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DOES KNOWLEDGE ABOUT FOREIGN MARKETS AFFECT THE INTERNATIIONALIZATION OF COMMERCIAL BANKS?

A CASE STUDY ON THE GHANAIAN INDIGENOUS BANKS

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ABSTRACT

There has been a significant amount of literature written on the barriers to the internationalization of firms. Specifically, a greater fraction has focused on SMEs and non-.financial services while the banking sector, perceived as the heart of a healthy economy tends to be less favored. Although a few writings have been carried out in this area, their focus has mainly been on bank size as determinant of their geographic diversification. Contrary to the conventional literature, this paper uniquely aimed at examining the relationship between the management's and the CEOs' knowledge about foreign markets and the banks' ability to diversify geographically, with focus on Ghanaian indigenous banks.

With the objective of exploring how knowledge insufficiency about foreign markets hinders banks capability of internationalizing, the paper adopts a hybrid data collection method which is the combination of questionnaire, interviews and data from the websites of the various banks. Using the R-statistical software, a logistic regression analysis was used to analyze the data. The findings indicate that knowledge about foreign market plays cardinal role in firms' ability to diversify geographically; however, there seem to be other variables that tended to be more crucial than knowledge about foreign market, an indication of further researching into these variables. The significance test showed no difference in the hypothetical claim.

ABSTRACT

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1. INTRODUCTION

The world in recent decades has seen a significant shift to the importance of trade liberalization, a phenomenon that encourages essentially the elimination of trade regulations to fostering global socio-economic development. Most nations have identified the necessity of eschewing proscriptive policies to enhancing economic growth through the improvement in cross-border transaction and countenancing domestic firms to globalize their presence.

Capital flow over the period is gaining a substantial amount of importance in the global environment and has raised higher attention for the need for nations and policy makers to deregulate their banking industries in view of enhancing their competitiveness in the global system. Herrero and Simon, 2006 pointed out that cross border flow of capital remains a visible indicator of financial liberalization with multinational banks (MNBs) growing in assets, market, and competence

Considering the enormous international market, acquisition of global competitiveness via learning, increase in revenue and profit, risk diversification it may be argued that all other things being equal, banks should expand their operations beyond their national borders. However evidence available shows that growth of international banking occurs at a very slow rate. A small amount of publications on barriers confronting banks' internationalization has been written with most of them significantly emphasizing on bank size, product innovation and efficiency as setbacks affecting banks performance abroad.

However, in understanding banks' inability to succeed internationally, information resources serve as a crucial factor (Ozdincer & Ozyildirim, 2008; Sternad, et al., 2013). Sufficinet knowledge about foreign markets is one important resource most MNBs use at the disadvantage of small sized banks. Banks with adequate knowledge about foreign markets tend to gain advantages in relation to the type of market to

venture into, the time of entrance, and how to enter the market. Whereas some banks use network, mergers and offshore banking to penetrate an new market, others use the subsidiariazation or branch approach depending on the entry requirements and the bank's interest relating to control and profitability.

This paper aims to explore the effect of knowledge insufficiency about foreign markets as the fundamental factor limiting the ability of Ghanaian domestic banks to expand their operation internationally in spite of their years of existence.

The need for Ghanaian indigenous banks to go abroad remains very important reckoning the unionized market created by both the Africa Union and Economic Community of West Africa States (ECOWAS) within the region. Sui, et al., 2012 showed that enterprises expanding their production via the regional approach tend to record growth in performance than firms going global. Recent statistics about the global banking system delineate the fact that emerging and developed economies have become the hotspot for multinational banks (MNBs). Evidence from the works of Herrero and Simon, (2006) presents an overarching supports for MNBs continual growth these economies with a corresponding reduction in their assets levels in some Africa countries.

Chapter one of the paper introduces the thesis, chapter two discusses the objective of the study, while chapter three focuses on reviewing the existing literature, chapter four discusses the methodology, hypothesis, data collection, and variable descriptions. Chapter five discusses the descriptive analysis and regression output, with chapter six discussing the estimation output, while chapter seven concludes the paper.

