of a well-accumulated wealth of knowledge on the internationalisation process of the firm over the last three decades (see, Blomstermo & Sharma, 2003).

## INTERNATIONALISATION PROCESS OF NIGERIAN BANKS

Blomstermo & Sharma's study provides a concise review of some of the most significant research to date on the internationalisation of the firm. This study notes on diverse array of frameworks to explain why firms internationalise and supported by different intellectual domains. Several theories from the international business literature have been presented to explain why firms engage in international operations. First, monopolistic advantage theory suggests firms will internationalize when they can use their established advantages in foreign countries at little or no additional cost (Caves, 1982). Second, product cycle theory suggests firms internationalize in an attempt to protect their existing markets of mature products (Vernon, 1966). Third, the stage theory of internationalization suggests a firm's international operations will gradually increase as it gains knowledge and experience in the international arena and as it develops relationships that cross international boundaries (Johanson and Wiedersheim-Paul, 1978; Bilkey and Tesar, 1977; Johanson and Vahlne, 1977, 2003, 2006). Fourth, oligopolistic reaction theory suggests firms will try to reduce their risk by imitating competing firms' entrance into foreign operations (Knickerbocker, 1973). Fifth, internationalization theory suggests firms internationalize to reduce costs by internationalizing the transfer of goods and services across national borders where it is cheaper to do so (Buckley and Casson, 1976). Sixth, the eclectic theory of international production seeks to integrate internationalization theory with location-specific elements of international economies, such as labor costs, barriers to trade and transport costs (Dunning, 1988, 2001). Seventh, strategic choice theory suggests firms facing strategic complexities respond opportunistically to changing market opportunities through a careful evaluation of risks with managers actively determining many features of a firm's internationalization (O'Farrell et al., 1998a). Eighth, a network theory of internationalization has been proposed. Many knowledge-based business service firms, in particular, achieve their competitive advantage by developing mutually supportive interactions with other service firms (O'Farrell et al., 1998b).

Ninth, transaction cost theory suggests firms choose the least-cost international location for each activity they perform and grow by internationalizing markets, bringing interdependent activities under common ownership and control up to the point where the benefits of further internationalization are outweighed by the costs. Essentially, all these theories seem to conclude on the following: first, there is no one universal theory of internationalisation, and second, there are considerable differences in the patterns, pace and intensity of internationalisation of firms (see, Boojihawon, 2007)

As such, the internationalisation process of firms has been studied from several perspectives. Most of the early studies posit that firms internationalise in an incremental way, following a series of evolutionary 'stages'. Firms choose to enter 'psychically' close foreign markets and gradually commit greater resources as their involvement deepens in those markets (for a comprehensive review see, Leonidou and Katsikeas, 1996). Critics and mostly scholars analysing the internationalisation patterns of 'born globals' (Moen, 2002; Knight et al., 2004) argue that such conceptualisation wrongly assume the step-wise progression and forward momentum of firms and ignore the dynamic nature of internationalisation (Fletcher, 2001; Bell et al., 2003).

In contrast to the stages view, the 'learning' or 'processual' approach tends to explain rather than describe internationalisation behaviour (Fletcher, 2001). The proponents of this view argue that internationalisation is an ongoing process of evolution whereby the firm increases its international involvement over time as a function of increased knowledge of foreign commitments and markets (Johanson and Vahlne, 1977, 2003; Melin, 1992). Different orientations can be established from this school of thought, viz, the Uppsala model (Johanson and Vahlne 1977), Bilkey and Tesar's (1977) Innovation model, Reid (1981). Figure 1.1 is Blomstermo and Sharma's (2003) illustration of various process models to succinctly describe the outlook of the various internationalisation process theories.

**Fig. 1.1**

|                                      |                                  |                                |                        |                                |                    |
|--------------------------------------|----------------------------------|--------------------------------|------------------------|--------------------------------|--------------------|
| <b>Authors</b>                       | <i>Johanson and Valne (1977)</i> | <i>Bilkey and Tesar (1977)</i> | <i>Cavusgil (1980)</i> | <i>Czinkota (1982)</i>         | <i>Reid (1984)</i> |
| <b>Number of stages</b>              | n/a                              | 6                              | 5                      | 6                              | 5                  |
| <b>Base theory</b>                   | Learning theory                  | Innovation theory              | Learning theory        | Innovation & management theory | Management theory  |
| <b>Adaptive/ Reactive/ proactive</b> | Adaptive                         | Reactive                       | Reactive               | Proactive                      | Proactive          |
| <b>Size</b>                          | All firms                        | SMEs                           | SMEs                   | SMEs                           | SMEs               |
| <b>Time</b>                          | Unbounded                        | Bounded                        | Bounded                | Bounded                        | Bounded            |

Source; Bloomstermo and Sharma (2003: 21)

As illustrated above, it will be observed that the grouse with these process theories (excluding the learning theory) is that they tend to have a bounded time and specified number of stages which is very unrealistic. However, it is worth indicating that some proponents of the stages model like Roberts (1999), and Schneider and Barsoux (2003) agree that it is not imperative that firms have to go through every stage in their internationalisation process. The Johanson and Valne's Uppsala model is limitless and more flexible, and thus, is more applicable.

Rialp and Rialp (2001) contend that the two major approaches of the U-model are the concept of Establishment Chain and Psychological Distance. Exponents of this school (Johanson and Weidersheim-Paul 1975, Johanson and Valne 1977, Roberts 1999, Eriksson *et al* 2000, Contractor 2007) argue that enterprises first start by exporting to countries which tend to be culturally similar to theirs and go through a process known as the *establishment chain* to reach the final stage of having foreign affiliates and setting up subsidiaries. Rialp and Rialp (2001, p.71) postulates that “*over time and through experience, firms increase their foreign market commitment*

*and this, in turn, enhances markets knowledge leading to further commitment in more distinct markets.”*

Rialp and Rialp's work complement Eriksson *et al* (2000) seminal work on *path dependence and knowledge development*. Drawing empirical evidence from data of 362 Swedish service firms Eriksson *et al* found that lack of *experiential knowledge* (that is, knowledge gained from experience in the process of internationalisation) is costly in internationalisation; and that in the first step of internationalisation, cultural distance has no effect on business and institutional knowledge. Weisfelder (2001) observed however, that experience overseas has less value when one assumes that foreign markets are dissimilar. The issue of cost versus benefits of internationalisation has long been debated, and experiential knowledge does not quite make up the benefits and motives of internationalising. Moreover, this research is based on Swedish firms which have accrued knowledge from other organisations that have operated successfully within the environment of developed countries and may or may not apply within the context of firms in developing countries, like Nigeria. Banks, in particular, are skills intensive financial service firms which require ample business and institutional knowledge in any environment they operate. When seeking new markets, they are faced with new challenges which they have to tackle. The costs of internationalising from a developing country to a developed country become more severe as they lack the tenets and advantages of advanced countries. Therefore engaging in international business without experiential knowledge would be risky as well as costly since many mistakes could be made.

