Corporate entrepreneurship and international performance of Nigerian banks

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Abstract

Aim/purpose – This study investigated the effect of corporate entrepreneurship (measured by innovation, risk taking, proactiveness, strategic renewal and corporate venturing) on the international performance (measured by managers’ perceived measures of international business performance) of Nigerian international banks.

Design/methodology/approach – Survey research design was used for the study, through the administration of structured questionnaire to management staff in strategy, foreign operations and finance departments. The study employed a census survey, in which the entire 427 management staff of strategy, foreign operation and finance departments of the ten CBN (Central Bank of Nigeria) licensed international banks constituted the population and the sample (census survey). The models were estimated using ordinary least square, using STATA 14 software.
Finding – The study revealed that corporate entrepreneurship elements (innovation, proactiveness, risk taking, strategic renewal and corporate venturing) all have individual and combined positive and significant effect on banks international performance at 95% confidence level. However, innovation has the most effect on Nigerian banks international performance.

Research implications/limitations – The study employed managers’ perceived measures of international business performance to measure Nigerian banks international performance, which is subjective. A measure like revenue from the foreign subsidiary would have been considered but for the paucity of data. This of course can form the basis for further studies and expanded to cover the entire West Africa region.

Originality/value/contribution – Studies examining the effect of corporate entrepreneurship on banks’ international performance in Africa are rare. Most Nigerian banks set-up foreign subsidiary in other Africa countries and there has been a debate on the contributions of the foreign subsidiaries to the banks’ bottom line and as well as a form of market expansion. The study expands the frontier of knowledge on Nigerian banks international performance by unbundling corporate entrepreneurship to see how each element will affect performance.

Keywords: corporate entrepreneurship, international performance, banks, market expansion.

JEL Classification: F23, F44, G21, M16.

1. Introduction

The banking sub-sector in Nigeria is one of the important sub-sectors of the Nigeria economy, contributing significantly to the Nigeria economy (National Bureau of Statistics [NBS], 2016). Nigerian banks internationalization, commenced in the 1980s, when some Nigeria banks set-up representative offices in United States and United Kingdom, to aid the economic activities of their customers. Following the upward review of the capital base of banks in Nigeria from N2billion to N25billion by the Central Bank of Nigeria (CBN) in 2004, the higher capital base enhanced the capacity of the consolidated banks, leading some banks to develop international expansion strategies, and subsequent establishment of foreign subsidiaries by some banks (Amungo, 2016).

The consequence of the 2009 banking sub-sector crisis in Nigeria, led to the introduction of series of restructuring. The CBN classified banks in the country into three, namely; commercial banks, merchant banks and specialized banks (which include; micro finance banks, primary mortgage institutions and non interest banks). Commercial banks were further classified into international banks, national banks and regional banks, with a minimum share capital of N50 Billion, N25 Billion and N10 Billion respectively. As at 30th October, 2017 Nigeria have ten international banks, nine national banks and two regional banks. These international banks have subsidiaries in other African countries, United
The entrepreneurial activities of firms, also known as corporate entrepreneurship (CE), can be viewed from the following perspective: innovation, risk taking, proactiveness, strategic renewal and corporate venturing. Some scholars (Boermans & Roelfsema, 2015; Nosi, Pucci, & Zanni, 2017; Sdiri & Ayadi, 2014; Slimane, Slim, & Mansouri, 2015) studied CE and CE elements from the dimension of internationalization, while some found that CE elements affect firms’ internationalization, some do not. Researchers (Adele, 2015; Daryani & Karimi, 2017; Lekmat & Selvarajah, 2008; Linyiru, 2015; O’Cass & Weerawardena, 2009; Oyedokun, 2015; Prange & Pinho, 2017; Zahra & Garvis, 2000) studied CE from the dimension of firm performance, that is, the relationship between CE and firms’ performance and found that CE positively affect firms’ performance and capacity.

