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Banks' Strategic International Expansion: Evidence from Africa

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ABSTRACT

This study identified the strategies adopted by banks in Africa to gain access to international markets and why banks establish foreign operations. Twenty-two African banks were selected to examine the entry mode and number of foreign outlets. The study affirmed that most African banks expanded their operations internationally via acquisitions and strategic alliances. At the same time, the motive for expansion is linked to market development to serve customers operating in overseas markets, government policies, and strategic knowledge sourcing. Furthermore, some reasons identified include expanding operations, defensive expansion, and protecting existing bank client relations. The study recommends that African banks should strive to adapt different internationalisation strategies primarily driven by their desire to gain knowledge.

Keywords
Acquisitions
Africa
Globalisation
Internationalization
Strategic Alliance

Introduction

The previous decades have seen unprecedented globalisation, particularly in financial services, even though it has been halted recently by the financial crisis and the covid pandemic. Along with the sharp rise in cross-border banking, several banks from developed and developing nations have also expanded abroad and established offices there.

According to the widely accepted viewpoints in the financial industry, a bank's essential competitiveness is its capacity to compete globally. Ref. [1] posits that central international banks like HSBC, Standard Chartered, and JPMorgan Chase, whose revenues primarily derive from overseas markets, have long recognised the globalisation of asset allocation as a crucial approach to diversifying risks.

The methods through which a bank can establish a strategic position through international expansion are referred to as entrance modalities in international business literature. Two critical components of global transactions—assets and lending—are necessary to establish a lasting relationship with a foreign market. Essentially, banks have two alternatives for growing their business in international markets. They have two options: create a presence in overseas markets or serve foreign clients through their home offices.

If the chosen modalities call for ownership participation in branches or subsidiaries, this indicates more complicated internationalisation involvement regarding resources and risks [2]. Traditional means or new approaches to providing competitive financial services in the fintech era can be used to access cross-border markets. Given their continued importance in serving clients in foreign markets and internationalising financial institutions with some market penetration, conventional methods will be considered.

According to Ref. [3], these options permit minor to no engagement with contractual transfers, including correspondent banking, representative offices, agency, licensing, and franchising. Shared control, no or minimal resource commitments, and low risks are the defining characteristics of these systems. If the process is to be developed in stages, the low level of involvement means a lower offer of services; therefore, a gradual introduction into the market begins with these types of internationalisation.

According to Ref. [4], among the advantages of growing international activities are increased revenue from a more significant market served, an improvement in the bank's reputation and, consequently, its competitive position in the domestic market, the achievement of arbitrages or the exploitation of market imperfections, and finally the removal of barriers.

Given the significance of foreign banks in many nations, it is crucial to comprehend why foreign banks choose a specific host nation and their entry approach. The financial crisis has increased public awareness of these issues. Although there has been much research, there are still many unsolved questions, partly because there has yet to be a lot of data available. As a result, this study aims to explore the tactics used by African banks in their pursuit of international expansion while outlining various choices that a bank should consider when entering a foreign market and the motive for growth internationally.

Literature Review

The literature on international business studies has connected several causes and ideas to business expansion abroad. For instance, according to institutional theory, the economic, political, and sociocultural institutional environments of the host country and the home country may differ, and this is a critical factor in determining whether or not a corporation would internationalise [5].

According to Ref. [6], businesses prefer to enter overseas markets through wholly-owned subsidiaries when there are minimal regulatory constraints. In contrast, a joint venture entry mode strategy is typically used when there are many restrictions. According to Ref. [7], cultural distance is critical in determining an organisation's international entrance style, highlighting the disparities between the host and home countries' environments. Given how heavily regulated the banking industry is, the notion is highly pertinent to the globalisation of banks.

Ref. [8] concluded that the banking sector's successful reform catalysed banks to enter global markets in Nigeria. The banks want to benefit from tangible and intangible assets in the lucrative sub-Saharan African banking sector and a change in the bank's strategic objectives. Ref. [9] discovered that internationalisation and innovations improve organisational effectiveness.

