

## Innovation and Internationalization of Nigeria Deposit Money Banks

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### Abstract

The study investigated the effect of service and process innovation on internationalization of Nigeria deposit money banks, using a survey research design. A structured questionnaire was administered to a purposively selected sample of seven hundred and sixty five (765) staff of five international banks; from the population of one thousand six hundred and fifteen (1615) staff of strategy and international operation departments of the ten Central Bank of Nigeria (CBN) licensed international banks. Ordinary Least Squares was employed to estimate the regression model and this was done with the aid of STATA 12. The findings revealed that service and process innovation significantly affect bank's internationalization. It is therefore recommended that banks seeking internationalization should adopt services and processes innovativeness strategy.

**Keywords:** Internationalization, Innovation, International Entry Strategies, Institutional Theory, Joint Venture



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# Innovation and Internationalization of Nigeria Deposit Money Banks

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## 1. Introduction

The banking industry has played a central role in the economic development of Nigeria in recent decades. The global competitive pressure and the opportunities in foreign markets have led some Nigerian owned banks to set up foreign subsidiaries. Foreign market entry by Nigerian banks can be traced to the establishment of representative offices and branches in United States and United Kingdom by some Nigerian banks in the 1980s, which was geared towards the facilitation of trade for their customers. In 2004, the Central Bank of Nigeria (CBN) increased the capital base of banks to 25 billion naira, which enhances bank's capacity, due to higher fund at their disposal, and some banks developed international expansion strategies.

The aftermath of the 2009 financial crisis in the banking sector, led to the initiation of series of reforms to restore public confidence and stability in the system. As part of the reform, the CBN categorizes banks in Nigeria into three, namely; commercial banks, merchant banks and specialized banks (which includes; micro finance banks, primary mortgage institutions and non interest banks). Commercial banks were further categorized into international banks, national banks and regional banks, with a minimum share capital of Nigeria Naira (NGN) 50 Billion, NGN 25 Billion and NGN 10 Billion respectively.

International entrepreneurship literature has extensively researched the factors influencing the internationalization of firms as well as the entry mode choice (Amoros, Etchebarne, Zapata & Felzenstein, 2016; Dimitratos, Buck, Fletcher & Li, 2016, Amungo, 2016 and Junaidu, 2012). Scholars equally studied internationalization from the perspective of social entrepreneurship, corporate governance, relational capability building and culture (Calabro, Campopiano, Basco & Pukall, 2016; Ghauri, Tasavori & Zaefarian, 2014; Chavan & Agarwal, 2016, and Ovadge, 2016). As the literature progressed, it began to be recognized that firms can internationalize through the adoption of corporate and strategic entrepreneurship (which has innovation as one of its key components) (Slimane, Slim & Mansouri, 2015; Bell, Crick & Young, 2004; Rezvan, Ghamri and Ghahramani, 2013, and Veilleux & Roy, 2015), and studies on innovation and internationalization (Boermans & Roelfsema, 2015; O'Cass & Weerawardena 2009; Sdiri & Ayadi, 2014; Nosi, Pucci and Zanni, 2017; Prange and Pinho, 2017) should also be noted at this point.

Studies showing the effect of innovation on the internationalization of banks in Sub-Saharan Africa are sparse, and most of the related studies are from developed and emerging economies. Considering the socio-cultural, political as well as economic differences between the developed economies, emerging economies and the developing economies, this study seeks to address this research gap, by examining the effect of innovation on the internationalization of banks in Nigeria, with the following specific objectives: to evaluate the effect of service innovation on the internationalization of Nigerian banks, to determine the

effect of process innovation on the internationalization of Nigerian banks and to investigate the combined effect of innovation elements on the internationalization of Nigerian banks.

The study was divided into five sections. Section one introduces the subject matter. It presents the problem statement (based on the relevant literature and with references to the literature), the research gap and the objectives of the study. Section two presents a review of literature. Section three presents the research methodology employed for the study. Section four presents the research findings and discussion of the findings. Section five provides the conclusion of the study, which includes contributions of the study, the similarities and difference of the findings with existing literature findings. The implications of the findings for researchers, practitioners as well as the limitations of this study and suggestions for further studies are also indicated.

## 2. Literature Review

Internationalization of firms can be traced to the ability of people to travel across national borders. Scholars made attempt in defining internationalization, using many different perspectives and variables. Internationalization generally implies any business activities across national borders (Wach, 2014). Penrose (1959) opines that internationalization is an organization's opportunities in the international market as well as an organization's core competences.

