Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.5, No.18, 2014

Internationalization Strategy of Nigerian Banks

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Abstract
Internationalization is an integral part of diversification and growth strategy. Some banks in Nigeria are now exploring internationalization. To enable the concept achieve its purpose, it must be predicated on an appropriate/ related competitive strategy. The selected competitive strategy must be guided by a suitable business case. As a result of limited resources and core competencies, Nigerian banks should further their growth through internationalization with a differentiated focus strategy.
Keywords: Banking, Internationalization, Sustainable competitive advantage, Business case, Returns on Investment.

Introduction

The increasing maturity of domestic markets is driving companies to seek international expansion. The choice of a method of internationlization depends upon the nature of business, company size, goals and objectives, environmental conditions, company products and competition abroad. To achieve the objective of internationalization, it is imperative to select a suitable/related competitive strategy and suitable/related business case. In the pursuit of internationalization, Nigerian banks often fail to explore the nexus between suitable/related competitive strategy and suitable/related business case. As a result of the identified challenge, the suitability of suitable/related competitive strategy and suitable/related business case will be examined in this study.

Determination of Generic Competitive Strategies.

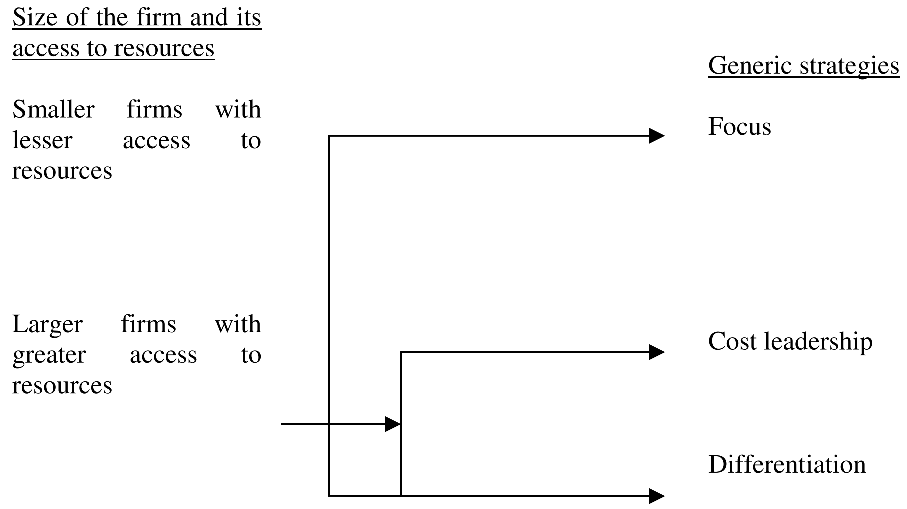
Porter (1985) submits that there are two variants of focus strategy. They are cost and differentiated focus strategy. In cost focus a firm seeks a cost advantage in its target segment. Both variants of the focus strategy rest on the differences between a focuser's target segments and other segments in the industry. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Such differences imply that the segment that is poorly served by broad-targeted competitors who serve them at the same time as they serve others. The focuser can thus achieve competitive advantage by dedicating itself to the segments exclusively. The benefits of optimizing the firm's strategy for a particular target segment (focus) cannot be gained if a firm is simultaneously serving a broad range of segments (cost leadership or differentiation).

The differentiation focus strategy may be adopted by the medium sized and larger businesses (See Fig 1.1) .The differentiation focus strategy encompass more complex dimensions than cost leadership and the cost focus strategies. With the cost leadership strategy (used by the larger firms), the main emphasis is on low per- unit cost outputs for many buyers in the industry through attaining cumulative volume of operation. With the cost focus strategy (used primarily by the smaller firms), the major emphasis is on low per-unit cost outputs for a smaller number of buyers in the industry through the establishment of a low initial investment and low operating costs (Wright, 1998:97, Wright and Parsinia, 1988).   .

Organizational performance and differentiated focus strategy.

Various theoretical and empirical investigations have proposed differing relationships between cumulative volume of production /market share and returns on investment (Buzzell, Gale and Sultan, 1975). Porter (1980), illustrated the U-Shaped relationship between cumulative volume of product/market share and return on investment. (See figure: 1.2).

FIG 1.1: Firm's Size as Determinant of Generic Strategies



Wright, P(1987) "A Refinement of Porter's Strategies". Strategies Management Journal ,(8) 94