Along similar lines, there are also divergent views as to motives of internationalisation; and scholars like (Barreto and daRocha , 2001; Cardone-Riportella *et al* 2003) have identified different blocs of research that deal with this issue. They are: the rational motives (which claim that business strategies are rational/deliberate) and the non-rational or incremental process (where business decisions tend to be emergent or

evolutionary). Closely associated with this strand of work is the school of thought which expounds that firm's performance increases with degree of internationalisation (DOI). Some contemporary works seem to have a strong belief that performance increases in line with degree of internationalisation. Hence this can suffice as a rationale for increased internationalisation. Beamish *et al* (1997), Bausch and Kris (2007), Bobillo *et al* (2007), Contractor (2007), Elango and Sethi (2007), Sledge (2007) ideally share the same view that the degree of internationalisation fosters performance. It is worth indicating that Bobillo *et al* (2007), Elango and Sethi (2007), Glaum and Oesterle (2007), in their empirical studies, were also able to establish that performance improves with DOI. Then again, Elango and Sethi (2007) offer a unique contribution to this approach. Using samples and statistics, they show that *MNC's country of origin* impacts the internationalisation cum performance relationship. Although lacking extensive research, Bobillo *et al* (2007) added that the performance impact may depend on degree of competition in the company's sector, the *geographical and cultural distance* between the company's home and the host country.

It has been argued (based on the afore mentioned work by Johanson and Valne 1977) that Cultural Distance (Eriksson *et al* 2000, Tsoebl 2002, Bobillo *et al* 2007) or Psychic Distance (O'Grady and Lane 1996, Johnson and Turner 2003, Rugman and Collinson 2006) – which can be used interchangeably – motivates firms when choosing markets to enter. Psychic distance can be viewed as the extent to which home market perceives foreign market as similar in terms of cultural and business differences (Rugman and Collinson 2006). Johnson and Turner (2003) add that psychic distance is important in the Uppsala model where firms are inclined to internationalise to markets that have some familiarity in terms of culture, education, language, political system and so on. This view is supported by O'Grady and Lane (1996), and Bobillo *et al* (2007). Psychic distance is a strong motivating factor in the Nigerian context when choosing a location. They believe that they have some sort of socio-cultural similarity with the British as a former colony of the British

Empire which was inculcated with the same educational system, socio-cultural beliefs, political system and the English language as their *lingua franca*. But then, the reverse is the case for the Britons who sometimes view Nigeria as an African country with a diverse cultural background. Firms in developed countries equally try not to adopt culture as a motive for market entry. Empirical research conducted by Datta and Puia (1995) on 13 Dutch firms engaged in foreign ventures with 225 foreign firms, led Schneider and Barsoux (2003: 139) to posit that “*the greater the cultural distance, the less value created. Hence, managers have generally been found to discount the importance of the role of culture*”.

Cardone-Reportella *et al* (2003) further try to establish if Spanish and Finnish financial-service firms were *customer-following*, *marketing-seeking* or *follow-the-leader*. The results were not conclusive but in Finland, big banks were found to be market seeking and small ones are customer oriented as well as follow the leader. In Spain there was not much relationship between cultural distance and internationalisation of banks. However, pertaining to the context of Nigerian banks within the African market, they tend to be (and should be) market seekers. This is exemplified in the aggressive way in which banks such as FBN with more than 400 branches has been gradually flooding the (West) African Market since the consolidation exercise. Conversely, they should be careful if adopting a market seeking approach in developed competitive markets such as the UK. This is so as not to attract unwanted competition and retaliation to strategy. One could equally argue that some Nigerian banks have been influenced by follow-the-leader approach since the internationalisation of FBN has propelled by the need to service their international clientele.

Relatively recent works, on the other hand (Axinn and Matthyssens 2001, Blomstermo and Sharma 2003, Peterson *et al* 2003) opined that e-business/commerce, internet or ITC allows enterprises to accelerate market entry and penetration, save costs, and expedite product/service transaction and development. This has ushered the growth of *born-global* firms. Beamish *et al* (1997), Barreta and Rocha (2001), Jeannet and Hennessey (2004) concur

that firms can internationalise without starting from the local market. Similarly, by developing the international springboard perspective to explain behaviours of EM MNEs (emerging market multinational enterprises) Luo and Tung (2007) were able to identify the challenges and obstacles militating against the process of internationalisation. It was observed that the home-country's underdeveloped stock markets, poor accountability, and lack of transparency and corporate governance of EM MNEs are generally weak. Also lack of global experience, managerial competence, and professional expertise are bottlenecks for many EM MNEs. There equally exist weaker product innovation and process innovation compared with advanced market and NIC MNEs (*ibid*). These limitations, according to Luo and Tung (2007) tarnish organizational reputation and hinder shareholder confidence in the process of internationalization. Even though this analysis is a well fitted general statement on the major limitations of service firms from developing countries, Luo and Tung (2007) failed to take cognisance of the issue that not every emerging market suffers from underdeveloped stock markets, poor accountability and weak corporate governance. A June, 2008 report from Financial Times identified the Nigerian Stock market "one of the best performing in the world". Although it goes further to state that lack of proper corporate governance and accountability in the Nigerian market is rampant, it could be suggested that the modus operandi adopted by Nigerian banks when operating in the international scene deviates from how they function in their home market.