Welch and Luostarinen (1988) posit that, internationalization is an increment in the international operation of an organization. Johanson & Vahlne, 1977; Calof & Bearnish, 1995; Loane & Bell, 2006; Awolusi, 2013; Chavan & Agarwal, 2016; Xu, Carter, Taute &

Dishman, 2016; Ovadje, 2016 agreed that, internationalization is the process of international business engagement by organizations. This study viewed internationalization from the perspective of Nigerian banks that has foreign subsidiaries. As of 2017's second quarter, Nigeria had ten international banks, with subsidiaries in some Africa countries as well as United Kingdom, United States, China and United Arab Emirate (CBN, 2017).

Innovation refers to the engagement and support of novel and unique ideas by an organization, which can lead to the creation of new services (product), market or technique as well as venturing into foreign markets (Lumpkin & Dess, 1996). Innovative firms have capabilities to monitor the fluctuations in the market and respond promptly, thereby, taking advantage of budding business opportunities (Wiklund & Shepherd, 2003). According to Huse, Neubaum and Gabriellson (2005), the level of product creation is high in organizations operating in unstable business environment.

Environmental changes stimulate firms to innovate by introducing new technologies, new products, services and processes to take advantage of opportunities arising from the dynamic environment. Environmental changes can propel the organization to explore enhanced means of remaining competitive in its industry, which enhances process innovativeness. A very good example is the recent deployment of mobile banking that allows bank customers to transfer fund, check balance, buy airtimes and pay bills with their phones, through the dialing of special codes, without internet connection. Unlike in the past when all virtual services were internet based, the introduction of this innovative technique and product by Guaranteed Trust Bank Plc. to the Nigeria

market, through the 737 code has enhanced the ease of banking. Other banks have equally developed various codes for such services and these services have been embraced by the younger generation and even the older generation in Nigeria.

Particular banks have equally introduced some innovative processes. For instance, United Bank of Africa (UBA) introduced a process whereby customers, depositing 50000 naira and below do not have to queue. All they have to do is to pick a nylon provided by the bank and put the fund inside and thereafter auto-stamp there tellers, and drop the fund inside a reflective box, thereby reducing the waiting time. Innovative organizations are usually ahead of their competitors, which enhance their result as well as their competitive advantage. Boermans and Roelfsema (2015) posit that, internationalization has a positive effect on innovation. Therefore, the involvement of an organization in international activities will enhance their innovativeness. Sdiri and Ayadi (2014) opined that internationalization enhances organizations' innovativeness and financial result. Nosi, Pucci and Zanni (2017) posited that, internationalization as well as innovation are complementary, in achieving organizations' improved performance, and not alternatives. Prange and Pinho (2017) opine that, innovation mediates Small and Medium Sized Enterprises' (SMEs) international performance.

Innovation resonances a company's inclination to get involved in, and sustain, new ideas, uniqueness, experimentation and creative processes that may result in new products, services, or technological processes or venturing into foreign markets (Lumpkin & Dess, 1996). Innovative organizations have the ability to monitor the

market changes and act promptly, thereby taking advantage of emerging opportunities (Wiklund, 1999). Huse et al. (2005) opine that, organizations operating in turbulent business environments usually introduce new products rapidly and frequently. Such business environment plays an important role in influencing Corporate Entrepreneurship in an organization. Venter et al. (2008), posit that, an innovative organization is seen as being entrepreneurial. According to Huse et al.(2005), innovation has become a source of international competitive advantage.

Ngoma et al. (2017) opines that, innovation is positively and significantly related to internationalization. Rapid technological changes in an industry, customer demands, new processes, technology and international diversification can propel an organization to be innovative (Huse et al., 2005). Innovation propels an organization to act entrepreneurially. Firms use innovation to attain organizational goals such as maximizing profits, gaining market share, creating niche markets and adding value for stakeholders as well as entering foreign markets (Lumpkin & Dess, 1996).

The international entry mode adopted by an internationalizing organization is a vital strategic choice that can determine the organizations' position in the selected foreign market (Holmlund & Kock, 1998). Amungo (2016) identified two major foreign market entry modes adopted by Nigerian banks, namely; joint ventures and wholly-owned subsidiaries. A joint venture refers to a business entity, established by two or more autonomous organizations, that agrees to come together and share the risk and profit of the new business entity. The ownership structure of a joint venture can be 50/50

shareholding or any other combinations, depending on the agreement stated in the memorandum of understanding, which also captures the commitments and roles of each of the combining organizations.

