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# The internationalization of Nigerian firms: Motivations and location patterns

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# **The Internationalisation of Nigerian Firms: Motivations and Location Patterns**

## **Executive Summary**

Despite the increased number of studies of the internationalisation of emerging market multinationals (EMNCs), Latin American and Asian firms have dominated the focus of such studies, while the study of the internationalisation process of Sub-Saharan African firms in the international business literature is quite limited. Therefore, this paper examines the motivations and location patterns of the internationalisation process of four Nigerian firms through a multiple case study approach. The findings show that the internationalisation of the Nigerian firms is a recent phenomenon, but the foreign investment pattern reflects a Pan-African investment strategy. However, the findings also reveal that the firm specific advantages that had been accumulated in the domestic market, coupled with home country factors and regional/host markets factors, were key determinants of the motivations and location patterns in the internationalisation process of Nigerian firms.

*Keywords: Internationalisation process, emerging market multinational firms, motivations, location patterns, Sub-Saharan African firms, Nigerian firms*

## **Introduction**

The study of the internationalisation process of emerging market multinationals (EMNCs) has gained prominence in the last two decades as a result of the economic growth and transformation witnessed in emerging markets (EM). The internationalisation phenomenon has attracted a great deal of interest from international business (IB) scholars (Athreye & Kapur, 2009; Hoskisson, Eden, Lau, & Wright, 2000; Hoskisson, Wright, Filatotchev & Peng, 2013; Jormanainen & Koveshnikov, 2012). However, Asian and Latin American firms have dominated the study of EMNCs' internationalisation (Child & Rodrigues, 2005; Cyrino,

Barcellos, & Tanure, 2010; Eren-Erdogmus, Cobanoglu, Yalcın, & Ghauri, 2010; Fortanier & Tulder, 2009; Olaya<sup>1</sup>, Olaya<sup>2</sup>, & Cuéter, 2012; Sim, 2005; Bianchi, 2014).

Sub-Saharan African (SSA) firms have emerged as high profile multinational corporations (MNCs) which are increasingly engaged in foreign expansion through outward foreign direct investment (OFDI), especially across the SSA region. Such firms include, for example, MTN, the First Bank of Nigeria, Eco Bank of Senegal, Diamond Bank of Nigeria, Continental Reinsurance, Dangote Industries, ShopRite, Equity Group Holdings, GlobalCom, InterSwitch and Computer Warehouse Group. SSA MNCs have emerged from different sectors of the economy, taking advantage of their home countries' favourable economic policies to internationalise (Initiative for Global Development and Dalberg Global Development, 2011; William, 2013). However, the study of SSA firms is still under-explored and "silence" has been used to describe the lack of such studies (Mol, Stadler, & Arino, 2017; Bolaji & Chris, 2014; Boojihawon & Acholonu, 2013; Ibeh, Wilson, & Chizema, 2012). The SSA economic environment is diverse in terms of political systems, resources, economic structures and culture (IGD & Development, 2011; Ajen, 2016). This diversity may have implications for the internationalisation process of SSA firms.

A study of the internationalisation process of Nigerian firms is important given the size of the Nigerian economy and its influential position on the continent. Such a study can create a path to understanding the internationalisation process of SSA firms generally. An in-depth understanding of the motivations and location patterns of Nigerian firms could also have both policy and social implications.

This paper, therefore, examines the factors which have motivated the internationalisation and the location pattern of Nigerian firms via OFDI. The paper also examines whether SSA firms possess any unique characteristics, which can contribute to the ongoing discussions on the role

of firm-specific-assets/advantages (FSAs) for the internationalisation of EMNCs (Padilla & Nogueira, 2016; Rugman & Collinson, 2012, p, 49-52). The study draws on the Uppsala Model and the OLI eclectic model to investigate the internationalisation process of Nigerian firms via a multiple case study design (Johanson and Vahlne, 1977, 1990; Dunning, 1988, 2002).

The findings reveal that there is no uniform set of factors which have motivated the internationalisation of the Nigerian firms; even though some similarities exist across cases, there are also stark differences. Overall, the motivations for and the location pattern of the internationalisation of Nigerian firms can be attributed to a combination of home country, firm specific factors and regional/host market factors.

The rest of the paper is organised as follows. First, we present a review of the theoretical and empirical literature pertaining to the internationalisation motivation and the location pattern of firms. This is followed by a brief discussion of the internationalisation trend of Nigerian firms. The research methodology is then presented, followed by data analysis and a discussion of the research findings. Finally, in the concluding part, the policy implications of the study are discussed, together with suggestions for a future research agenda.

### **Literature Review and Theoretical Perspective**

The internationalisation process of firms, to some scholars, is the approach or steps which an organisation takes to engage in business activities abroad in order to build the required resources and to become major players on the global stage (Jansson, 2009; Johanson & Vahlne, 1977; Meyer & Thaijongrak, 2013). To others, the internationalisation process (IP) is how a business spreads locally and between countries both regionally and globally (Jansson, 2009:48). Indeed, the latter contains an implicit suggestion that firms will evolve and expand domestically before actually taking the initial step towards international expansion.

Several theories and models help to explain a firm's internationalisation process, such as "the Uppsala Model" (Johanson & Vahlne, 1977; 1990). The Uppsala Model posits that internationalisation is a process that involves a series of incremental steps which firms take to become involved in internationalisation activities. It also asserts that firms at the early stage of internationalisation will first invest in a country with close psychic distance in which knowledge is accumulated through experiential learning, before subsequently investing in a more psychically distant country (Johanson & Vahlne, 1977, 1990; Johanson et al., 2009).

Another well referenced international business theory for explaining why firms engage in outward foreign direct investment is Dunning's eclectic model (Dunning, 1980, 1988, 2002). The eclectic model, which is often referred to as the OLI paradigm, asserts that MNCs engage in foreign production to capitalize on three sets of advantages; namely Ownership (O), Location (L) and Internalisation (I). Ownership advantages are those competitive advantages which organisations possess that enable favourable competition in a foreign market (Dunning, 1988). Such advantages may include resources and capabilities, and internal and external sources of knowledge (Marinova & Marinov, 2011). Home country specific advantages, such as resource endowments and a favourable domestic business environment, would enable a firm to develop its competitive advantage (Elango and Pattnaik, 2007). Jansson & Söderman (2012), in a study of six Chinese companies, found that a firm's source of competitive advantage for the international market was developed initially in the domestic market and was inextricably connected to subsequent local market development. Firms with large ownership advantages at home are, therefore, motivated to internationalise and compete strongly in a foreign market (Dunning, 2002).

Location advantages refer to the attractiveness of foreign markets, which organisations may identify to exploit their ownership advantages. A foreign location should be attractive enough

to harness a firm's unique specific advantages (Dunning, 2002). Internalisation advantages, on the other hand, are factors which encourage firms to exploit their ownership advantages internally by complementing the attractiveness offered by the foreign location. The OLI paradigm attempts to provide a comprehensive and integrated framework for identifying the key factors which influence organisations' early internationalisation (Dunning, 2002; Padilla & Nogueira, 2016) and subsequent expansion (Amal, Awuah, Raboch, & Andersson, 2013; Bianchi, 2014). The OLI eclectic model can be very useful in terms of understanding the motives and the location decision at each stage of the internationalisation process.