On the other hand, the internalisation theory presupposes that enterprises will choose market entry techniques for foreign markets that are economically favourable, that is, that lower transaction costs [10],[11]. Internalisation theory, often known as the general theory of the multinational enterprise (MNE), is one of the most significant theories in international business [11], [12]. It is frequently used as justification for corporate growth internationally.

The internalisation idea claims that firm-specific advantages (FSAs) impact enterprises' strategies for entering foreign markets. FSAs can be specific to a local environment (location-bound), as in the case of familiarity with local needs and ties to local networks, or transferable (non-location-bound), as in the case of technological expertise [13]. The internationalisation of businesses can be related to people's ability to cross borders, and the literature that has already been published has tried to define internationalisation using various viewpoints and variables.

According to Ref. [14], internationalisation occurs when business operations cross international borders. However, globalisation requires a company to conduct foreign commerce [15],[16]. Bank internationalisation focuses on the variables that affect their international expansion [17]. Additionally, they assert that larger banks can better overcome cultural and legal barriers to internationalisation.

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Another hypothesis that explains why companies become global is the eclectic theory [18], which claims that instead of exploiting the market, firms internalise benefits through the transfer of advantages and coordination of activities within the organisation. It argues that companies shift ownership advantages to take advantage of geographical benefits in other nations. While Ref. [19] developed the Uppsala internationalisation process model, which suggests that companies internationalise through incremental, controllable steps that emphasise two essential characteristics: "psychic distance" or the liability of being foreign and perceived risk in global markets, the steps in internationalisation that take place in the sequence of increasing trouble and knowledge are outsourcing, subsidiaries, and exporting.

In their new model, Ref. [20] heavily emphasised the network of relationships that makes up the corporate environment. The liability of outsiders replaces the responsibility of foreignness. Businesses are more likely to leverage their connections to enter new industries when they know prospects. Companies can improve their network position by developing and implementing trust-building procedures.

Methods

The study used analytical induction and content analysis to understand the methods banks used to expand internationally [21]. This strategy seeks to develop and delve further into established notions. The study concentrated on the significance of the elements that repeatedly emerged from the data analysis, particularly when the documents described how decisions to invest in foreign markets at a particular moment were made.

Table 1. Sampled Banks in Africa

Country	Number of firms	Percentage (%)
South Africa	5	22.7
Nigeria	5	22.7
Egypt	2	9.1
Morocco	2	9.1
Mauritius	2	9.1
Kenya	2	9.1
Namibia	1	4.5
Gabon	1	4.5
Mali	1	4.5
Togo	1	4.5
Total	22	100.0

To study the strategy adopted and motives for expansion, 22 African banks were conveniently selected among the top African banks, as reported by the Africa Report [27]. See Table 1. These banks represent the leading banks in Africa based on assets and profit. Among the list, South Africa and Nigeria have five banks, representing 22.7% of South Africa; Egypt, Mauritius and Kenya have two banks each, representing 9.1% each, while Namibia, Gabon, Mali and Togo have one.

Table 2. Selected Banks in Africa

No	Name	Country	Founded	Year International	# of markets
1	Standard Bank Group	South Africa	1862	1992	22
2	National Bank of Egypt	Egypt	1898	2001	10
3	Banque Misr	Egypt	1920	1927	14
4	Firstrand Banking Group	South Africa	1998	2011	12
5	Attijariwafa Bank	Morrocco	1904	1993	11
6	ABSA Group	South Africa	1991	2005	11
7	Nedbank Group	South Africa	1888	1906	13
8	Banque Centrale Populaire	Morrocco	1961	1969	13
9	Zenith International Bank	Nigeria	1990	2007	7
10	Access Bank Group	Nigeria	1989	2008	8
11	Guaranty Trust Bank	Nigeria	1990	2008	10
12	First Bank of Nigeria	Nigeria	1894	1982	9
13	EcoBank Transnational Inc.	Togo	1985	1988	40
14	United Bank for Africa Group	Nigeria	1949	1984	22
15	Equity Bank Group	Kenya	1984	2005	5
16	BGFI Bank Holding Corp.	Gabon	1971	2000	7
17	Kenya Commercial Bank Group	Kenya	1896	1997	5
18	Bank of Africa Group	Mali	1982	1990	18
19	The Mauritius Commercial Bank	Mauritius	1838	1991	8
20	State Bank of Mauritius	Mauritius	1973	1994	3
21	First National Bank of Namibia	Namibia	1907	2012	9
22	First National Bank South Africa	South Africa	1838	2012	15