There are therefore several factors and issues at play that may be either promote or hinder the internationalisation of developing country firms in a significant way. To enable the theoretical framework of analysis for this research a more contingent mindset is adopted in order to analyse the underpinning issues holistically. In support for such an approach, the 'contingency' approach argues that firms' international development is determined by a range of market-specific and firm-specific characteristics. External factors may cause firms to skip

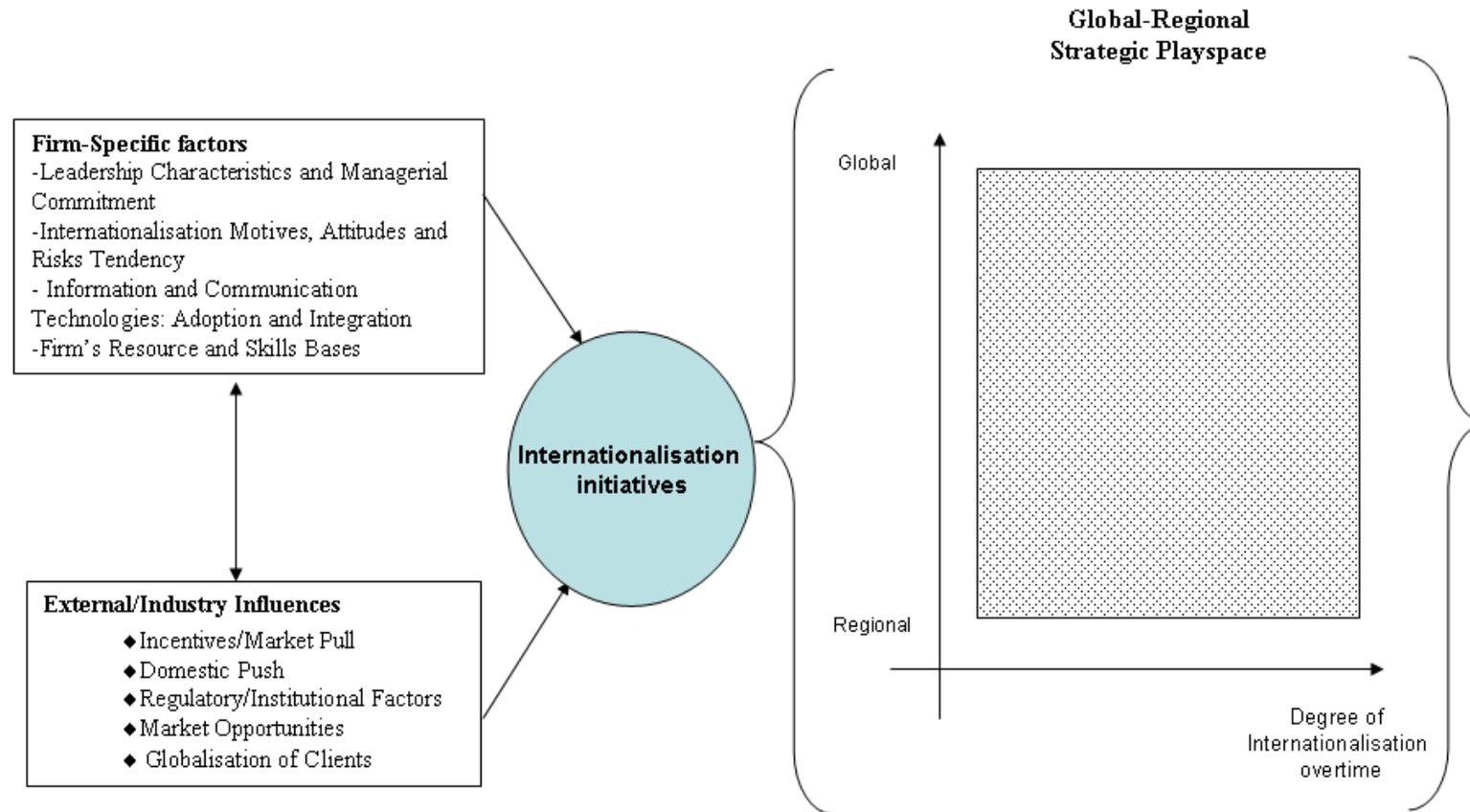
stages or to enter foreign markets, even those that are psychically distant from home country (Reid, 1984; Turnbull, 1987). Along similar lines, an elaborated framework is proposed by Bell et al. (2003) who takes an integrative stance in identifying the different internationalisation 'pathways' that may be adopted by firms. Implicit in their framework is the realisation that in order to be competitive in that process firms also need to be able to exploit the benefits of internationalisation both at global and regional levels for both regional and domestic advantage.

### 3.0 THEORETICAL FRAMEWORK

This study, as mentioned earlier, concerns the internationalisation of Nigerian banks into the UK market. Against this stand point, the research was conducted within the context of the Nigerian banking sector and the UK market. The theoretical framework takes a processual perspective on the internationalisation 'pathways' adopted by banks from Nigeria. It argues that their ability to exploit and leverage regional and global advantages as their internationalisation happens and deepens may be an important strategic element in the growth and international development of such firms. The emphasis is on the entrepreneurial capabilities of these firms to exploit firm-specific and country-specific, global-regional, advantages through international transactions or emerging through serendipitous events. Overall, the framework takes a broader view on internationalisation process of developing country firms, and argues that international initiatives can develop as a result of strategic as well as informal, unstructured interaction of the firm with its business environment.

See Figure 1. It is also argued that a combination of organisational, service output as well as industry characteristics influence that ways in which international initiatives are executed and the type

**Figure 1: Integrative Internationalisation Process Framework**



of entry mode they would engage in. At a firm level, Cicic et al. (1999), Ibeh and Young (1999), Mtigwe (2006) suggest individual and firm factors to be antecedents to service firms'

export-entrepreneurial orientation. External/industry and regulatory factors are also expected to affect the process, for example, market pull factors; domestic push; market opportunities and the globalisation of client firms.

Bank services are also characterised by distinct features that can invariably affect the mode of international expansion adopted by banks. However, there exist mix views about the implications of service characteristics during internationalisation. Research into the internationalisation of service firms have developed and applied these characteristics to service firms in international market. Bradley (1995, p. 435) states that to investigate how best to approach the international marketing of services, it is necessary to return to the unique characteristics of services: intangibility, inseparability, heterogeneity, perishability and ownership. It is because services are performed, rather than produced, that they have several distinguishable features which present the service firm with many problems. In contrast, another group of researchers state that service characteristics are only of minor importance. Boddewyn, Halbrich and Perry (1986, p.42) argue that there is no need for special theory of internationalisation for service firms; existing theories can accommodate them by making simple modifications. Similarly, Buckley et al (1992) argue that the differences between services and goods should not be over emphasised, and that is a question of differences in kind and not in nature. For this reason, services characteristics are not included into the framework of analysis for this study.

Further, the framework also asserts that, considering these influences banks' activities, the scope of global and regional strategies during internationalisation is defined by strategic options underlining their levels of international involvement or degree of internationalisation (Rugman and Collinson, 2006). Together these dimensions create a 'global-regional strategic

playspace' which can provide a transactional or relational space for the banks to interface and operate strategically to carry out their international initiatives.