African markets are known for their diversity, weak marketing channels and weak infrastructure development and these disadvantages in the business environment may be a problem for the internationalisation of African firms (Boso, Oghazi & Hultman, 2017). Ibeh, Wilson, and Chizema (2012) argue that differences exist between firms from developed economies and those from Africa; thus questioning the appropriateness of extant theories in the explanation of the internationalisation of African firms. Considerable idiosyncrasies may well exist in the internationalisation process of SSA firms because such firms are confronted with difficult home country business environments, weak institutional contexts, infrastructure related impediments, ineffective investment promotion policies and a lack of ownership advantages. This is because such differences may lead African firms to exhibit different patterns and behaviour in their internationalisation process in comparison to MNCs from advanced countries, Latin America and Asian emerging markets. The study of Nigerian firms is important, therefore, because they may be motivated to internationalize based on factors which are entirely different from those suggested by the OLI eclectic paradigm and the Uppsala Model.

Despite these criticisms and shortcomings, the Uppsala Model and the OLI framework continue to be among the most referenced theories in the study of the internationalisation phenomena of firms from emerging markets. Therefore, this study draws on the OLI and the Uppsala Model

as theoretical perspectives for the study of the motivation for and location pattern of Nigerian firms' internationalisation.

Earlier studies on the internationalisation of EMNCs (Agarwal, 1985; Kumar & McLeod, 1981; Lall & Chen, 1983; Lecraw, 1977; Wells, 1983) provide the foundation for a comparison between the internationalisation of firms from developing countries vs advanced countries during the 1970s and 1980s (Dunning 1988). Subsequent studies have further explored the internationalisation of EMNCs (Athreye & Kapur, 2009; Deng, 2012b; Gammeltoft, Pradhan, & Goldstein, 2010; Gaur & Kumar, 2014; Sim, 2005; Verhoef, 2011; Child & Rodrigues, 2005, Luo and Tung, 2007; Liu, Li & Xue, 2011). Such studies argue that the open trade and economic liberalisation policies of the last two decades, as well as the easing of regulatory controls in many emerging markets, are responsible for the acceleration of the internationalisation of EMNCs.

The level of a home country's economic and institutional reforms will also be reflected in the internationalisation process of a firm (Luo & Tung, 2007; Wright, Filatotchev, Hoskisson, & Peng, 2005; Mihailova & Panibratov, 2012). However, the importance of context has been emphasized in research on EMNCs due to the unique and idiosyncratic characteristics of their home markets (Bianchi, 2014; Bolaji & Chris, 2014; Boojihawon & Acholonu, 2013; Cavusgil, Ghauri, & Akcal, 2013; Cuervo-Cazurra & Ramamurti, 2014; Eren-Erdogmus et. al, 2010; Gammeltoft et. al., 2010; Khanna & Palepu, 2006). Therefore, the context specific nature of the Nigerian home market may well explain the internationalisation process of Nigerian firms.

### **The Motivation for the Internationalisation of Emerging Market Multinationals**

According to Dunning (1988), the motivation for the internationalisation of firms can be categorised into four groups; namely - market seeking, assets seeking, efficiency and resource seeking. A review of the extant literature finds deviations from Dunning's categorisations; for

instance, Chinese firms and EMNCs were motivated to internationalise in order to enhance their organisational value or competitiveness (Deng, 2012b) and to enjoy network based ownership advantages (Frost, 2004; Wu & Sia, 2002). Other studies found that a home country specific advantage was a motivation for firms' internationalisation (Rugman & Li, 2007) and in order to redress other competitive disadvantages (Deng, 2004; Rugman & Li, 2007). The nature of the business was found to be a motivation for Chilean and Latin American firms (Bianchi, 2014), while managerial strategic orientation and experience were found to have influenced the motivation for the internationalisation of Kenyan small manufacturing firms (Matanda, 2012).

Though similarities may exist between the motivations for the internationalisation of EMNCs (Fortanier & Tulder, 2009), there are also differences across emerging markets (Athreye & Kapur, 2009; Bianchi, 2014; Gammeltoft et al., 2010; Goldstein & Pusterla, 2010; Olaya et al., 2012). The role of emerging market governments, institutions and the market characteristics of both the home and host country are also crucial to the location choices of EMNCs (Cyrino et al., 2010; Gammeltoft & Filatotchev, 2012). Regional market factors have become a pull factor for firms to seek foreign investment opportunities to leverage their home country advantage for internationalisation (Deng, 2004; Rugman & Li, 2007). The good relationships between its government and that of neighbouring countries were found to have facilitated the internationalisation of Kenya's small manufacturing firms (Matanda, 2012).

Latin American firms invested in countries (with low psychic distance) in their region to gain experiential knowledge before investing in other markets (Bianchi, 2014; Cyrino et al., 2010; Olaya et al., 2012). Turkish multinationals targeted markets with high growth rates and potential in their region in their early stage of internationalisation (Eren-Erdogmus et al., 2010). Therefore, Nigerian firms may be motivated to internationalise in the West Africa region at the early stages of their internationalisation process before subsequently internationalising in other markets.



## **The Motivation for Internationalisation by Nigerian Firms**

The internationalisation of Nigerian firms through OFDI is a new phenomenon which has developed since the early 2000s. The structural economic reforms and deregulation of policy that followed the transition to democratic rule in the country in 1999 are attributed to the increase in the internationalisation of Nigerian firms. However, the internationalisation of Nigerian firms is still an under-explored concept, except for a few studies in the banking sector. Amungo (2016), for example, found that internationalisation of Nigerian banks was motivated by home country regulations, domestic competitive pressure, managerial intentions and risk diversification factors. Similarly, Boojihawon and Acholonu (2013), in a study of the internationalisation of four African banks from Nigeria and Kenya, found that a consolidation and recapitalisation program in the banking sector in 2004 motivated the Nigerian banks to embark on foreign expansion.

## **Nigerian Outward Foreign Direct Investment: Overview and Trend**

The sectorial distribution of Nigeria's economy has changed in recent years from an agriculture and oil focused economy to a service economy. The service sector now represents 56% of the economy with the main contributions coming from the banking, financial services and ICT sectors (NBS statistics 2014; CIA World Fact Book, 2016), while the manufacturing sector now represents only 19.4% of the country's GDP.

Although much is known about Nigerian inward foreign direct investment, not much is known about its outward foreign direct investment (OFDI) trend. Nigerian OFDI remains relatively small, in terms of its global share. However, the internationalisation of Nigerian firms constitutes an important foreign direct investment into SSA economies (UNCTAD, 2014).