From the empirical literature reviewed, it was discovered that studies examining the international performance of banks in Nigeria are sparse. It therefore becomes necessary to examine the international performance of Nigerian internationalized banks from the perspective of CE; to among other objectives justify setting up subsidiaries abroad, provide investment information that will aid the management, board, shareholders and other stakeholders in decision making, especially on the international expansion of Nigerian banks. Furthermore, it will aid Nigerian national banks that seek to internationalize in examining the elements of CE that can accelerate the process of internationalization and international performance.

This study therefore sought to examine the possible effect of CE elements (innovation, risk taking, proactiveness, strategic renewal and corporate venturing) on the international performance of Nigerian banks.

The paper was divided into six sections, section one introduces the subject matter, while section two present a review of literature, section three presents the research methodology employed for the study, section four presents the research findings, section five provide a discussion of the findings and section six provide the conclusion of the study.

2. Literature review

Corporate entrepreneurship has been used interchangeably with intrapreneurship, but contemporary studies view CE as the entrepreneurial activities of corporate organization. Miller & Friesen (1982) measure CE by making use of
the following constructs: Proactiveness, innovation and risk taking. For most researches, the Miller & Friesen (1982) measures were adopted. However, with some developments that have taken place regarding the study of corporate entrepreneurship and its elements, the constituents of the concept of CE have increased.

Zahra (1995) emphasizes three components of CE, innovation, strategic renewal, and corporate venturing. He views innovation as the firm’s commitment to introducing new products, production processes and organizational methods. Venturing refers to new business creation and strategic renewal refers to the creation of new wealth through new combinations of resources (Guth & Ginsberg, 1990). These components (innovation, strategic renewal and corporate venturing) have equally been used in measuring CE.

2.1. Perceived international business performance measures

In literature various measures have been employed in evaluating firms’ performance or business performance measurement and are majorly from two perspectives; financial and non-financial measures. Financial measures include; profit, revenue, return on assets, return on equity, return on capital, among others. While non-financial measures include; market share, employees satisfaction, customers satisfaction among others (Daryani & Karimi, 2017; Jancenelle, Storrud-Barnes, & Javalgi, 2017).

Combinations of both financial and non-financial measures have been suggested (Kaplan & Norton, 1996). However, in measuring the international performance of firms, Dess & Robinson (1984) opine that perceived measures can be used instead of the financial and non-financial measures. Perceive international business performance measure (PIBPM) refers to management perceived satisfaction with foreign operations as well as improved foreign sales. Furthermore, reliabilities and correlations between objective measures and perceived measures are strong. It is obvious that PIBPM measure of performance, accommodate an aspect of non-financial measures (Awolusi, 2013)

Additionally, firms usually have defined goals prior to internationalization; it therefore becomes easier for the management to compare the expected outcome with the actual outcome. Awolusi (2013) posits that perceived satisfaction with obtained results may be a more realistic measure of international performance. This study employed PIBPM in measuring the international performance of internationalized Nigerian banks.
2.2. Theoretical framework

2.2.1. Resource-based theory

The resource-based theory, postulates that the organizational factors are the major determinants of international market entry as well as international performance. These organizational factors include valuable firm resources which are tangible and intangible elements and are usually scarce, imperfectly imitable, and lacking in direct substitutes (Brouthers & Hennart, 2007). The resource based theory suggests that the firm is best viewed as a bundle of resources or factors of production that management must deploy effectively and efficiently to add value (Barney, 1991; Roxas & Chadee, 2011; Wernerfelt, 1984). It is possible to state that firms need internal strength (comparative advantage) to drive activities in the market (competitive advantage) in the onerous attempt to take advantage of opportunities. In effect therefore, management should show entrepreneurial competence in the pursuit of the activities of their organizations.

Resources can lead to competitive advantage, which can aid internationalization and good international performance when they are relatively valuable, scarce, hard to imitate, and hard to replace (Barney, 1986; Mahoney & Pandian, 1992).