2. OBJECTIVES

This paper is designed to explore the impact of knowledge about foreign market as a setback limiting Ghanaian banks' ability to internationalize. The internationalization of the Ghanaian domestic banks is paramountly knit with their actualization in the

African markets as a focus of the paper This is centric in the sense that, surveys on the internationalization of Ghanaian firms predominantly take inception from the regional market before advancing the continent. Secondly, capitalization required in the developed countries appears to be more expensive than the developing. Thirdly, the existence of a single market in the region makes export of FDIs quite easy (Chetty and Campbell-Hunt, 2003). Fourthly, the region appears to house most of the Ghanaian internationalized enterprises, thereby making it easy for domestic banks to follow their customers. Fifthly, foreign banks tend to perform better in developing economies than in developed regions (Claessens and Jansen 2009).

Spurred by developed communication systems and technological infrastructure, the banking industry has in recent period grown it global competitiveness. Following the ambivalence experienced in the global performance of foreign banks, it is vital to pontificate that successful banks are adherent to critical characteristics of internationalization thereby lowering their operational cost and increasing their profitability than domestic banks ((Detragiache, et al., 2006). Concluding the work of Igan and Tamirisa (2008), an increase in the money creation ability of banks indicates their level of soundness; therefore weak banks ought to be aggressive to expanding their credit creation capacities.

Schroath and Korth (1989); Hutchinson et al (2009) argued that despite the governmental regulations, financial, and macroeconomic issues that deter firms from globalizing, lack of knowledge about foreign markets, lack of vision, cultural variations, lack of consolidation of domestic market and fear of lack of confidence play enormous barriers to internationalization of enterprises. Hutchinson et al (2006) pointed out in their empirical study that although most enterprises expanded their capacities domestically before taking off, the size is not an impediment to modern internationalization.

Moreover, Venzin et al (2008) also added that the performance relationship of MNBs are significantly susceptible to varied industrial, firm-specific, and market-based factors which include strategic decisions regarding branch networks, product

portfolios, branding strategies (Merrilees, 2007), organizational architecture, and social networks.

The global liquidity crunch is believed to have exerted devastating effect on the economies of industrialized and some emerging countries.. It is important to point out that latest development indicates that, the susceptibility of developing nation to the crunch appears to escalate (Maechler et al, 2009). This is arguably buttressed with the decrease in number of foreign banks operations in some developing economies (Herrero and Simon, 2006).

An observation of the of banks participation in the Sub Saharan countries in Appendix 1 presents a picture supporting the increasing influence of MNBs in the banking sector.

With foreign banks identified as transformers of the American economies (see Cameron and Bovykin, 1992), it is imperative to ascertain how important they appear in influencing the socio-economic outlook of an economy. Maechler et al (2009) proposed that a country's exposure to shocks is highly ensued by the macroeconomic environment of the economy, the strength of the financial market, and its ability to undertake contingency plans in mitigating the economic stress.

Moreover, there has been a pool of researches on the financial and capital markets as trajectories to economic expansion (Detragiache, et al., 2006). It is important to be cognizance about the fact that a well structured and stabilized financial market is profoundly a route to reducing inequality and poverty in precarious societies with consideration to effective financial reforms (see Claessens and Horen, 2012b).

In the developed regions, domestic banks possess the market power and control the banking system; on the contrary, MNBs rather control the markets of the developing and most of the emerging economies and as a result influence the credits domestic banks make. Evidence can be seen from Figure 1 showing MNBs assets as percentage

of the total assets. While the domestic banks in some countries appear to be improving in their performance both in operations and assets accumulation, it still remains a matter of concern their inability to establish their capacity internationally.