Nigeria's outward FDI stock has increased from \$ 5 billion in 2010 to \$ 11.8 billion in 2015 (113 per cent increase) and the OFDI flows have increased from \$261 million in 2004 to \$1.614 billion in 2014 (six fold increase) (UNCTAD STAT, 2017). The country's GDP increased from \$208.07 billion dollars in 2008 to \$568.5 billion dollars in 2015 (representing a 173 percent increase) to become the largest economy in Africa.

Nigeria's economic growth since 2000 is to some extent a positive factor for the internationalisation of indigenous firms. Since the establishment of the first foreign subsidiary of a Nigerian retail bank in 2001, there has been a wave of foreign expansion by Nigerian firms. Indeed, by 2012, Nigerian banks were operating in more than 30 countries (Alade, 2014). However, most of the internationalisation of Nigerian firms is intra-African focused; only a few firms have internationalised into developed Western markets (Alade, 2014; Boojihawon & Acholonu, 2013).

## **Methodology**

This study was designed with the specific aim of investigating the OFDI internationalisation of Nigerian firms, in terms of motivation and location pattern, at the early stage of the firms' internationalisation. Nigeria was chosen as the context of this study because it is the largest economy in Africa and has seen increased internationalisation by its firms in recent years. The personal link of one of the authors to Nigeria also facilitated access to data in that context.

A qualitative case study design is adopted for this study, because it allows the research questions to be addressed in an effective manner. In particular, the small sample size of this study is appropriate for case study research (Yin, 2014). However, a case study facilitates the empirical investigation of an in-depth contemporary phenomenon within a context, drawing data from

multiple sources of evidence for triangulation and convergence (Yeung, 1994; Yin, 2014; Creswell, 2014). Case study research also provides a platform for a fresh perspective and insight required in this relatively new area of study which is useful in theory building (Eisenhardt, 1989). A multiple case study also allows replication of all cases through cross case analysis for comparison purposes (Yin, 2014; Eisenhardt, 1989).

### **Case Selection Process**

Purposive sampling was applied in the case selection process (Gray, 2014; Yin, 2014). The case samples all had subsidiaries in at least three countries and the business sectors of the companies have seen sectorial growth and increased internationalisation in recent years. The firms were one of the first to internationalise in their respective sectors and they had engaged in OFDI internationalisation for at least five years.

The case companies were identified from Bureau van Dijk's Osiris database with defined criteria, such as country of incorporation (Nigeria), Global Ultimate Owners (GUO) of foreign subsidiaries and percentage of ownership in foreign subsidiaries of over 51%. The Nigerian Stock Exchange (NSE) website was then browsed to identify more Nigerian firms with foreign subsidiaries. The defined criteria resulted in the selection of a number of potential companies. Four case firms were willing to grant a face to face interview. During the case study design phase, one of the authors visited the headquarters of the Nigerian Stock Exchange Commission (NSEC), the Central Bank of Nigeria (CBN), the National Bureau of Statistics (NBS) and the Nigeria Investment Promotion Commission (NIPC) in Abuja.

### **Data Collection and Interviewee Selection Process**

LinkedIn, the Osiris database and the companies' websites were used to identify suitable individuals in key positions within the selected companies. Interview participation request letters were then sent to the organisations' corporate headquarters. The firms' corporate

headquarters then appointed appropriate persons or a group of persons in strategic executive positions for the interviews. In other cases, the executives were contacted directly through LinkedIn, followed by email communications, phone calls and personal visits to their offices and subsequent face to face interviews.

The primary data source was semi-structured in-depth face to face interviews with executives of the case companies. An email interview preceded the face to face interview in some cases. Interview question guides were designed with insights from the literature, research questions and objectives in mind. The focus of the interview questions was on the motivation, drivers and the location path of the early stage of the firms' internationalisation. The interviews were conducted in the English language, audio recorded and transcribed. The interviews lasted between 35 and 60 minutes.

The interviews took place in London, UK and Lagos, Nigeria, between September 2015 and April 2016. In the case of Beta and Gamma, it was a group interview with two and three executives present while in the case of Alpha and Delta a single executive was present in the interview. An interview was only granted in the case of Delta after three previous meetings with the executive. Some of the companies required an assurance of confidentiality before agreeing to be part of the study. As a result, the identity of firms and interviewees are kept anonymous (Miles & Saldaa, 2014, p.62). The four chosen case firms are presented as Alpha (Manufacturing), Beta (Banking), Gamma (Insurance) and Delta (ICT). The interviews were then coded; for example, (Beta\_g2 December 2015) is an indication that two executives were present in the Beta interview in December 2015. The secondary data sources are from firm documentation, annual reports, field notes, journal publications, professional institutions' reports, databases, Government institutions' reports and statistics, the public domain, company websites, UNCTAD STAT and World Bank STAT.

## **Data Analysis**

Thematic analysis was adopted for the case study analysis and the Nvivo software package was used for coding. This allows a dataset to be organised, coded and described in detail by capturing important aspects, themes, patterns and meaning within it (Braun & Clarke, 2006). The research data evidence (from multiple sources) were used to write the research report (Braun & Clarke, 2006; Eisenhardt, 1989; Gray, 2014; Mills & Birks, 2014; Thomas, 2006; Yin, 2014).

## **Discussions and Findings**

### **Presentation of the individual cases**

This section presents the four case companies which underpin this study (Table 1). The case analysis follows a similar pattern.

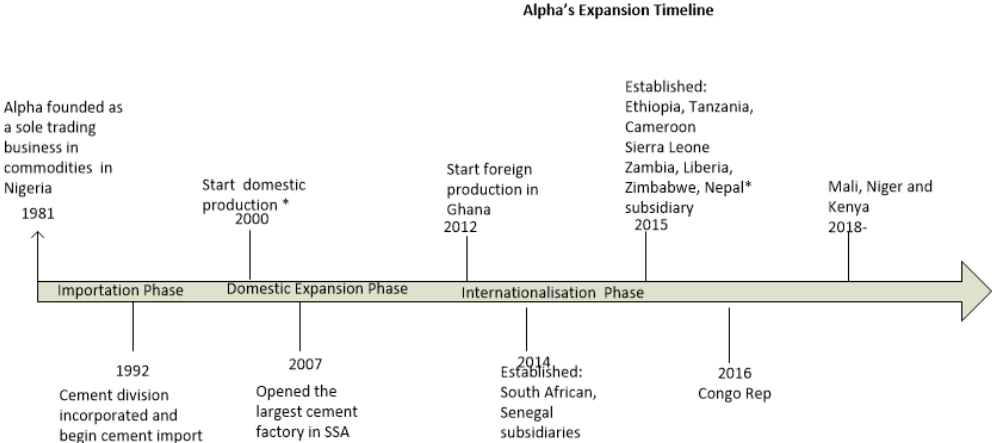
#### **Case Firm 1: Alpha**

Alpha was established as a one-man trading business in 1981, specialising in commodity trading with a focus on varieties of products ranging from consumable commodities to cement. Subsequently, it became one of the largest bulk cement importers and suppliers in Nigeria with a 46% market share at one point (Akinyoade & Uche, 2016). In 2000, at a time when domestic cement manufacturing was at its lowest and confronted with production inefficiencies and increased product demand in Nigeria, Alpha recognized an opportunity in the government's Backward Integration Policy (BIP), which was geared towards reducing imports, increasing sustainability and economic viability, and enhancing domestic manufacturing industry. As a result, Alpha's management adopted a new business strategy in reaction to the BIP, by transitioning from being an importer to becoming a domestic manufacturer (Alpha-g1 September 2015).