### 4.0 METHODOLOGY

Regarding method, the research reported in this paper draws from the empirical data of a major process-oriented examination of the internationalisation process of three leading Nigerian banks. The study was qualitative in approach and four in-depth interviews with senior executives were conducted. The case method was appropriate given the limited amount of empirical work investigating the international process of these banks from Nigeria. The method was also useful in developing a detailed understanding of the phenomena and provided the flexibility to explore concepts or insights that changed or emerged during the data collection process. This flexibility, an inherent feature of the case method, added to the richness and quality of the data as the research process unfolded (Yin, 2003). This was beneficial to the data gathering process as the researchers aimed at 'getting close' to the socially constructed realities and experiences of the advertising agencies and their international strategy process.

In-depth interviews were used as the primary mechanisms to explore issues, events, feelings, knowledge and experiences in detail around the issues of interest. The depth interviews were semi-structured but non-directive. The respondents mainly comprised of senior-level managers with significant experience and involvement in strategic decision-making in their respective banks. The interviews lasted between forty-five minutes to an hour. Each interview was taped and transcribed, and complemented with notes and memos that were taken during discussions. Two respondents were interviewed in FBN while one person each was interviewed in Intercontinental bank and Zenith Bank. The first interviewee (via long phone interview) who has been called *Respondent 1* was with the Manager FBN Plc, Garki branch. Being the Manager at the Abuja Headquarters, he is sufficiently endowed with information concerning corporate governance and strategy of FBN. The *Respondent 2*, second participant, was in Business and

Development, Zenith Bank UK. He is well informed on the activities of the parent company as well as the subsidiary. *Respondent 3* is the Financial Manager of FBN UK who is equally well informed on the activities of the subsidiary and headquarters (Note that two managers were interviewed from FBN because the first interview was done exclusively over the phone). *Respondent 4*, last interviewee, is the Intercontinental bank Manager, Owerri, Nigeria. This was necessary as intercontinental bank is still in its early phase of entering UK and the respondent was able to provide me with concrete information concerning the germane issues of their entrance as it were. Consent of these participants was reached through formal as well informal requests. These interviews were supplemented with added information from two documentation sources. The first source consisted of information produced by the case organizations (examples included company reports, websites, information packs, and financial reports); and the second source consisted mainly of documentary information or reviews produced by industry-specific trade-related journals and magazines (examples include *This Day Nigeria*, *Guardian Newspaper*, etc; Online sources, magazines and Journals like BBC online news, *The Banker*, *Economist*, *Financial Times*, *Economist Intelligence*).

The initial insights from the data were revealed during interview process, and the analysis became more fine-grained and systematic as the fieldwork progressed. Once this had been developed, attention was directed on the elements of international behaviour of each firm based on the conceptual framework. Qualitative data were content-analyzed using the procedures recommended by Miles and Huberman (1994) and Shaw (1999), who emphasize the use of matrices and diagrams for reducing and visualizing data. In the section below, we delineate the internationalisation process of banks from Nigeria.

## 5.0 FINDINGS & DISCUSSIONS

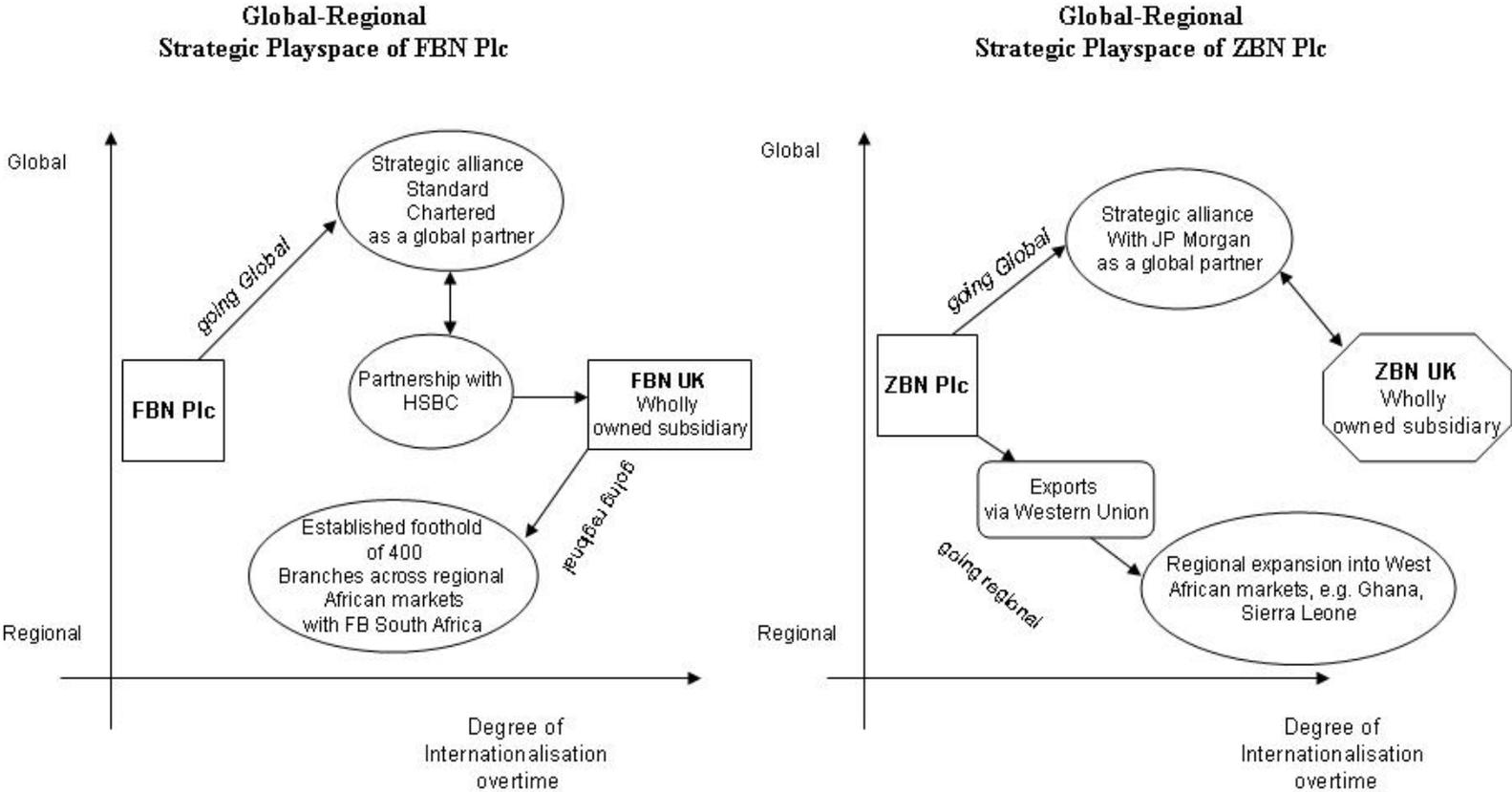
### 5.1 Internationalisation patterns: balancing global and regional pathways.