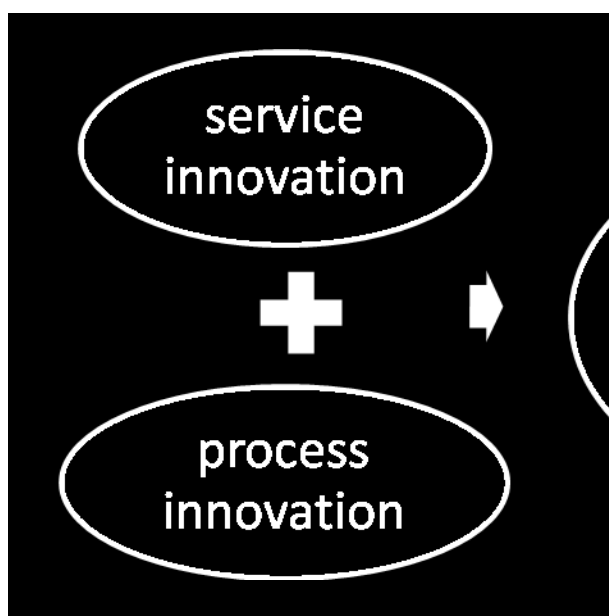
The main benefit of joint venture according to Hill (2007) is that, an organization gains from the host country partners' knowledge and experience. Furthermore, it is difficult to set up foreign subsidiaries in some countries, thereby, making joint venture desirable. Though, joint venture can lead to conflict of interest and struggle over the control of the venture. A very good example of joint venture in Nigeria is Stanbic IBTC Bank.

A wholly-owned subsidiary refers to the foreign business entity; controlled, owned and managed by an organization. Wholly-owned subsidiaries can be attained either through the acquisition of a local firm in the host country. This is also referred as Brownfield or through the establishment of a new organization in the host country, it is referred as Greenfield. This entry mode gives an organization control over the new business entity. An example of wholly owned subsidiaries is Standard Chartered Bank Limited in Nigeria, owned by Standard Chartered Bank of South Africa and GT Bank in Ghana, owned by GT Bank, Nigeria.

The study adapts Schumpeterian theory of innovation and institutional theory of internationalization. Schumpeterian theory of innovation postulates that, innovativeness gives its creator competitive advantage over competitors. This is because, the creation of innovative products, processes or markets makes some previous innovations obsolete and it will equally be rendered obsolete by future innovations (Schumpeter, 1934).

Schumpeter (1934) posits that economic behavior is to some extent automatic in nature, and more probable to be consistent, while entrepreneurship involves doing new things in a new way. Innovation is the development of novelty (new products, processes and markets). The entrepreneur is propelled by the craving for power and independence, the will to succeed, and the fulfillment of getting things done. The entrepreneur obliterates the static equilibrium from within the system by creating new products, processes as well as entering new markets, which could be international markets.

The institutional theory postulates that economic, political and socio-cultural institutional environment of the host country may differ from that of the home country and this is an important determinant in firms' internationalization (Brouthers & Hennart, 2007). Cui and Jiang (2010) posit that organizations prefer to enter a foreign market through wholly-owned subsidiary, when there are few legal restrictions, and while joint venture entry mode strategy is usually adopted when the market is highly restricted. Hennart and Larimo (1998) found that the cultural distance, which shows the differences between the host and home countries environment, plays a significant role in explaining organizations' foreign entry mode decisions. The theory is highly relevant to bank internationalization, since the banking sector is a highly regulated sector.



**Figure 1. Conceptual framework**

Source: Compiled by Authors (2018)

The conceptual framework shows the relationship between service and process innovation and bank's internationalization. It suggests that, service and process innovation leads to bank's internationalization.

Scholars have studied internationalization from various perspectives, yielding diverse entry strategy and driving internationalization. O'Cass and Weerawardena (2009) examined the effect of international entrepreneurship and innovation on the international market performance of small and medium enterprises (SMEs), using survey research method. The findings revealed differences between international SMEs and non-international SMEs in terms of innovativeness and international entrepreneurship as well as firm size. They recommended that, organization striving towards internationalization should employ organizational innovation. The reason is that, innovative organizations have greater capacity to take advantage of international market opportunities as well as posing better performance in the foreign markets.

Boerman and Roelfsema (2015) studied small firms' internationalization, innovation and growth in Germany. Using survey research design, their findings revealed that internationalization is positively related to innovation. Internationalization enhances organizational performance through innovation. However, the direct impact of innovation on organizations' is insignificant. Awolusi (2012) investigated the relationship between critical influencing factor and perceived international business performance, using survey research method. Findings suggested that, success in entering the international market had a positive effect on the international business performance of the organizations.