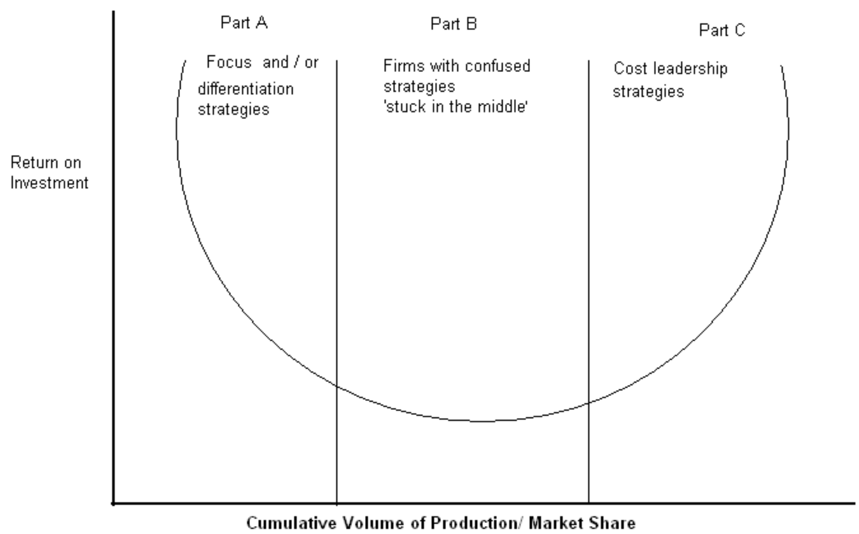


Fig 1.2: Generic Strategies and Returns on Investments
Source: Wright, P(1987) "A Refinement of Porter's Strategies". Strategies Management Journal , (8), 98.

Porter stated that, while firms that compete through the cost leadership generic strategy will have higher returns on investment with higher market shares (Part c of the graph in Fig. 1.2), firms which compete through differentiation and focus strategies would observe higher returns on investment with smaller market shares (Part A of the graph). Porter makes further distinctions between cost leadership on the one hand and differentiation and focus strategy on the other hand, by his elaboration of part B in the graph which refers to low –performance firms stuck in the middle. The firm stuck in the middle is almost guaranteed low profitability. It either loses the high-volume customers who demand low prices or must bid away its profit to get away from low –cost firms. The firm in the middle must make a fundamental strategic decision. Either it must take the steps necessary to achieve cost leadership or at least cost parity, which usually involve aggressive investments to modernize and perhaps the necessity to buy market share, or it must orient itself to a particular target (focus) or achieve some uniqueness (differentiation) .The latter two options may well involve shrinking in market share and absolute sales (Porter, 1980).

THE SEARCH FOR A BUSINESS CASE IN SUPPORT OF INTERNATIONALIZATION

Flowing from the arguments of Wright (1987) and Porter (1985), the best strategy is for Nigerian Banks to pursue a differentiated focus strategy to enable them achieve a sustainable competitive advantage. The Banks should promote its core products through the exploitation of its core competencies (Prahalad and Hamel, 1990).
The experience of Allied Irish Banks (AIB) will assist in effectively testing the contending arguments on the suitability of focus strategy for small firms. The depressed economic conditions of the 1970s, in Ireland prompted AIB to consider alternative routes to growing its business (Harrington & Lawton, 2004, Johnson, 2004, Johnson, Scholes and Whittington, 2005). There was a general consensus that the bank would need to look abroad for growth opportunities. The company however recognized that it lacked the scale to compete directly with larger banks in the UK. Retail banking in the UK was a scale business (price and efficiency driven) and AIB had neither the capabilities nor the competencies to compete in the area. Other strategic avenues were therefore explored to enable the AIB group compete effectively in the UK banking market. One such avenue was to exploit the Irish ethnic market in the UK. Through effective marketing, event sponsorship within the Irish expatriate community in Britain, AIB emerged as the bank of choice for many – both individual customers and Irish-owned businesses. The group was therefore able to establish a viable bridgehead within the UK banking market.

In considering the firm's options for further growth, AIB executives pointed to the value of pursuing a niche strategy and concentrating on particular markets where the bank might compete effectively. The bank's UK strategy emphasized organic growth and market differentiation. Being different was important to the organization. AIB worked hard to prove itself more customer-oriented than any of its competitors. They recognized the importance of working with the values of clients and innovate in terms of products and services. AIB business in the UK was niche and concentrated on providing quality service to small and medium scale enterprises, professional customers and the not-for profit sector. AIB did not attempt to compete on cost or price. The company emphasized relationship banking, focusing on providing personalized quality service (Johnson, Scholes and Whittington, 2005).

CONCLUSION

In this study, I found that there is a nexus between competitive strategy guided by an appropriate business case and a successful internationalization strategy. The attainment of the objective of internationalization should be predicated on an appropriate competitive strategy. The selected strategy should be guided by a suitable/related business case.
As a result of size, the pursuit of a broad strategy by Nigerian banks abroad will not yield any sustainable competitive advantage. The adoption of a focus strategy built around Nigerians who operate largely within the small and medium scale enterprises should be explored. The low banking relationship between Nigeria government and its institutions presents a parenting opportunity for Nigerian Banks. The value adding function of any parent company should not be taken for granted. In deed, how corporate parents create value is central not only to the performance of companies but also to their survival. While the importance of representative offices of some Nigerian Banks abroad is acknowledged, the corporate headquarters of banks should be able to add value to its subsidiaries abroad through offering of services and resources that will enhance external linkages and networks. Where the parenting function of promoting external linkages/network is aligned with the adoption of focus strategy, guided by a suitable/related business case, the objective of their internationalization will be attained.

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