Alpha expanded rapidly domestically to increase its domestic production to address increasing local demand and imports. Through mergers and acquisitions, public listing and domestic investment, Alpha became a strong domestic firm in a highly profitable large market. The firm’s domestic production capacity expanded rapidly from 0.9 million metric tons per annum (mtpa) in 2002 to 29.3 mtpa in 2015.

Alpha was motivated to internationalise to West Africa (ECOWAS) to take advantage of a regional common market with access to 15 countries and 310 million people. Alpha established its first foreign production factory in Ghana in 2011. Subsequently, the firm’s expansion occurred rapidly in several countries simultaneously. Alpha capitalised on its specific advantage for the realisation of its Pan-African expansion strategy with further expansion schedules for 2018/2019 in Africa and Asia (Nepal). Alpha’s total domestic and foreign production capacity reached 44mtpa at the end of 2015 as the firm expanded and developed additional capacity in several countries. With over 12,700 employees and subsidiaries in 15 countries; namely Ghana, Senegal, Niger, Cote D’Ivoire, Sierra Leone, Liberia, Mali, Cameroon, Rep. Congo, Ethiopia, Tanzania, South Africa, Zambia, Zimbabwe and Nepal and a procurement office in Europe, Alpha has become a major example of Africa-Africa OFDI internationalisation.

Figure 1: Alpha's Expansion Timeline



\* production starts in 2018

Source: Research data

## Case Firm 2: Beta

Beta is one of the Nigerian “new generation banks” and it was established in 1990. The bank evolved and expanded rapidly in the domestic market. The bank attained a universal banking license in 2001 due to the policy of deregulation in the Nigerian banking sector, which allows Nigerian banks to operate foreign subsidiaries. As a result, Beta opened its first international subsidiary in 2001 in Benin to respond to its customers’ needs in the Economic Community of West Africa States (ECOWAS) region, particularly in the West African Economic and Monetary Union (WAEMU<sup>1</sup>) sub-region. It was the strategic goal and management vision of Beta to establish foreign subsidiaries in various countries and to support Nigerian businesses abroad (Beta\_g2 December 2015, Beta\_g3 February 2016). The bank’s strategic goal was also to contribute to and drive the economic growth of Nigeria, as well as to redefine the country’s economic landscape through the strengthening of its retail banking services (Beta\_g2 December 2015; Beta\_g3 February 2016).

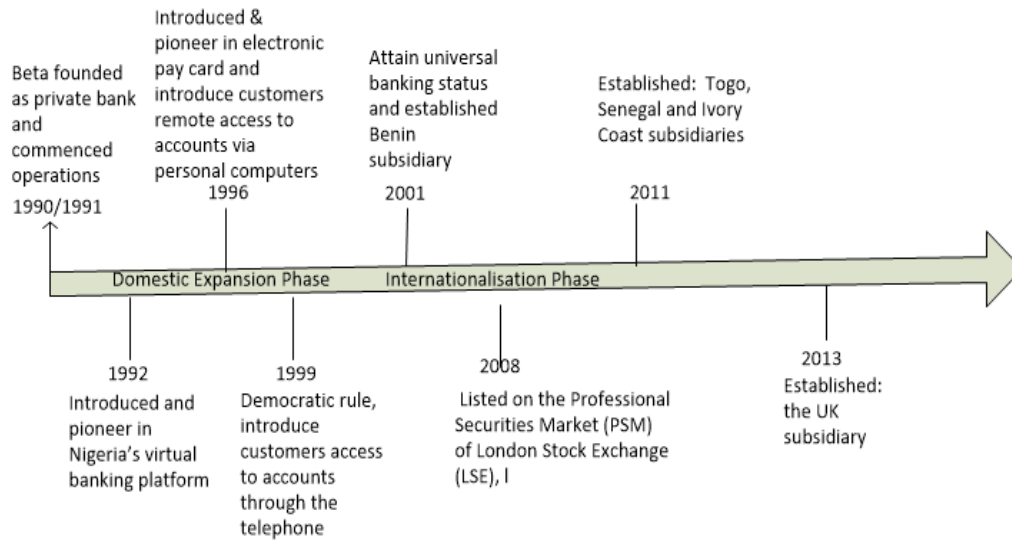
Due to an increase in Nigerian business activities in the region, the bank was compelled to provide the same banking services locally to its various customers in the regions so as to close the gap in international banking space (Beta\_g2 December 2015). The internationalisation motive of Beta is to align and create value in various markets through the delivery of high quality banking services to markets where opportunities are identified and where it has the capacity to fulfil them (Interviewee\_g3 February 2016). Beta has over 4,000 employees and subsidiaries in the Republic of Benin, Senegal, Togo, Cote D’Ivoire and the UK.

Figure 2: Beta's Expansion Timeline

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<sup>1</sup> WAEMU comprises of Francophone West African countries of Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo

### Beta's Expansion Timeline



Source: Research data

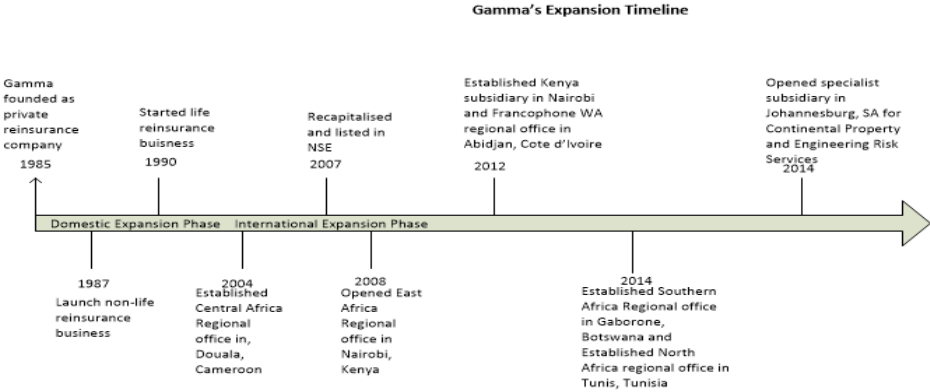
### Case Firm 3: Gamma

Gamma was established in 1985 as a private insurance company and is one of the top re-insurance companies in Nigeria. Gamma became a composite re-insurance firm in 1990 after operating as a general reinsurance firm from 1987. The company became a public limited liability company in 2000. In line with the firm's objective of becoming a Pan-African re-insurer, Gamma opened its first regional office and subsidiary in Douala, Cameroon in 2004 after establishing itself strongly in the domestic market. The regional office in Cameroon services all its Francophone denominated businesses in Central Africa. At the same time, the head office in Lagos serves the West Africa Anglophone regional office. After a successful recapitalisation in 2007, as directed by the National Insurance Commission (NAICOM),



Gamma went public and listed on the Nigerian Stock Exchange. Gamma’s capability as a reinsurance company was also strengthened through the recapitalisation. A successful recapitalisation programme then enabled Gamma to embark on further international expansion. Gamma’s Pan-African<sup>2</sup> strategy was to have operations across Africa, which led to the establishment of a regional office in Abidjan which serves the Francophone West African region while the Tunisia regional office serves the North African region. Its Nairobi subsidiary serves the East African regional markets and its Botswana subsidiary caters for its Southern African business operations. The firm’s experiential learning from internationalisation came from its initial foreign investments. Today, Gamma has built an international reputation with an expanded footprint in Africa, which consists of five regional offices and subsidiaries which service business operations in more than 44 countries across Africa.