Amungo (2016) studied the internationalization of Nigerian banks, using primary and secondary data. The findings revealed that foreign market entry by Nigerian banks was propelled by the successful reform in the banking sector. The banks desire to take advantage of tangible and intangible assets in the profitable banking sector in sub-Saharan African as well as a shift in the strategic goal of the banks.

Nosi, Pucci & Zanni (2017) conducted a study aimed at determining the possibility of attaining internationalization and innovation concurrently instead of choosing one of the two strategies in working towards a better corporate performance. The study found that innovations as well as internationalization are complementary in enhancing organizational performance. Prange and Pinho (2017) investigated the impact of internal drivers (personal and organizational) on the international performance of SMEs, mediated by organizational innovation, using data collected from 120 exporting SMEs in Portugal. The findings revealed that, the indirect mediating effect of innovation is particularly

relevant with regards to the organizational driver-performance link.

### 3. Data and Methodology

The study employed survey research design, because it is deemed appropriate for this study. The population of the study was the one thousand six hundred and fifteen (1615) members of staff of strategy and international operation departments of the 10 Central Bank of Nigeria (CBN) licensed international banks ( (i). Access Bank PLC, (ii) Diamond Bank PLC, (iii) Fidelity Bank PLC, (iv) First City Monument Bank PLC, (v) First Bank Nigeria Ltd, (vi) Guaranteed Trust Bank PLC, (vii) Skye Bank PLC, (viii) Union Bank of Nigeria PLC, (ix) United Bank of Africa PLC and (x) Zenith Bank PLC).

Purposive sampling was used to select a sample of seven hundred and sixty five (765) staff of five banks from the ten CBN licensed international banks (Union Bank, UBA, First Bank, GTB and FCMB). The study employed a close ended questionnaire to obtain data for analysis. The questionnaire is adequate, because it is capable of obtaining the relevant data for the study without any form of bias and it has also been used in similar studies by Boermans & Roelfsema, 2015; Slimane, Slim & Mansouri, 2015; Cahen, Lahiri & Borini, 2016; Dimitratos, Buck, Fletcher & Li, 2016; Ovadje, 2016. The authors developed the questionnaire for this study. Primary data were obtained through the administration of structured questionnaires to a purposively selected sample of seven hundred and sixty five (765) staff of the five sampled banks. However, only 660 copies of questionnaires were returned and properly completed. This indicated 86.3% response rate, which is thought to be sufficient for this study.

The construct and content validity of the instrument was ascertained by ensuring that the instrument assesses information for the study's objectives. It is also ensured that, the same is closely tied to the conceptual framework for this study. The questionnaire was examined by other researchers and bankers with international banking and strategy experience, in order to ensure that the instrument measures what it is designed to measure. The Cronbach's Alpha was employed to test the internal consistency of the instrument, which yielded an alpha of 0.82, 0.88, 0.91 for service innovation, process innovation and internationalization respectively, indicating that the instrument is highly reliable.

The data analysis was guided by the objectives and hypotheses of the study as well as the instrument employed for data collection. Ordinary least square was employed to estimate the regression model, with the aid of STATA version 12.

#### Research Hypotheses

H<sub>01</sub>: Service innovation does not significantly affect the internationalization of Nigerian banks

H<sub>02</sub>: Process innovation does not have a significant effect on the internationalization of Nigerian banks

H<sub>03</sub> : Service and process innovation do not have a combined effect on the internationalization of Nigerian banks

#### 4. Empirical Findings and Discussion

##### Hypothesis 1

**Table 1: Regression Results for Hypothesis 1**

|                    | Coefficient | t     | P value          |
|--------------------|-------------|-------|------------------|
| Constant           | 1.747027    | 17.94 | 0.000            |
| Service innovation | 0.5319796   | 17.37 | 0.000            |
| R square= 0.3144   |             |       | F= 301.79(0.000) |

**Source:** Authors' computation from STATA 12

It is evident from the table above that, service innovation has a positive and significant effect on internationalization of deposit money banks in Nigeria. This result is in tandem with the study of O' Cass and Weerawardena, (2009), that service innovation positively and significantly affects bank's internationalization. The  $R^2$  (coefficient of determination) suggests that, 31 % variation in bank's internationalization is accounted for service innovation. The F-test result of 301.79 (0.000) suggest that, the model is reliable and predictable for policymaking.