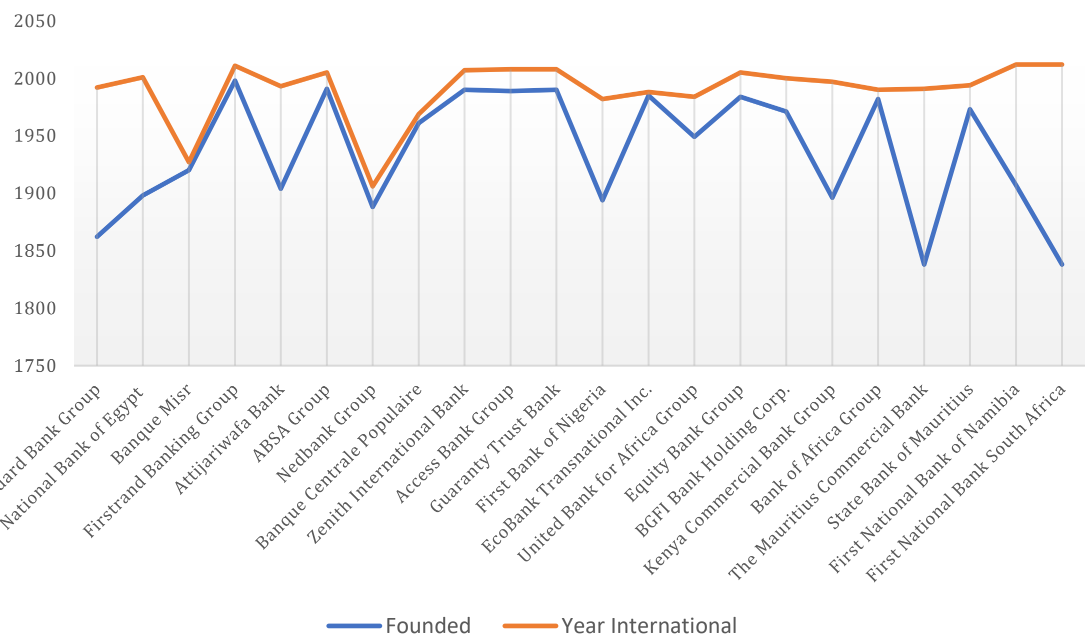

Fig. 1. Graphical Representation of Banks Sampled

The method of international entry used by an organisation that is internationalising is a crucial strategic decision that might affect the organisation's position in the chosen foreign market. Ref. [22] backed the idea that variables can account for internationalisation, namely, the home country's size, exports to other countries, FDI to other countries, the income level of the country, and the country's financial development. Greenfield and mergers and acquisitions are the most common methods of foreign entry used in China. At the same time, emerging market banks' internationalisation goals seem inextricably linked to market expansion to serve customers operating in foreign markets, government policies, and strategic knowledge sourcing [23].

Results and Discussion

For instance, the South African company ABSA Group, listed in Table 2 or Fig. 1, was established in 1991 due to merging the financial service providers United Bank (South Africa), Allied Bank (South Africa), Volskas Bank Group, and other Sage Group holdings. A year later, the ABSA Group expanded its asset base by buying the whole stock of the Bankorp Group, which included Trustbank, Senbank, and Bankfin. After 14 years, in 2005, the business intensified its international expansion to reach 11 markets. While the Nedbank Group, founded in 1888, registered their first foray into the worldwide market in 1906, this was accomplished through strategic alliances and acquisitions. According to Ref. [24], businesses with international ties that speak the same language can internationalise more quickly than businesses that do not.