Figure 3: Gamma's Expansion Timeline



Source: Research data

Case Firm 4: Delta

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<sup>2</sup>Pan African strategy: an African firm with an expansion and investment strategy with a focus in Africa to foster firm growth, contribute to build-up the regional value chains, regional economic development, growth, integration and poverty alleviation. A Pan African strategy allows Africa firms to use a subsidiary/regional office in a particular country to manage operations in several countries in the region.

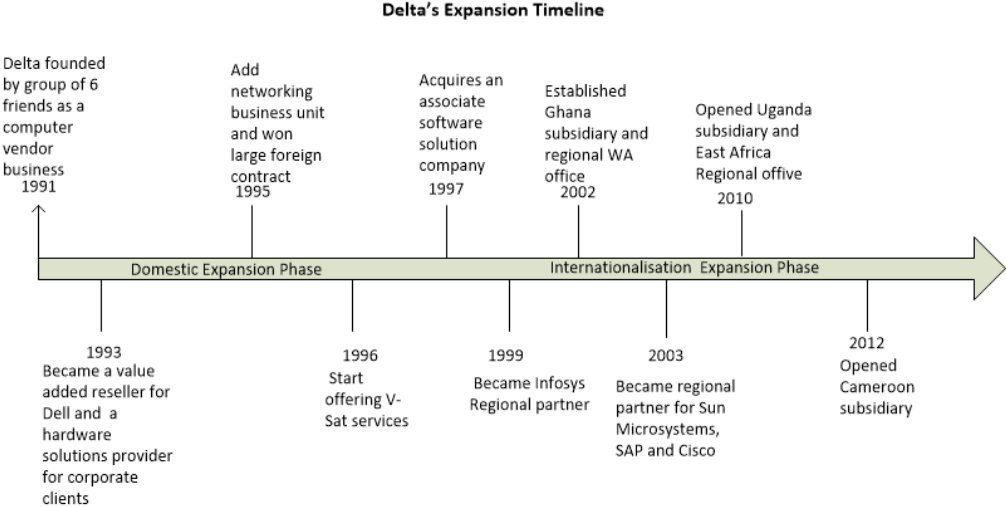
Delta is a leading Nigerian ICT firm which was established in 1991 as a result of the founder's ability to convince his friends to invest in his business plan. This conviction resulted in the birth of a partnership business of six friends with a focus on buying, selling and supporting customers in computer hardware and components. Right from the beginning, Delta engaged in a service differentiation strategy, with the aim of providing value added services to customers, which was lacking at the time in the country. As a result, Delta became a value-adding reseller for Dell in the region. The formative years of the business were between 1992 and 2000 because that was when the firm evolved from being a small private enterprise. This was a period when computer knowledge and awareness had started to gain popularity in Nigeria at a time when IT services were lagging behind in meeting customers' needs and expectations. It was also the period in which Delta acquired knowledge in the domestic market and became one of the largest ICT firms in Nigeria.

The domestic growth opportunities in the ICT sector in the 1990s prompted the founder to solicit a partnership with friends for network, software and application development knowledge (Delta\_g1 April 2016). This led to the formation of an ICT firm with different divisions as it envisaged a long-term growth in the Nigerian ICT sector (Delta\_g1 April 2016; Delta website).

In the light of the increased ICT need in Nigeria, especially in the banking and the emergent telecommunication sector, Delta worked in partnership with foreign technology firms such as Infosys, Sun Systems, and Oracle for partnership and knowledge transfer from foreign experts to Delta's local engineers (Delta\_g1 April 2016). Delta's motivation to internationalise is linked directly to the growth and expansion of other sectors of the Nigerian economy and the drive to follow its corporate customers abroad. Going public in 2012 and listing on the Nigerian stock exchange increased the market capitalisation of Delta until it became the highest capitalised ICT firm in the country. Delta's innovation, technical capabilities and partnership with various international technology firms have enabled it to stay competitive as one of the largest and

leading systems integration companies in Sub-Saharan Africa. For example, Delta manages a data centre for several telecommunication providers such as MTN with over 57 million mobile phone subscribers in Nigeria. In pursuit of its Pan-African vision, Delta has established subsidiaries in Ghana, Cameroon and Uganda which handle its business operations in West, East and Central African regions. With over two decades of ICT knowledge, Delta remains a benchmark for ICT excellence in Africa.

Figure 4: Delta’s Expansion Timeline



Source: Research data

**Cross-Case Analysis: The motivations for and location pattern of Nigerian firms**

The research findings, which are discussed in the following sections, are based on cross-case analysis. The case companies’ profiles are presented in Table 1.

Table 1: Summary of the case firm profiles

Case Companies	Alpha	Beta	Gamma	Delta
Company ownership and status	Publicly Listed	Publicly Listed	Publicly Listed	Publicly Listed
Industry	Manufacturing	Banking	Insurance	ICT
Year established	1981	1991	1985	1992
Country of first OFDI	Ghana (2010)	Benin (2001)	Cameroon (2004)	Ghana (2002)
Number of employees	12,000 +	4000+	1000+	1000+

Country locations of subsidiaries	15	5	5 regional offices and subsidiaries and operations in 50 African countries	3 subsidiaries and business operations networks in over 28 countries
Locations of Subsidiaries	Ghana, Senegal, Niger, Cote D'Ivoire, Sierra Leone, Liberia, Mali, Kenya, Cameroon, Rep. Congo, Ethiopia, Tanzania, Zambia, Zimbabwe, South Africa, UK** and Nepal *	Benin, Togo, Senegal, UK and Cote D'Ivoire,	Kenya, Botswana, Cameroon, Cote D'Ivoire and Tunis and operations in 50 countries	Ghana, Uganda, and Cameroon
Investment focus	Africa focus with future Asia plan	Africa focus	Africa focus	Africa focus

\*Operations commence in 2018

\*\*Procurement office

Source: Research data

### **The motivation for the internationalisation of Nigerian firms**

This study draws on the Uppsala Model and the eclectic/OLI framework to explain the motivation for and the patterns of the internationalisation of the four Nigerian companies. The case companies' internationalisation was motivated largely by three groups of factors: home country, firm specific and regional/host market (Dunning, 1988). Except for Alpha, which underwent aggressive internationalisation from the start, all other firms internationalised through a gradual approach, facilitating an incremental learning process at the initial stage of the firms' internationalisation, which is consistent with the Uppsala Model (Johanson & Vahlne, 1990).