## INTERNATIONALISATION PROCESS OF NIGERIAN BANKS

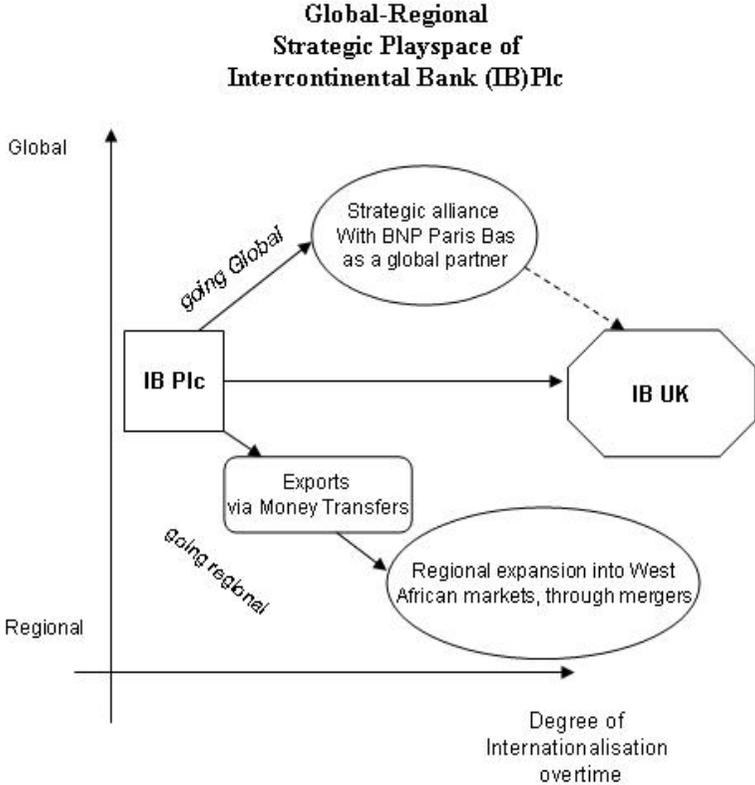
This section gives an overview of the pattern and circumstances that facilitated the internationalisation of the Nigerian banks. The individual cases show global and regional routes and strategies adopted by these banks in fostering their degree of international involvement over time.

*First Bank Nigeria* (FBN Plc) is referred to as a legacy bank, owing to its ownership structure and experience in banking. The internationalisation process of FBN was primarily facilitated by its colonial heritage with British Bank of West Africa (BBWA) in the 1890s. Later, its subsequent affiliation with the global South African Bank Standard Chartered was also a contributing factor. Additionally, its firm-specific advantages like high capital base, and the knock-on effects of the recapitalisation process increased the propensity of internationalisation. It also benefitted as an offshoot of Standard Bank of Nigeria, with robust strategic business units incorporating retail banking, pension funds, insurance brokerage and registrarship (FBN, 2008). FBN, therefore, has quite a complicated internationalisation pathway mainly piggybacking on South African Bank Standard Chartered which opened up opportunities for new market entrance via its established global networks. With a strong capital base, it managed to directly invest in a wholly-owned subsidiary in UK, FBN (UK) Plc. The internationalisation strategy of this subsidiary appears to be resource-seeking, maximising some of the country-specific advantages of UK and to some extent client-focused. Enhanced image, increased confidence in banking, increased government bonds and revenue, and increased deposits, in the aftermath of the consolidation exercise amassed FBN's total assets to \$4.6 billion which was above the one billion dollar stipulated benchmark by CBN to manage the nation's reserves. Against this backdrop, it signed an agreement with HSBC for the purpose of servicing Nigeria's reserves. Its wholly owned subsidiary in the UK currently has capital and reserves of over £100 million (FBN UK, 2007). With the accumulated strengths of global expansion FBN, and its mother company in South Africa, are actively looking to expand their retail banking operations in regional Africa markets, some presence are already established in Mozambique, Angola, Tanzania, Ghana and Kenya.

Figure 2: Global-Regional Strategic Playspace of Nigerian Case Banks



**Figure 2 (cont'd): Global-Regional Strategic Playspace of Nigerian Case Banks**



See Figure 2. *Zenith Bank Nigeria* (ZBN) Plc, falls into the category of ‘new generation banks’ in Nigerian. These banks have achieved their internationalisation process in incremental steps.

Established in 1990 as a public limited liability company, its strategic intent was geared towards expansion and entering overseas markets. Its internationalisation started with export-type transactions like

overseas money transfers through Western Union. Its capital base increased rapidly due to government deposits and oil revenue. Following the consolidation exercise, Zenith accumulated more capital and actively started engaging with West African markets, rapidly setting up branches in Ghana and Sierra Leone. The key strategies of ZBN Plc are: to expand their operations by adding various distribution channels and entering into new foreign markets; to maintain their position as a leading service provider in Nigeria (while expanding their operations in West Africa and globally); to build on awareness and the strengths of their brand and reputation; and to expand their business through the establishment of key subsidiaries for the provision of non-bank financial services. On the back of these strategies, ZBN has accrued asset-base of over \$1bn and is eligible to manage the Nigerian foreign revenue. This helped in forging a partnership with JP Morgan to improve their expertise to manage the federal government external revenues. It has also established a full-fledged investment subsidiary in UK, Zenith Bank (UK) Ltd, with the aim of offering wholesale banking products and services tailored towards corporate and institutional clients. This internationalisation strategy aims to be recourse-seeking and support its international corporate client focus strategy.

*Intercontinental Bank* (IB) Plc which to some extent is also viewed as a new generation bank was established in the 1980s as a merchant bank. It diversified to retail banking and like ZBN, it took early steps towards internationalisation via money transfers. Engaged in managing government revenue and deposits, it grew rapidly and set up branches around Nigeria. Following the recapitalisation process, it merged with Equity bank, Gateway bank and Global bank. Having more asset base, it retained its name as Intercontinental Bank Plc. It went further to establish branches

around the West African market and soon attained the \$1bn benchmark, making it eligible to manage government foreign reserves. Subsequently, it set up a global partnership with BNP Paribas and simultaneously forged strategic alliances with a consortium of five foreign firms - Vectis Capital, Emerging Market Partners Africa Fund II, AIG Global Emerging Markets Fund II, Rand Merchant Bank and RICO for the purpose of better managing Nigeria's foreign reserves. Until recently, it also gained authorisation to start its banking services in the UK. Like, ZBN, its intentions in UK are partly customer-oriented as well as resource seeking. It can be observed that there are significant similarities in the internationalisation patterns of IB Plc and ZBN Plc.