Similarly, the Standard Bank Group, established in 1862 and has over 600 branches in South Africa, only extended to other foreign markets after 130 years of existence and operation. After 13 years in operation, the South African Firstrand Banking Group entered global markets in 2011. The corporation has a public ownership stake of 56.6% and a private stake of 38%; corporates, directors, and prescribed directors make up 0.2% of the total. Geographically speaking, 67% of stockholders are located locally in South Africa, 25.7% are from abroad, and 7% are from other countries. Further investigation reveals that businesses with early market entry built networks of foreign partners with solid linguistic linkages. Most of the Bank of Africa Group's foreign partners were from French-speaking nations, such as Togo.

The First Bank of Nigeria was founded in Nigeria in 1894, entered the worldwide financial market in 1982, and opened its first branches in the United Kingdom (UK) in 2002. Similarly, in 2007 and 2008, Zenith Bank and Guaranty Trust Bank, with headquarters in Nigeria, opened operations in the UK. 90% of the Democratic Republic of the Congo's Banque Privée du Congo, founded in 2002 by South African investors, was acquired by Nigeria's Access Bank. Since the bank's founding in 1989, this was its first global growth. According to research by Ref. [25], when entering new markets, banks typically choose correspondent bank representative offices, foreign branch banks, foreign subsidiary banks, or offshore banks. The representative office keeps expenditures in check but does not result [26].

In addition, the 1838-founded Mauritius Commercial Bank continued its growth and set up shop in France in 1991. Acquisitions and strategic partnerships helped expand African banks' international development. Equity Holdings Group, based in Kenya, successfully acquired 79% of ProCredit Bank Congo SARL from ProCredit Group. With this purchase, the organisation entered the third-most populous nation in sub-Saharan Africa. Eight years after its establishment, the Bank of Africa Group started its globalisation with its headquarters in Lagos, Nigeria. As of 2015, the bank was held by the Belgian Investment Company for Developing Countries (2.35%), PROPARCO of France (3.84%), the Netherlands Development Finance Company (5.02%), the Banque Marocaine du Commerce Extérieur (72.7%), and individual African investors (16.09%).

The motivations for bank internationalisation, according to Ref. [17] and reiterated by Ref. [22], include risk diversification, strategic asset seeking, entering a financial centre to access a currency or knowledge, market seeking, expanding operations on a global scale to access new clients, and client-following or defensive expansion, to safeguard existing bank client relationships. On the other side, Ref. [3] found that the African Diaspora in developed countries, acquisitions, strategic partnerships, and experiential learning all impacted how quickly banks in Africa internationalised.

Finally, the findings revealed that acquisitions and strategic alliances played a role in accelerating the international expansion of African banks, which is consistent with previous studies. For instance, Ref. [3] demonstrated that alliances could increase the speed of internationalisation for firms with low levels of internationalisation and that African banks used acquisitions and strategic partnerships to enter international markets for the first time and fast-tracked the process along the way.

Conclusion

This study aims to pinpoint African banks' methods of acquiring access to global markets and the potential motivations for such expansion. The survey confirmed that most African banks increased the scope of their operations abroad through acquisitions and strategic partnerships, with the main drivers being market expansion to service customers who operate in foreign markets, government regulations, and strategic knowledge sourcing. Some of the reasons mentioned include having access to money or knowledge, looking for needs, growing internationally to reach new clients, and expanding operations defensively to maintain relationships with current bank clients.

Most banks entered their respective markets through acquisitions rather than greenfield investments due to the nature of retail banking, which necessitates a substantial branch network and access to vast numbers of consumers. Because the banks would only have entered overseas markets for retail banking with the acquisition, the internationalisation of retail banking can be viewed as opportunistic in both circumstances. Therefore, emerging African banks should adopt various internationalisation techniques, primarily motivated by their desire to learn and develop specialised private banking expertise for offshore and onshore businesses. While providing only a few personal banking services to its wealthy local clients, many of these rising banks have built competitive retail banking networks and world-class technology domestically.

Conflict of Interest

The authors declare that there is no conflict of interest.

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