3. LITERATURE REVIEW

3.1. Reasons why banks internationalize

The statement “we live in a global village” in it answers the riddle why banks ought to internationalize. The 21st century competitiveness of firms and enterprises is not tied up to their domestic economic strength; rather, success gain in the international market enhances competitiveness of the firms. It is widely argued that banks with comparative advantage in producing distinctive products more efficiently than their domestic competitors are more probable to internationalize and expand their operations globally (Ahmed, 2011). According to Rahman and Anuar (2011) banks with unique production capabilities are highly probable to exploit their competitiveness locally and internationally. They continued that banks derive their competitive advantages from their outstanding banking techniques, extensive banking experiences, skilled and experienced staff, organizational skills and culture, and a large domestic capital and deposit base.

3.1.1. Risk Diversification

Portfolios diversification across geographical region has played crucial role in the attempts for banks to expand their operations internationally (Bhattacharya, 1993; Weller, 2000; Sledge, 2000; Detragiache, et al., 2006; Kotrozo and Choi, 2007; Hayden et al, 2007; Maechler et al, 2009; Claessens and Jansen, 2009). Banks performance and their risk exposure have always underscored their choice of diversification. While banks survive by lending to clients, they are also prone to liquidation by the same mechanism.

Hence, diversifying their portfolios is a sustainable way of remaining competitive in the ever unpredictable environment and growing their capacities (Haubrich, 1998).

Demsetz and Strahan (1997) in their research concluded that size of banks usually influence their ability to diversify their portfolios. However, several researches show that prudential risk assessments and diversification types determine largely the outcome of a diversified product (Liu, 2009; Odit et al, 2011). In order to remain efficient and competitive, internationalization of their operations becomes a core part of their survival. MNBs diversify their risks like any other multinational corporation (MNCs) in order to reduce losses made from a single market. Banks and enterprises that are present in other countries do not often depend on the economy of one country; instead they are able to control credit risk, recessionary, exchange risks, etc by operating in a variety of markets (Wall et al, 1993; Tarazi et al, 2011). Ozdincer and Ozyildirim (2011); Aguirregabiria et al (2012) in their exploration showed that although geographic diversification of banks increases their risk of exposures, they appear to be profitable in their operations.

Also, there have been a considerable number of researches showing lukewarm performance of foreign banks, thereby concluding that the internationalization of banks does not improve the profitability of a firm (Slager, 2005). Nevertheless, as argued by Paula (2002), banks ought to export high tech skills when they tend to geographically diversify risks in larger and complex markets.

3.1.2. Foreign Direct Investment

The internationalization and expansion of businesses has ensued an increased borrowing by clients and corporations. FDI defined by Chen (2000) as "an investment in which a firm acquires a substantial controlling interest in a foreign firm (about 10% share) or set up a subsidiary in a foreign country" is argued as one of the reasons why banks venture abroad. A bank that is internationally oriented in its operations usually benefits from externalities arising from technologies, and business intelligence, is able to borrow from its international affiliates (Fischer, 2000; Jordan, 2009). Foreign banks invariably influence the economies of host countries in several ways. They expand the financial base of the capital market, and encourage development through the sourcing of MNCs and SMEs. International banks, while

promoting investment in foreign markets, also experience expansion both in market share and assets. The level of an enterprise's capacity often influences its soundness and growth. Seemingly, it is important to note that there exist a direct symmetrical relationship between the growth of foreign banks and FDIs.

Also, as foreign banks engage in foreign investment, they appear to be stable in their operations, gain more power than their competitors as well as are positioned to expand their frontier into other untapped markets. Parent banks, while introducing innovation in new markets to enhance their competitiveness (Saborowski, 2009; Ahmed, 2011); they also learn new skills to enhance their operations. They also tend to borrow from their foreign affiliates to expand their capacities. Performance of branches and subsidiaries of banks in foreign markets has often appeared to be the backbone of the parent banks. Buch (1999) asserted that banks possess two distinct methods of internationalizing their activities. They can either undertake transactions with foreign clients while residence in their home country or establish their presence in the foreign markets.

In Weller's (2000), Banking on Multinationals, he claimed that MNBs operations outside their domestic markets enable them import capital for their domestic operations. He argued that MNBs collect currency in the form of borrowed funds from foreign markets and lend them domestically to their clients.