- Figure 2 -

### 5.2 Exploring and evaluating key internationalisation motives and influences

The 2004 consolidation process was the turning point in the internationalisation of the Nigerian banking sector. It ushered in a new era of competition in that sector as banks went through a spate of domestic and foreign mergers and acquisitions to meet the twenty five billion Naira (\$212 million) benchmark set by the CBN (Central Bank of Nigeria). Respondent 4 explains that "... (before the consolidation) *due to low capital base, there were some business transactions that banks were not able to do... because of high capital base now (stemming from recapitalisation), you will discover that they have been able to compete with others outside the country... the consolidation has also given confidence to our customers, citizens and people abroad to come and do business with people in the country.*" Respondent 2 adds that, "*If you go back to 2004 when the issue of consolidation was raised by central bank, one of the promises that was given to Nigerian banks was that if you meet the required capital, you would be able to manage the foreign reserves...the recapitalisation exercise between 2004 and now was the final tonic the Nigerian banks needed to conclude the process of launching into the UK markets*" (also Respondent 1). Prior to the consolidation process, the Nigerian banking sector was characterised by series of advanced fee fraud, liquidations, fragmented small ineffective banks with a few big banks that controlled about

50% of the industry total assets and deposits, also the banking density stood at 42,424 persons per bank (Ezeoha 2007). FBN, Zenith Bank and Intercontinental Bank all concur that the recapitalisation exercise tackled these weaknesses upfront and paved the way for their strategic growth internationally.

Increased globalisation of clients was another major driver. Respondent 4 elaborates that *“With the trend of events and the world going global, there is every need for you, for us as a bank and other banks also to enter the international market because our customers are wide-spread throughout the whole world. So, the only way you can reach them is by entering into those international markets where we can service them easily”*. Essentially, the ongoing globalisation of the industry and the desire to reach out to their global clients were a combined motivating factor that prompted their entry into the UK market where a lot of Nigerians tend to channel their business activities.

But the primary rationale for engaging the UK market was mainly to achieve country specific advantages associated with this location. FBN, Zenith Bank and Intercontinental bank all equally agree that certain country-specific factors were taken into consideration in setting up their activities in UK. Such factors amongst others include: similarities between the UK and Nigeria in granting banking license, Nigerians (potential clients) in Diaspora, talents, availability of efficient technology, familiarity with the country, investment incentives and investment climate. As Respondent 3 advocates these factors have the effects of *“enhancing their (the banks) name, image and their presence within the international financial market...and also enhance their profits.”* FBN offers a unique perspective, pointing out that the mode in issuing banking license in the UK which is paralleled by the Nigerians’ is also a facilitating factor that attracts Nigerian banks to the UK market. *“Similarities in the requirement of granting banking license between Nigeria and the United Kingdom. The Banking and other Financial Institution Decree is culled from the United Kingdom Banking Act”* (Respondent 1).

Other similarities found to be of crucial importance to these Nigerian Banks whilst choosing markets is psychic distance (Rugman and Collinson 2006). This inquiry shows that psychic distance between the UK and Nigerian banking industry is narrow due to minimal language barriers, similarities in financial regulations and regulatory bodies, colonial history with the UK, and population of Nigerians in the UK. As a matter of fact, culture is not perceived by the respondents of Zenith bank and FBN Nigeria as a major obstacle when entering the UK market, in fact, it is viewed as an advantage. Respondent 2 asserts that, *“culture plays a lot because if you look at our colonial history and the British, we have always been alike. So you will find out that our presence are even more where you have predominantly English speaking people than in the Franco-phone areas. And if you also look in North Africa, you can hardly find any Nigerian banks in such places”* Francophone countries have been especially pointed out as locations where cultural barriers will be an issue.

Respondent 4, however, contends that one of our drawbacks in entering UK is *“...the background we are coming from”*. Respondent 4 avers that *“banking is tailored towards servicing the individuals, tailored towards their needs. So their need is definitely affected by their culture, their attitude is affected by their culture... so to a greater extent, the culture will determine the banking practice of any bank based on your location. Culture, as it where, is also an offshoot of the law. So whatever the bank does also has a direct relationship with the culture of the people (where it is operating)... any location you go, you need to take consideration of the people’s culture... even in your own country.”* So, although, Nigerians share some compatibility with the British, the reverse may be also be true where Britons sometimes view Nigeria as an African country with a diverse cultural background (250 ethnic groups to be precise). Although Nigerian banks do not consider culture as a barrier in the UK market, it is strongly taken into account when deciding to penetrate such a location. This in part because they want to avoid the uncertainties that may arise because of their lack of expertise, knowledge and experience of operating in complex financial

environment (like UK) and coming from a developing country background. This is further supported by the views of FBN UK as Respondent 3 (contrary to the views of FBN Nigeria) points out that British culture to be to some extent is an inhibiting factor for foreign owned firms (like their bank) to efficiently execute their businesses. Conversely, Respondent 1 of FBN Plc (the Nigerian headquarter ) contends that culture is not an impediment, *“to the extent that language is not a barrier especially as it relates to the entry into the UK market.”* Differences in the cultural perceptions of headquarters and subsidiary are acknowledged in the literature and may affect the internationalisation process of the firm. This may be in the form of *ethnocentrism and culture clashes* (see Lee 1966, Usunier 2000, Schneider and Barsoux 2003, Rugman and Collinson 2006).

It was also found that the stiff UK banking regulations was another factor which affected the rapid entry of Nigerian banks in UK. For instance, there are restrictions on the amount of money that can be moved outside the country; mode of scrutinising questionable corporate and individual depositors; intense checks and balances for banks; and so on. Irrespective of their strategies, the Nigerian banks interviewed collectively agree that their activities are guided by these regulations which restrict their navigation. The banks have to parallel the regulations of the country. *“Be it subtle or be it aggressive, it is all about regulations. Whatever you do you have to be in line with what the regulatory bodies such as the FSA stipulate as also shown in their functions”* (Respondent 2).