2.2.2. Dynamic capabilities theory

Dynamic capabilities theory postulates that timely responsiveness to market dynamics and speedy product innovation determines firms’ success and those successful firms have the ability to effectively coordinate and redeploy internal and external competence. Dynamic capabilities serve as a competitive advantage over competitors. Teece, Pisano, & Shuen (1997) posit that firms develop specific competences to respond to changes in the business environment, which is related to firm’s market position, business process, and opportunities. The dynamic capabilities theory views competition as a situation where business entities are constantly seeking to develop new combinations and competitors are working towards the improvement of their competences. The theory posits that firms’ internal and external resources are both sources of dynamic capabilities, unlike the resource based theory that concentrated majorly on firms’ internal resources (Kitenga & Thuo-Kuria, 2014). These internal and external resources can aid firms’ international performance.
2.2.3. Institutional theory

The institutional theory focal point is on the institutional environment of host country and its disparity with the home country’s environment (Brouthers & Hennart, 2007). Considering the social, cultural, political and economic differences among nations, the institutional theory has been shown to be a vital explanation for firms’ internationalization and international performance (Thomas, 2013). Hence, the institutional dissimilarity in each market would affect the international performance of organizations and the need to reappraise the corporate entrepreneurship. The regulations and rules entrenched in institutional environment can have effect on the organization’s choice of mode of entry. Cui & Jiang (2010) argue that the organization’s interaction with various institutions and effort to obtain regulatory legitimacy have effect on the strategic decision of mode of entry, which can also affect firms’ international performance.

2.2.4. CE model

Goosen, De Coning, & Smit (2002) formulated a CE model postulating that the adoption of CE elements enhances the financial performance of firms. The model integrates three elements of CE and nine related components of CE that have been well recognized by various scholars. These elements include; innovativeness, self-renewal and proactiveness. The nine related dimensions are; management style, management orientation, communication, environment, structures, strategy, risk-taking, creativity and innovation, product innovativeness and proactiveness. The model revealed that these elements affect firms’ financial performance. The three theories will be adapted for this study.

It possible to see the CE model as inherent in the first three theories; resource based, dynamic capabilities and institutional theories. Therefore the model of CE can be used to explain the performance of firms. Entrepreneurship basically addresses two germane issues of innovativeness and creativity under risk conditions. The combination of resource based view and institutional theory premised on resource use within the institutional environment in the host country can possibly accommodate the explanatory powers of CE elements as captured by innovation, risk taking, proactiveness, corporate venturing and strategic renewal, which tend to enhance firms’ international performance.
2.3. Conceptual framework

The conceptual framework suggests that innovation, risk taking, proactiveness, strategic renewal and corporate venturing will enhance Nigerian banks international performance (Figure 1).

Figure 1. Conceptual framework

3. Research methodology

3.1. Research sample and instrument

The study adopted a survey research design to meet the research objective of the study. Questionnaire was administered to management staff of foreign operation, strategy and finance departments of the ten Nigerian international banks. The population of the study consists of 106, 120 and 201 management staff of foreign operations, strategy and finance departments respectively of the ten international Nigerian banks, namely; Access Bank PLC, Diamond Bank PLC, Fidelity Bank PLC, First City Monument Bank PLC, First Bank Nigeria Ltd., Guaranteed Trust Bank PLC, Skye Bank PLC, Union Bank of Nigeria PLC, United Bank of Africa PLC and Zenith Bank PLC. The reason for sourcing information from management staff of foreign operation, strategy and finance
departments is because they constitute the major actors in the subject area and are the hands behind CE. The study employed a census-survey, whereby the entire population becomes the sample size with a total of 427 respondents.

The study adapted part of the questionnaire used by Linyiru (2015) to obtain data for innovation, risk taking and proactiveness while the questionnaire for PIMPB was as developed by Dess & Robinson (1984) and Awolusi (2013). The questionnaire for strategic renewal and corporate venturing was developed by the authors. A 4-point Likert scale with responses structured as strongly agree (4), agree (3), disagree (2), strongly disagree (1) was used.