3.1.3. Following their customers

In the late 19th century, after the World War 1, the oil and gas, construction, and manufacturing industries begun increasing their capacities as well as announcing their global presence. The growth of these sectors warranted further exploration and expansion in their operations. However, additional capital required to undertake the expansionary plans seemed difficult accessing from local banks especially in the developing and emerging economies. This tended to propel the growth of banks presence in the international market widely known as the gravitational pull effect (Cameron & Bovykin, 1992; Paula, 2002).

Moreover, another important factor that influences banks to follow their customers is maintaining existing relationship. Banks appear to have adequate data about their corporate clients' status, hence they possess information advantage unlike domestic banks and are able to determine financial needs of their clients as well as meeting them quicker. (Buch, 1999; Esperance and Gulamhussen, 2001; Paula, 2002). Trust in business is critical to maintenance of relationship. The existence of trust between banks and their MNCs clients gives banks leverage to follow their clients. More so, most of these MNCs appear to be backbones of banks helping boost their profitability and therefore gives banks the impetus to follow them. Apart from the substitution rationality of following the customer underlying banks internationalization, banks also go abroad to supplement their capacity by serving the locals consumers and local industries. The supplementary motive is rationalized on the notion of banks gaining competitive advantage in the uniqueness of their products, which spurs their growth in the new market.

3.2. Internationalization Process of banks

Engineered by developed infrastructure and advance technologies, the globe is steadily becoming culturally and politically uniformed vis-å-vis the increase in emergence of open and a single market. With the establishment of regional and international trade blocs such as EU, NAFTA, ASEAN, ECOWAS, WTO, etc, companies and corporations in the wake of the new era are expanding their operations globally (see Morgan and Katsikeas, 1997). Prior to the installation of liberalized trade agreements between nations centuries aback, operations of enterprises were usually domesticated. Nonetheless, MNCs which operate both home and abroad presently tend to exhibit a high level of transnationality. This would have been elusive without globalization (Buch, 1999; Andidas, 2006).

Financial FDIs in many cases provide efficient funds allocation, thereby leading to their international expansion and risk diversification, but their failure to succeed in foreign markets often ramifies the host economy's financial market stability. Their

success or failures are largely dependent on their internationalization processes (Fiechter et al, 2011)

Foreign banks have increased their global presence particularly in emerging and developing economies. Acquiring domestic banks, extending their operations in the form of office establishment (Cerutti et al, 2007) and export of capital to new markets through cross border sourcing ((Detragiache, et al., 2006) have been identified as processes undertaken by foreign banks to globalized.

Andidas (2006) continued with the claim that companies mostly acquire their multinational status through the control of operations and activities in the host countries (foreign countries), however, a significant fraction of enterprises gain their multinationality via some form of FDIs that are used to spread their geographical activities.

MNBs operate offshore extrinsically either to shell themselves against internal competition or benefiting from their competitive advantages (see Bulmash et al, 2005). While there exist several literatures supporting reasons why firms transcend their national borders, similar to manufacturing firms, quiet the same weather is usually responsible for banks internationalization. However, it is widely posited that MNBs efforts to internationalize primarily originated from the idea of following their corporate clients (Detragiache et al., 2006; Claessens and Horen, 2009; Maechler et al, 2009). a summary of couple of research show that banks' internationalization process are usually via subsidiaries, where networks are established in host markets to compete commercial banks in retail banking and single branches which usually undertake wholesale banking (Yepifanov and Shpyh, 2006; Cerutti et al, 2007).

Rahman and Anuar (2011) contended that the re-union between international clients and banks is pivotal to the banking strategy coupled with the eco-political environment of both home and host countries and constitute a defensive expansion approach. They suggested that most banks' internationalization is a demonstration of the fear of losing the relationship they have built with clients to competitors in the

host markets. Weller (2000) corroborated with the assertions that a long term relationship between international banks and MNCs will accrue an even benefit to all the parties.