### 5.3 Exploring international market entry and expansion strategies

With respect to entry strategies, ‘strategic alliances’ were popularly used by all the case banks for the following reasons: the background of Nigeria as a developing country, resource-based incentives associated with such ventures, the need to create networks and partnerships quickly with key players, a means of gaining knowledge, skill and technology transfer in effectively managing the Nigerian foreign reserves. Without prejudice, Respondent 2 asserts that, *“The alliances were actually meant to share knowledge with Nigerian banks so that in the long term they will benefit*

*from managing the Nigerian reserves on their own.” This is equally supported by FBN as Respondent 3 maintains that, “...in a way, it is a beneficial means of transferring knowledge and experience and ensuring we have the technical knowhow to manage our (government) reserve while taking a global footstep.”*

As observed earlier, accordingly, ZBN Plc and Intercontinental bank first went into alliances before setting up “*investment banking subsidiaries*”. Through these subsidiaries, the parent companies can: gain access to networks, individual and corporate clientele in the market, returns on capital, reach the Nigerians in Diaspora as a niche market or just segment, provide an extension for home based investors to utilise the services of the subsidiaries, access local pool of talents and expertise in managing foreign reserves, and offer the headquarter banks the opportunity to have their transactions handled by their subsidiaries as opposed to correspondent banks doing it for them. Other drivers for investing in foreign subsidiaries included maintaining a better level of service for clients abroad. According to respondent 4, it was found in a research conducted by Intercontinental bank that most of their clients have businesses in the UK. Since their customers tend to channel their businesses to the UK, the onus was on their firm to follow their customers to the UK market. “*We had a study done and we discovered that most of our customers have one or two businesses in the UK. So in order to make sure that we satisfy them, by adding value to their business, we should make sure that we provide the service that will make them reach their suppliers in UK, or their business counterparts in UK. And by so doing, there is business opportunity for us. We see it as a business opportunity, and that is why we’ll be able to do business with them and then earn some money via charges that we will charge them*” (Respondent 4). Another driver still was to use UK as a springboard to enter other European, if not developed, markets. As respondent 3 asserts “*one may be in the UK but not actually targeting the UK market; you have a presence in the UK but your target is outside the UK.*”

The case banks also implemented a carefully thought out niche market strategy in UK. FBN (UK) and Intercontinental are both targeting a segment of individual customers, more specifically, Nigerians settled in the UK. Respondent 3 affirms that, *“the banks coming from Nigeria in particular must have to be focused and decide what their niche market is, and then be focused and develop a niche (market) rather than being a big player within the market”* Speaking with confidence, Respondent 4 adds that *“UK market to us here is an emerging market from this angle because most of our customers are clients there. They have one or two businesses to do in the UK. And the only way a bank can serve your customer is that you follow up with the customers’ transactions, not limited to the country alone but also to the place where the customer takes his business to – which is UK.... Intercontinental bank as a bank is customer service oriented.”* The advantage of such niche strategy is that it keeps them at bay from competition against mainstream players in the UK financial market like Lloyds TSB, Barclays bank, Standard Chartered, HSBC.

The findings also suggest that networks played a crucial role in supporting their entry strategies, and making way for developing further growth strategies (Rialp and Rialp, 2001; Boojihawon, 2007). FBN (UK) argued that the establishment of networks was contingent on the market that the company is operating. According to Respondent 3, *“it depends on what markets you are playing in.”* This is due to the reason that a firm could have a presence in a particular location but has its target market elsewhere. It uses that location as a means of building more networks and accessing resources. Respondent 3 further states that, *“developing networks is quite critical because whenever you want to develop a new business you must have to start from the local networks... you may be looking at other countries outside the UK and outside Nigeria where you want to do business, and it is important that you understand that market and also the key players. And perhaps develop relationships with the key players who are in the market.”* Respondent 2 of ZBN also states that, *“You cannot do without it. It’s part of your business. Because without the network, how would you get business. You have to be within that banking community to be able to move ahead.”*

## 6.0 CONCLUSION

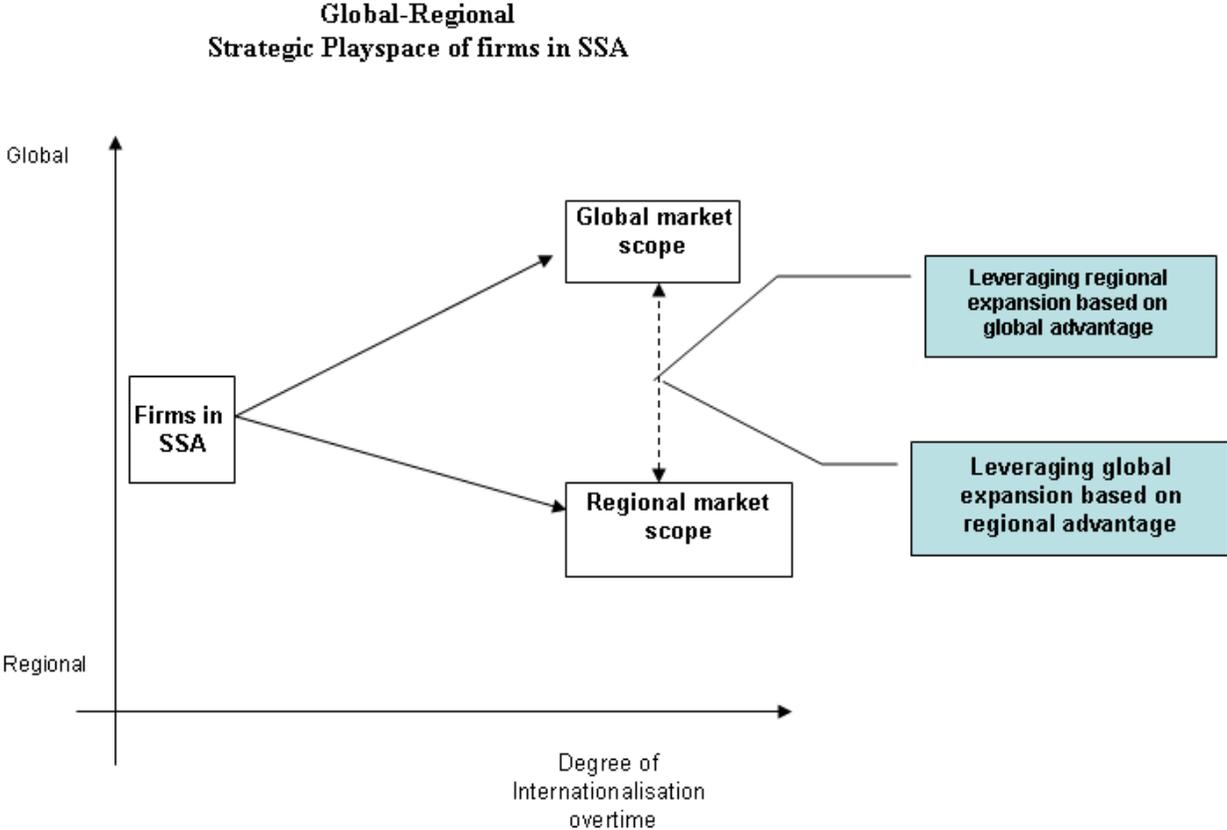
The study specifically analysed the case of three leading Nigerian banks that internationalised into the UK market. Based on the theoretical framework of this study, it can be induced that there appeared to be some form of related pattern associated with the internationalisation processes and strategies of the three banks. Indeed, one of the main conclusions is that the exploitation and leveraging of regional and global advantages to support sustained domestic and international growth is not mutually exclusive during the internationalisation process. Figure 3 illustrates global vs regional scope are not dichotomies but are the strategic considerations during the internationalisation of the firm overtime, and that regional strategies can reinforce global advantages as can global strategies reinforce regional ones, or even, local advantages as the firm define its growth strategies.