However, the internationalisation process of all four firms contradicts the Uppsala Model's notion that firms will internationalise first through exporting, before establishing foreign subsidiaries. In the case of Alpha, its first international experience was as an importer rather than as an exporter - before starting domestic production and subsequently establishing foreign production. The other three cases (Beta, Gamma and Delta) also had some international

experience distinct from exporting before establishing foreign subsidiaries<sup>3</sup>. However, the early international experience of the firms is in line with the Uppsala Model (traditional stages view) that claim firms use network partners in the early stages of internationalisation and gradually replace them with firms' own resources.

Home country factors, categorised into institutional and market factors, were found to influence the firms' motivation for internationalisation. The open economic policies adopted in Nigeria in the early 2000s, following the transition to democratic rule in 1999, created an opportunity for Nigerian firms to emerge as large domestic entities. This also strengthened the firms' abilities to expand their operations beyond Nigeria, especially in the financial, service, telecommunication, entertainment and retail sectors (AFDB, 2013; Barungi, Ogunleye & Zamba, 2016). The open policies and stable business environment resulted in increased economic activities in all parts of the country's economy, which also led to increased Nigerian regional business activities. For example, the deregulation of the banking sector in 2001 motivated Beta to establish its first foreign subsidiary in 2001, as explained by the interviewees:

*Democracy brought with it an air of "business freedom" that allowed local businesses to explore growth opportunities that hitherto had remained in the shadows... thus encouraging cross-border business relationships (Beta\_g3 February 2016).*

This finding suggests that a successful recapitalisation and consolidation in 2004/2005 strengthened the capabilities of Beta and Gamma for further international expansion as both firms had already established foreign subsidiaries prior to the recapitalisation regulations. As illustrated by interviewees:

*...the additional capital that the bank brought from the recapitalisation program, it also strengthens, our ability to expand our business beyond our first point of call, which was Benin ... (Beta\_g3 February 2016)*

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<sup>3</sup> Internationalisation experience types for the case companies prior to OFDI internationalisation: Beta was through international correspondence banks; Gamma was through international insurance associates and partners; Delta was through international IT firms.

*The recapitalisation program enabled the bank to become more capitalised, stronger and with more capacity to drive the bank's international agenda (Beta\_g2 December 2015)*

*We went abroad even before the consolidation....what the consolidation did for us was to substantially increase our capacity (Gamma\_g2 December 2015)*

The Government's Backward Integration Policy fostered the transition of Alpha from being an importer to becoming a domestic manufacturer and subsequently motivated it to embark on foreign production. As explained by an Executive:

*The Government policy, enabling an entrepreneur with access to funds and a very large vision... What that means in Nigeria, we had good growth, we had high profitability and no tax and we have been able to generate cash, which we have been able to reinvest in Nigeria and we have also been able to use that cash to invest in other African countries, where we see opportunities (Alpha\_g2 September 2015).*

The favourable domestic business environment, large domestic market, domestic economic growth and home market profitability helped all the firms to internationalise. These factors enabled the firms to acquire and accumulate the resources and capabilities, financial resources, knowledge and experience, all of which provided the motivation, drive and strength to internationalise. Home country advantage, such as the natural resource endowment of Nigeria, was a specific advantage for Alpha as a cement manufacturer. As illustrated by an interviewee:

*...in Nigeria... have a confluence of factors, you have until recently really good GDP growth, large population, you got rapid urbanization, tax holidays, protection from imports and you got abundant limestone... the strategy has been brilliant, to get very big in the best market, to totally own that, build a big moat around ourselves. Then use the money to expand into other markets in Africa (Alpha\_g2 September 2015).*

Doing business in such a complex domestic market like Nigeria enabled the firms to build their capabilities and knowledge for internationalisation in the home market. This might be one of the reasons why Nigerian firms were not able to go outside Africa, as domestic market experience related advantages are mostly useful in other African countries. Such knowledge

and capabilities translated to success in other countries in the region, as explained by an interviewee:

*... Nigeria is a complex market, the demand being placed on banks on a daily basis...from every stakeholder of course...over the years help us to improve capacity to expand our businesses beyond the domestic market... we have learnt a lot over the years from the domestic market and I think this experience internally has enabled us to approach some of these new markets in an informed manner (Beta\_g2 December 2015)*

However, the firm specific advantages of market knowledge, sectorial experience and resources were an influential factor in the firms' internationalisation and location pattern (Table 2). Delta and Beta's specific advantages were derived from innovation, technology and network/partner relationships and was also a motivation for their internationalisation.

All the case companies emphasised the importance of developing good business networks/relationships for internationalisation. The relationships enabled the firms to gain network-based advantages, such as technological advantage and access to international markets. First, Delta had worked with foreign technology partners to gain high end and complementary technological knowledge in the domestic market (Delta\_g1 April 2016). The long-term business relationships which had been developed with corporate customers were a factor that motivated Delta to follow its corporate customers abroad. Network partnerships also enabled Delta to create and built new capabilities to proactively acquire or access resources for its competitive advantage, which is consistent with the results of previous studies (Amal et al., 2013; Luo and Tung, 2007). Delta leveraged its sectorial knowledge and network relationships to partner with various firms and institutions across 28 African countries with a consolidated market of over 600 million people (Delta documentation and website).

Network relationships were especially helpful for Beta's acquisition of a multi-country single WAEMU region banking license. This was a motivation for and determinant of Beta's internationalisation and location pattern (Beta\_g2 December 2015). For Gamma as an insurance

firm, network and business relationships were an important part of its business operations, both in the domestic and international market (Gamma\_g2 December 2015). Network relationships also played a role in Alpha’s expansion to Nepal because Alpha’s management team comprised of large numbers of Indian ethnic groups.

The firms’ innovative abilities, especially in the cases of Alpha, Beta and Delta, clearly motivated and enhanced their ownership and competitive advantages for internationalisation. Delta has continuously reinvented its business model, services and processes from being an infrastructure company to managed services and then e-commerce platforms. This innovation has been a motivation for the firm’s internationalisation (Delta\_g1 April 2016, Delta documentation and Website). Beta’s innovation and technology were based on its online and mobile platform products and services which have enabled the bank to internationalise with specific advantages (firm documentation). Alpha’s efficient production and a sophisticated logistic distribution network process have been a driver for foreign expansion (Alpha\_g2 September 2015). Table 2 provides a comparison of the firms’ specific advantages.