The validity of the instrument was tested using content validity index (CVI), through the assessment of ten assessors (four academics, two bank management staff of strategy department, two bank management staff of international operation department and two bank management staff of finance department), which gave a value of 0.89, which indicated that the instrument was highly valid. A pilot study was conducted through test re-test method to ascertain the extent of reliability of the instrument, which gave a Cronbach alpha of 0.78, which indicated that the instrument is reliable.

427 copies of structured questionnaires were administered to the entire targeted respondents, 281 copies were returned and found useable. This gave a response rate of 66%. The data analysis was guided by the objective and hypothesis of the study as well as the instrument employed for data collection. STATA 14 was employed for the analysis; this was obtained by using ordinary least square to estimate the regression model.

3.2. Research hypotheses

To meet the study’s purpose and verify the proposed conceptual framework, six hypotheses were developed:
H₁: Innovation significantly affects Nigerian banks international performance.
H₂: Proactiveness significantly affects Nigerian banks international performance.
H₃: Risk taking significantly affects Nigerian banks international performance.
H₄: Strategic renewal significantly affects Nigerian banks international performance.
H₅: Corporate venturing significantly affects Nigerian banks international performance.
H₆: Corporate entrepreneurship elements (Innovation, proactiveness, risk taking, strategic renewal and corporate venturing) have a combined significantly effect on Nigerian banks international performance.
3.3. Model specification

The theories underpinning the model for this study are institutional and resource based theories as well as Goosen et al. (2002) model of CE.

\[ INTPERF = f(INV, PR, RT, SR, CV) \]
\[ INTPERF = \beta_0 + \beta_1 INV + \beta_2 PR + \beta_3 RT + \beta_4 SR + \beta_5 CV + \mu \]

where:
\( INTPERF \) represents International Performance,
\( \beta_0 \) is the constant term,
\( \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 \) are the coefficient of the estimator,
\( \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 > 0, \)
\( INV, PR, RT, SR, CV \) are innovation, proactiveness, risk taking, strategic renewal and corporate venturing, respectively,
\( \mu \) is the error term.

The a priori expectation is such that CE elements (innovation, risk taking, proactiveness, strategic renewal and corporate venturing) are expected to positively affect Nigerian banks international performance, hence, the parameters of CE elements (innovation, risk taking, proactiveness, strategic renewal and corporate venturing) should have a positive sign.

4. Research findings

It is evident from Table 1 above that innovation (t-stat = 7.19 *0.000) has the highest effect on Nigerian banks international performance, followed by corporate venturing (t-stat = 6.95 *0.000), proactiveness (t-stat = 4.06 *0.000), strategic renewal (t-stat = 3.42 *0.000) and risk taking (t-stat = 3.05 *0.003), respectively. It shows that all the CE elements have positive and significant individual and combined effect on Nigerian banks international performance at 95% confidence interval (p value less than 0.05). This is consistent with the study by Prange & Pinho (2017) as well as O’Cass & Weerawardena (2009) who found that innovation enhances’ SMEs international performance. Furthermore, the adjusted R square revealed that 74% variation in Nigerian banks international performance is accounted for by CE elements. The F-value result of 76.57 (0.0000) suggests that all the parameter estimates are significant. The constant in the model was also significant indicating that there are some other explanatory variables not captured in this work, therefore forming the basis for further studies. One probable position is that there are some factors beyond CE that also affect internationalized Nigerian banks’ performance.
Table 1. Regression result (Dependent variable – INTPERF)