- see, Figure 3 -

In this study, guided by the advantages associated with globalisation, it was found that the consolidation process was the focal point which ushered a new era in the Nigerian banking system. This exercise provided the push factor which provided the needed incentives for the so-called new generation Nigerian banks (in this case Intercontinental and Zenith, among others) to initiate their early internationalisation phase. Prior to the recapitalisation and M&As exercise, the Nigerian banking sector was to be in a state of disarray. But with the consolidation exercise introduced by Central Bank of Nigeria (CBN), banks such as Intercontinental bank and Zenith Bank (which were already big banks) were given the opportunity to further amass more wealth through recapitalisation, M&As, strategic alliances and other corporate moves and procedures.

Against this backdrop, their ownership structure was enhanced. Banks which formally engaged in only export-type transactions like money transfers to other countries and international card business now started establishing branches and subsidiaries in the West African. It was found

**Figure 3: Global-Regional Strategic Playspace for firms in Sub Saharan Africa (SSA)**



that this was due to perceived cultural similarity and psychic distance as well the drive to gain competitive advantage over others. It was discovered that these banks were further driven to engage overseas financial institutions due to the target set by CBN which among others stresses that the banks that reached the £1bn benchmark would go ahead to manage Nigeria's external reserves. In light of this, these banks were forced to enter into alliances with leading players in the global scene to be able to service government reserves (this does not mean that Nigerian banks did not engage in alliances and international Joint ventures before the consolidation exercise).

This however, is not exactly the case for FBN. Referred to as one of the legacy banks in Nigeria, FBN has been offering banking services and products for over a hundred years. As an offshoot of Standard bank of Nigeria which was a subsidiary of Standard Chartered, FBN was quick to build up networks and affiliate with key global players. Its internationalisation rationale seems to be based more on its ownership structure and its colonial history with the British. FBN established a branch in the UK before the consolidation exercise and by 2002, it upgraded to a wholly-owned subsidiary called FBN UK limited. Having met the \$1bn pound benchmark as stipulated by CBN, it signed an agreement with HSBC to gain the needed incentives to service Nigeria's foreign reserves. In light of this, it would be observed that FBN followed a unique pattern in its internationalisation process from those of the new generation banks.

There were other impeding issues that characterised the internationalisation of the Nigerian banks like difficulties to penetrate UK domestic market, UK banking regulations, sourcing qualified staff to manage their operations in the host market and macro economic problems like the current rate of inflation and the high cost of living and doing business in the country. This supports Samiee (1999) who emphasised that economic impediments emanate from vast differences in economic indicators (GDP, income per capita, cost and standard of living) where the service firms from developing countries have to cope with the standards of that of the host country. Coming from a developing country and as new entrants, these Nigerian banks (that is Intercontinental bank and

Zenith) believe there are difficulties coping with set-up capital, working capital, and service costs. On the contrary, FBN does not really share the same view. Respondent 3 of FBN is of the view that the costs are not too high, stressing that cost issues stem from set up costs (that is capital required for those setting up their business). Costs being less of a challenge for FBN could be based on economies of learning and experience as they have operated in the UK market for years. Costs should decline as individuals frequently perform tasks and become proficient at their work, and incumbents benefit from the experience they accumulate (Brooks *et al*, 2004).

Culture is another issue in international business considered to be a major obstacle. As discussed earlier, it was gathered that respondents from FBN and Zenith do not perceive the British culture and way of life as a major barrier; instead they view their culture in this case as a building block for interrelations and interaction with other companies and amongst their staff within the UK market. But their notion becomes clear cut as it was observed that banks such as Zenith Bank tend to recruit personnel from within their location of operation (in this case Britain) to manage their outfit. Through observation, it was learnt that FBN (UK) and Zenith Bank UK staff were predominantly British workforce. This mitigates the effects of culture differences in the location they are operating. The foreign staff (Nigerians) in these subsidiaries that are at the helm of the bank's activities would be efficient for liaising with clients from the home market (Nigeria) and its surroundings. A disparity may exist in communication and cooperation between subsidiary and headquarters if the former is predominantly staffed with people from the host market. But recruiting indigenous staff (British) to run the subsidiaries would be the most efficient approach, as employing expatriates from Nigeria (that are likely not to possess the know-how, expertise and institutional knowledge) to execute such a feat would be a fallacy. This notion can however not be attributed to Intercontinental bank as there is no concrete information as to whether they are setting up branches before subsidiaries.

Other pros were identified which contend as motivating factors for Nigerian banks internationalising

to the UK when entering into alliances, establishing subsidiaries and accessing foreign clients – through the UK market. One of the major gains, it was found, is knowledge transfer especially through the alliances and subsidiaries. Transfer of expertise, technology and skill to the home market so as to increase competitive advantage is a major benefit.

It is important to note that no attempt is made here to generalise the findings. Much of the observations and inferences are drawn from a limited qualitative data set based on these specific cases in the Nigerian banking sector. However, the framework of analysis does open up new questions underpinning the examination of the internationalisation process of firms from the emerging context of SSA. As such, we recognise that the conceptual framework needs to be evaluated in the light of more quantitative as well as qualitative empirical evidences. Further consideration should also include the influence of service characteristics on the internationalisation process of such banks. Despite the theoretical arguments noted in Section 3, the findings seems to suggest that banking services are almost pure services and, thus, their characteristics are important factors in internationalisation. In banking services as other pure services, trust, services quality, location, the role of information technology and other services-related factors are crucial. This research was not able to capture these issues in its analyses.

Indeed, it is difficult to capture the full picture of the internationalisation process of firms in SSA through case-based evidence only. This paper suggests that future research must take a more complementary stance towards studying the internationalisation process of such firms by using multiple research methods rather than using linear perspectives to explore the different issues that underpin this phenomenon.

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