Table 2: Case firms' specific advantages

<b>Ownership Advantage</b>	<b>Alpha</b>	<b>Beta</b>	<b>Gamma</b>	<b>Delta</b>
Financial and physical assets, size, capabilities and resources	√	√	√	√
Market knowledge and experience	√	√	√	√
Brand image, reputation, product quality	√	√	√	√
Competitive advantage	√	√	√	√
Distributive network/Channels	√			
Production efficiency	√			
Home country/market factors	√	√	√	√
Technology and innovation		√		√
Network/Business relationship	√	√	√	√



Economies of scale	√
Proactive/ business process	√

Source: Research data

### **Motivation and location determinants**

The need to follow and be closer to customers in foreign markets was found to be a motivation for and location determinant of the internationalisation of all the firms except for Alpha. The growing technological demand in the SSA region and the need to create value added services for customers motivated Delta's internationalisation. Delta had internationalised to follow its corporate customers to provide the same ICT services that were being provided in the domestic market (Delta\_g1 April 2016). As illustrated by the executives:

*There were compelling reasons why ... actually started from the WAEMU region...one, our vision statement at that time was to support Nigerian businesses wherever they go and they were a lot of Nigerian businesses in that axis... It was more or less like following our customers everywhere they go supporting them... (Beta\_g2 December 2015).*

In the case of Gamma:

*To localise our niche area and get closer to the clients was particularly a driving factor for the establishment of foreign offices in various foreign locations (Gamma\_g2 December 2015).*

The case firms' management vision was a key motivation for internationalisation, which is consistent with previous studies of the motives for the internationalisation of EMNCs (Bianchi, 2014). The intensifying competition in the respective business sectors of the firms in the domestic market was a driver for Beta, Gamma and Delta to diversify their business risk and income base through internationalisation.

It is evident that market seeking and location attractiveness was a determinant of the foreign expansion of all the companies and in Alpha's case, resource and efficiency seeking was a significant motivation for its internationalisation and location pattern (Dunning, 1988, 2002).

However, the case companies internationalised to a market where its specific advantages were best utilised and exploited. For example, Beta established a retail bank in several countries in the region while Gamma underwrote insurance in several markets across Africa. Alpha exploited its strong production capability in the regional market by first venturing into ECOWAS markets.

The location centrality of a host market with growth potential, and the need to create local value and an international value chain within the region were key determinants of the location pattern in the case of Alpha, Gamma and Delta. The location centrality of the host market to other nearby markets enabled Alpha, for example, to use host markets as export bases to neighbouring countries. For instance, production factories in Ghana and Senegal were used as an export market to Mauritania, Mali, Burkina Faso, Mali, Liberia, and Sierra Leone. The firm could also mitigate the disadvantage of a lack of natural resources in some locations through the export of intermediary production inputs from Nigeria. For Gamma, the location centrality of the host market and the viability of the insurance market in such a location was a motivating factor. Location centrality was important because it allowed Gamma to service several markets and be closer to the customers in different countries to render better and greater-value-added services.

The nature of the re-insurance business, with a diversified business customer base, was another motive for Gamma's foreign expansion (Gamma\_g2, December 2015; Gamma website). This finding is consistent with a previous study in which the nature of their businesses facilitated the internationalisation patterns of Chilean firms (Bianchi, 2014).

The geographical proximity of the host market, rather than psychic distance, was found to be a determinant factor in the location pattern at the initial stage for all four firms. Alpha and Delta, for example, established subsidiaries in the Anglophone West African country of Ghana, at an early stage of their internationalisation. Beta's internationalisation started from the

Francophone West African country of Benin while Gamma's internationalisation started from the Francophone Central African country of Cameroon. All of the case companies, except Gamma, invested in their immediate region of West Africa. Gamma was the only company that first internationalised to the Central African country of Cameroon. However, Cameroon has a direct national border with Nigeria.

The cases of Beta and Gamma contradict the psychic distance notion of factors that inhibit the flow of information between businesses and markets such as language differences (Johanson and Valhne, 1977, 1990). Although Nigeria is an Anglophone country, Beta and Gamma internationalised to the Francophone countries of Benin and Cameroon in the early stages. As explained by one of the interviewees:

*When we decided to establish an office outside Nigeria, Cameroon became the first choice basically...to break the language barrier because...Cameroon and the whole of Central Africa are Francophone. So the idea of establishing an office in Cameroon was to break the language barrier...because the Duala office or Cameroon office covers the whole of our business in Central Africa.*

Language differences were found to be barriers inhibiting communication for Gamma once they entered the Cameroonian market. As a result, Gamma utilised its resources, time and efforts in French and English language training competencies for staff, both at its headquarters and in its Cameroon subsidiary. The realisation that the business environment and labour laws of Benin were different to that which was anticipated slowed the pace of Beta's subsequent internationalisation.

The need to diversify and to have a strong regional presence in Sub-Saharan Africa was an explicit motivation for the firms' internationalisation. As explained by an executive:

*The firm's Pan-African investment strategy is a competitive strategy as SSA is regarded as a frontier for future economic growth ...Africa is going through a building phase for 30 to 40 years... as the African economies increase in scale Alpha will be overall in a strong position to compete favourably (Alpha\_g2, September 2015).*

In addition

*Not investing in the region would be a dereliction of duty (Beta\_g2 December 2015)*

The need to take advantage of the investment opportunities, growth opportunities and market potential in the region due to increasing political stability, was found to be an internationalisation motivation for all the case companies. It was natural that the firms were motivated to invest in the SSA region because of the increased regional investment trend in SSA or Pan-African strategy, as regional firms began to identify investment opportunities in the region.

Increased regional economic integration was also a determinant of Alpha and Beta's investment locations because the democratic dispensation in Nigeria in the late 1990s ushered in more regional economic integration in the West Africa region (Beta\_g2 December 2015 and Beta\_g3 February 2016). Regional integration became a driving force for internationalisation because it created an economic closeness, a common market and political stability. The case firms' motivations for internationalisation are summarised in Table 3.

Table 3: Comparison of motivations of Africa-to-Africa internationalisation vs. Africa-to-outside-Africa internationalisation

Africa-to-Africa Investment	Africa-to-outside Africa Investment
<p>Business nature was a motivation for Beta, Gamma and Delta internationalisation</p> <p>Beta and Delta followed their customers to the regional markets Gamma internationalised to be closer to customers Efficiency and resources seeking was a factor for market choice of Alpha as a manufacturer Market seeking was a motivation for all the firms The management vision and orientation to become an international firm was a motivation for the all the firms The firm's specific advantage was a factor for all the firm's motivation Location centrality was a factor for Alpha and Gamma's location choice</p> <p>Alpha and Beta internationalised to create local value Beta, Gamma and Delta were motivated to internationalised to create value added services to customers Gamma's motivation was to localise the business niche area in the regional market All firms were motivated to internationalise for competitive strategy/ investment and risk diversification Pan-African investment strategy was a motivation for Alpha, Gamma &amp; Delta The experience and knowledge in the domestic market motivated all the firm's internationalisation Host market specific factors<sup>4</sup>/regional factors were a motivation for all the case firms. To have a strong regional presence was a motivation for all the firms Rapid urbanisation, population growth, and ongoing infrastructural development was a motivation for Alpha Business network relationship played a role in Beta, Gamma and Delta internationalisation motivation</p>	<p>Business nature was not a motivation for outside Africa investment for any of the firms</p> <p>Beta followed its corporate client to the UK This was not a motivation for any other firm Alpha internationalised to markets with availability of natural resources and proximity</p> <p>Market seeking was a factor for Alpha Alpha and Beta management vision was a determinant in the outside Africa expansion</p> <p>Alpha's firm specific advantage at home was a factor for Nepal expansion Location centrality of Nepal to Indian market was a motivation for Alpha's investment in Nepal This was not a motivation for any other firm Beta internationalised to create value added services to the corporate customers</p> <p>This was not a motivation for any of the firms</p> <p>Alpha and Beta internationalised as an investment and risk diversification strategy</p> <p>This was not a motivation for any of the firms Domestic experience was a factor and market compatibility was a factor for Alpha</p> <p>Host market factor was a motivation for Alpha</p> <p>This was not a motivation for any of the firms None of the firms were motivated by these factors</p> <p>Cultural fit/business network relationship was a motivation for Alpha's Nepal expansion</p>