<table>
<thead>
<tr>
<th>Variable(s)</th>
<th>Coefficient</th>
<th>T-statistics</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.1918870</td>
<td>3.93</td>
<td>0.000</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.4928573</td>
<td>7.19</td>
<td>0.000</td>
</tr>
<tr>
<td>Proactiveness</td>
<td>0.2608626</td>
<td>4.06</td>
<td>0.000</td>
</tr>
<tr>
<td>Risk taking</td>
<td>0.1503511</td>
<td>3.05</td>
<td>0.003</td>
</tr>
<tr>
<td>Strategic renewal</td>
<td>0.1894753</td>
<td>3.42</td>
<td>0.000</td>
</tr>
<tr>
<td>Corporate venturing</td>
<td>0.4741164</td>
<td>6.95</td>
<td>0.000</td>
</tr>
<tr>
<td>F-Statistics = 76.57 (0.0000)</td>
<td>R-Square = 0.7604</td>
<td>Adj R-Square = 0.7452</td>
<td></td>
</tr>
</tbody>
</table>


5. Conclusions

5.1. Research contribution and implications

This study examined the effect of corporate entrepreneurship (measured by innovation, risk taking, proactiveness, strategic renewal and corporate venturing) on the international performance (measured by managers’ perceived measures of international business performance “PMIBP”) of Central Bank of Nigeria (CBN) licensed Nigerian international banks. These Nigerian international banks are Nigerian owned banks that have foreign subsidiaries in other Africa countries, United States, United Kingdom, China, France and the United Arab Emirate. The study employed a census survey, where the entire 427 management staff in strategy, foreign operations and finance departments of the ten CBN licensed international banks constituted the population and the sample (census survey).

Findings revealed that CE elements (innovation, proactiveness, risk taking, strategic renewal and corporate venturing) all have individual and combined positive and significant effect on banks international performance. Innovation has the highest effect on Nigerian banks international performance, with t-stat = 7.19 *0.000, followed by corporate venturing (t-stat = 6.95 *0.000), proactiveness (t-stat = 4.06 *0.000), strategic renewal (t-stat = 3.42 *0.000) and risk taking (t-stat = 3.05 *0.003), respectively. The adjusted R² (0.7452) indicated that CE elements account for 74% variation or change in Nigerian banks international performance, the F-stat shows that CE elements have a combined positive and significant effect on Nigerian banks international performance.

This is consistent with the study by Prange & Pinho (2017) as well as O’Cass & Weerawardena (2009) who found that innovation enhances’ SMEs international performance. This implies that it is applicable to large scale businesses as well. Though the characteristics of SMEs are different from a Nigerian international bank, innovation which refers to the creation of new product, proc-
This view found credence in the study by some scholars that investigated the effect of CE on the performance of large firms. For instance, Zahra & Garvis (2000) found that CE is positively associated with fortune 500 list of US industrial corporations’ accounting performance measures.

Goosen et al. (2002) equally found that CE significantly influences the financial performance of South Africa’s listed firms. Lekmat & Selvarajah (2008) also found that CE significantly affects Thailand automotive firms’ financial and non-financial performance, the study further found that innovation has the strongest effect. Though the performance measures of these studies are different from international performance measures, there exist some relationships among them.

It is therefore plausible to state that Nigerian banks operating internationally too are affected by CE with respect to their performance. It is also imperative to state that when going international, firms need to be innovative, venturing and proactive in that order before considering other elements of CE; strategic renewal and risk-taking.

It is recommended that management of internationalized Nigerian banks as well as those considering further market expansion should take CE serious with special emphasis on innovation, corporate venturing and proactiveness. By so doing, it will become easier to take advantage of new markets in a new environment.

5.2. Research limitation and future works

The study was conducted for the banking industry, it result might not be applicable to other industry, and the study focused on the Nigerian banking industry, the findings might defer in other countries, therefore, the conclusion and recommendation is limited to Nigerian banking industry. Future studies can consider the use of revenue from foreign subsidiaries as an indicator of banks international performance, other variables affecting firms’ international performance can equally be studied. Similar studies can be conducted for other industries and climes. Furthermore, a comparative study based on year of entry into international market can be done to see if the CE elements will be the same in terms of their explanatory powers on performance of internationalized firms.

Reference

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