##### Hypothesis 2

**Table 2: Regression Results for Hypothesis 2**

|                    | Coefficient | t     | P value          |
|--------------------|-------------|-------|------------------|
| Constant           | 2.192424    | 33.72 | 0.000            |
| Process innovation | 0.4015152   | 19.53 | 0.000            |
| R square= 0.3669   |             |       | F= 381.35(0.000) |

**Source:** Author's computation from STATA 12

It is evident from the table above that, process innovation has a positive and significant effect on internationalization of deposit money banks in Nigeria. This result is in tandem with the study of O' Cass and Weerawardena, (2009), that process innovation positively and significantly affects bank's

internationalization. The  $R^2$  (coefficient of determination) suggests that, 36 % variation in bank's internationalization is accounted for process innovation. The F-test result of 381.35 (0.0000) suggests that the model is of good fit.

##### Hypothesis 3

**Table 3: Regression Result for Hypothesis 3**

|                    | Coefficient        | T                 | P value |
|--------------------|--------------------|-------------------|---------|
| Constant           | 1.194966           | 13.77             | 0.000   |
| Process innovation | 0.3210164          | 17.33             | 0.000   |
| Service innovation | 0.3994676          | 15.07             | 0.000   |
| R square = 0.5295  | Adj square= 0.5280 | F= 369.63 (0.000) |         |

**Source:** Author's Computation from STATA 12

The table above indicated that process and service innovation have a combined positive and significant effect on the internationalization of deposit money banks in Nigeria (F= 369.63 \*0.000) and that process and service innovation account for 52.9% variation in the internationalization of Nigerian banks ( $R^2 = 0.5295$ ). The F-value indicates that all the parameter estimates are significant.

#### 5. Conclusion and Recommendations

This study examined the effect of service and process innovation on banks' internationalization in Nigeria. The research used a purposive sample of staff of foreign operations and strategy departments of five out of the ten CBN licensed international banks in Nigeria. The findings suggest that, service and process innovation affects banks internationalization. Also, both process and service innovations are significant. They jointly account for 52% variation in the internationalization of Nigerian



banks ( $R^2 = 0.5295$ ). This is consistent with the study of Boerman and Roelfsema (2015), who had studied small firms' internationalization, innovation and growth in Germany. They had found that internationalization is positively related to innovation.

This study contributes to the sparse literature on the effect of innovation on the internationalization of banks in Nigeria, by revealing how process and service innovation can lead to internationalization of banks. The significant effect of process and service innovation on the internationalization might be the result of innovative processes and services that has been initiated by Nigerian banks. These have aided the ease of banking. For instance, ten years ago it would take about two days to obtain a bank draft. But today, you can get a bank draft in less than five minutes. The introduction of the Unstructured Supplementary Service Data (USSD) code has enhanced the ease of banking. Today, funds can be transferred, airplane tickets can be purchased and bills can be paid through mobile devices without internet connection. Internet banking has equally gained some appreciable acceptance, which has equally contributed to the ease of banking.

The success of innovative processes and services in Nigeria has propelled banks to seek to maximize the gains from such services and process, through the establishment of foreign subsidiaries (especially within the West Africa Region). Therefore, banks seeking to establish foreign subsidiaries need to pay attention to their service and process innovativeness. Managers should strive towards the development of innovative services and processes. For instance, Guarantee Trust Bank (GTB) introduced a service known as "quick service", which allows customers to withdraw

with their Automated Teller Machine cards (ATM cards), using the bank's dedicated POS (point of service) inside the banking hall without queuing, thereby saving time.

United Bank for Africa (UBA) equally introduced an innovative process whereby customers depositing less than NGN 50,000 can do that without interfacing with the bank staff. All the customer has to do is to pick a white nylon and a teller, fill the teller auto-stamp the teller, then put the cash and the teller inside the white nylon and drop it in the box and that is all. The fund will be posted at a later time by the bank's staff. Banks' executives can develop such innovative services and processes that will attract national appeal. Since the West Africa Economic Block is actively involved in intra-region trade, such services and processes can be replicated abroad, thereby leading to internationalization.

Finally, the study faces potential limitations that may guide the directions for further research. There are various kinds of innovation, but the study only examined process and service innovations. Other kinds of innovations can be incorporated in future studies. Also, different industries like the insurance and telecommunications sectors, among others, can be studied. Definitely, future studies can equally employ the use of other data collection methods, like interview, so as to obtain key participants' information.

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