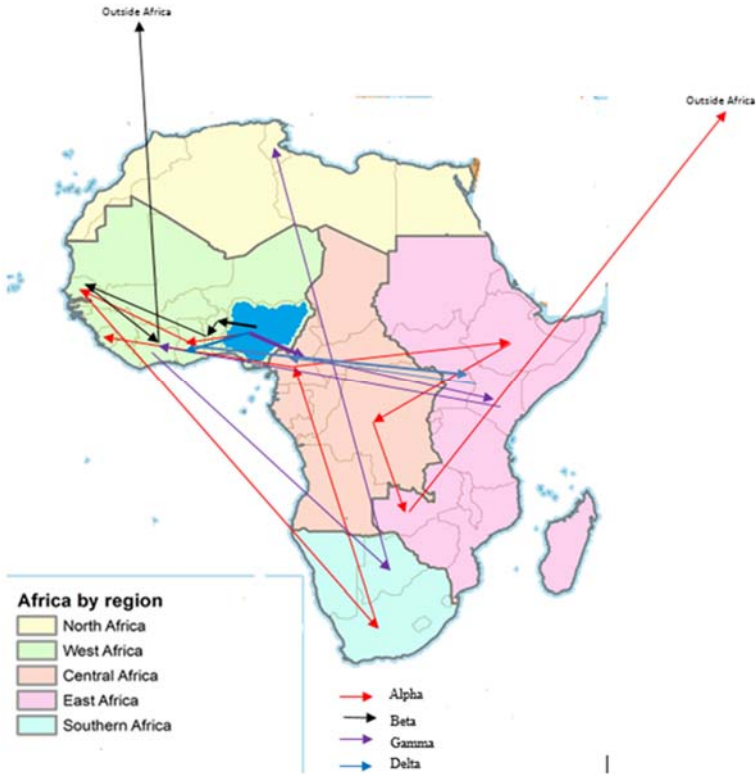
Source: Research data

<sup>4</sup> Host market factors: market opportunities and potential, market location centrality, sectorial viability, ease of entry and doing business, product demand and regional factors are common market, market size

Alpha and Beta were the only firms with subsidiaries outside Africa (Nepal and UK). Beta was the only firm with a subsidiary in a developed economy, i.e. in the UK. Beta had adopted a different business strategy in its operation in the UK; as a wholesale bank in the UK, with a target of specific niche trade related transaction services to its large corporate customers (more like an investment bank) (Beta\_g2 December 2015 and Beta\_g3, February 2016). Beta adopted this strategy in the UK because the bank could not compete in the retail bank segment in an advanced economy like the UK since it lacked the scale and the resources to compete effectively. This implies that firm-specific resources will determine the firms' location and investment patterns (Lahiri & Jain, 2013).

In the case of Alpha, the motivation to invest in Nepal (Asia) was emphasised to be the same as the motivation for SSA investment, such as location centrality, i.e. using Nepal as an export base into two large Indian states. It was also evident that Alpha's motivation to internationalise in Nepal was because of the company's network ties with a high level Indian management team within the firm. Such an internationalisation approach demonstrates the potential importance of cultural compatibility for an organisation. Figure 5 illustrates the regional internationalisation process and the location pattern of the four Nigerian case firms.

Figure 5: The Internationalisation process and location pattern of the case firms



Source: Research data

**Conclusion**

The paucity of research on the internationalisation of Nigerian (and SSA) firms prompted this study. Our study contributes both to the literature on the internationalisation of emerging market multinationals and that on the internationalisation of SSA firms. This study is one of the first to have investigated empirically the internationalisation motivation and location pattern of Nigerian firms.

The internationalisation of Nigerian firms is a recent phenomenon, but the pattern of internationalisation reflects an Africa-to-Africa/Pan-African investment strategy. It was found that the Nigerians firms followed different routes in their internationalisation journey. However, the internationalisation of Nigerian firms can be explained through the different theoretical lenses of the institutional, RBV, Uppsala and OLI eclectic models. We found some support for

the Uppsala Model and the OLI eclectic model (Johanson & Vahlne, 1977; 1990; Dunning, 1988) but there were also contradictions.

It is not possible to pin-point a single factor that has motivated the internationalisation and the location pattern of Nigerian firms. We observed that the motivations for internationalisation and the location patterns of Nigerian firms are linked to home country factors, firm specific factors and regional/host market factors. The home country institutional and market factors strongly influenced the firms' growth process and their motivation for internationalisation. This happened in spite of different economic policies and regulations. The institutional changes transformed the domestic business environment and behaviour of the firms because they had to operate in conformity with the regulations amidst an increasingly competitive business environment.

The firms' specific advantages, which had been accumulated in the domestic market, were also a motivation for their internationalisation. However, the regional characteristics and host market factors were a significant determinant of the firms' internationalisation and location pattern. It is also evident that market seeking, in conjunction with host-location attractiveness, has been one of the primary motivations for the internationalisation of the case companies. The findings reveal that the need to have a strong regional presence for a competitive strategy was an important motivation for the firms' Pan-African investment strategy.

The findings also show that even if a firm internationalises to a close proximity market, the language can be important, along with other factors because business communication is vital for an internationalising firm. An understanding of the labour laws and business ethics of such a market are also important.



A better understanding of the motivation for and location pattern of the SSA (Nigerian) firms could also be helpful for regional governments in devising appropriate policies to attract regional FDI, and as well as in promoting outward internationalisation. The continued economic integration and liberalisation initiatives in the SSA region may help to drive regional investment and development. Such an approach could be helpful to motivate firms' internationalisation and boost the economic size of the region. An increase in intra-regional investment could well contribute to the build-up of regional economic value chains (UNCTAD, 2014) and sustained economic growth.

This study is context specific and the results cannot necessarily be generalised to all SSA firms. The small sample size of the study is another limitation; although it is appropriate for the methodological approach used. Indeed, the study's credibility is based on its rigorous case study process, construct, internal and external validity and associated documentation (Yin, 2014; Eisenhardt; 1989; Huberman & Miles, 2002). Nevertheless, the research findings provide an opening for a multi-country study of the motivation for internationalisation and the location patterns of SSA firms.

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