Yepifanov and Shpyh (2006) indicated that there exist a thin precise line between branches and subsidiarization of banks. A bank is poise to international as a branch or a subsidiary in consideration of some critical socio-political and economic variable of both the home and new market. Banking and national regulations of both home and host markets, taxation issues, activities undertaken by parent bank, financial scope of the host market, and the probable risks predisposed to the new bank largely determines the form it is likely to take (Cerutti et al, 2007; Yepifanov and Shpyh, 2006)

More recently, claimed by researchers, the internationalization of banks is perceived to proliferate and can be reasoned to be the consequences of competitive advantages and the defensive reasons experienced by banks in the home countries. Ahmed (2012) demonstrated that banks should consider attractiveness of foreign markets, how better off is the banks products, and the cost of entry.

Banks globalised on motives pertaining to expanding their capacities and capital. However, while banks expand their operations internationally, their organizational form becomes very essential to the development of the branches or subsidiaries in the new market. The substitution or supplementary motives of banks is largely dependent of critical variables determined by both home and host countries regulations on banks internationalization, taxation regulation operating in the host economy (Maechler et al, 2006; Cerutti et al, 2007; Yepifanov and Shpyh, 2006; Fiechter et al, 2011; Cardenas et al), the degree of penetration in the host market, parent banks type of operation elsewhere, and banks susceptibility to risks in the host market (Cerutti et al, 2007).

In economic theory, there exist a large range of theories available to explain the internationalization of enterprises; nevertheless, J.H. Dunning’s eclectic model of

internationalization appears suitable. This theory tends to integrate previous models and provides analytical paradigm for internationalization of enterprises (e.g. Batalla, 2012)

The model claims that in order for banks to geographically diversify, it is imperative their need to be competitive in their indigenous markets. The companies need to have an asset(s) or product(s) that places it comparatively advantageous to other companies within the industry. Companies with unique products should enjoy economies of scale from the production of these products in their local markets. After identifying how competitive a product is in the national market, the company can consider the relevance of internationalizing it (Cerutti et al, 2007).

Once the company has gained its ownership advantage from the uniqueness of its product, it becomes glaring to figure out the attractiveness of foreign markets. It is usually viable for entities to identify the growth prospect of their internationalization. An attractive market incorporates several variables subject to making a successful investment.

Albeit riskier investments tend to yield higher returns ceteris paribus, the banking industry ought to figure out the socio-political, economic climates of the market. The international orientations and the trade regulatory framework of the proposed countries are significant to the quest of entry. Internationalization of Ghanaian chartered banks in the developed economies according to analysts seems equivocal and difficult to actualize due to the required capital and some other socio-economic and political factors.

Nonetheless it becomes realistic for such banks to take advantage of neighboring developing countries. Lamech and Saeed (2003) pointed out that in order for foreign markets to be enabling for internationalization; there should be socio-political and economic stability within the economy. They stressed that MNBs should be emphatic on the governments' timely intervention towards their needs, less interference from

the state and there should be impartial legal frameworks which should be enforced by strong institutions.

In the case of the manufacturing industry, there are diverse ways companies adopted to internationalization, which include exports, partnership, subsidiaries, branches, etc; conversely, some of these approaches tend to be common with the service industry (Segura and Roig, 2010).

While acquisition, licensing and opening of branches appear to be common with the service industry, it is imperative to reckon the survival of an investment in a foreign market. Adaptation to new markets is a vital element that determines the success of a firm in the new market. Thus, the extent to which a firm's operation is made adaptive to the new market determines the future of the firm. In Ahmed's work on how Malaysian banks internationalize (2012), he showed that, standardization tend to influence foreign banks performance in host country. It appears vividly glaring that banks though have their unique products also need to adapt to the new markets by offering service similar to existing ones offered as well as offering their distinct product. In the case of Zenith Bank, standardization has been evidence in their approach to internationalization.

3.3. Benefits of MNBs accruable to Home country

Quite a number of literatures have examined the effect of financial FDIs on host country's outlook. Evidence has shown the resounding promises delivered to host economies. Employment creation, improvement in living standards, government revenues, provision of infrastructural and improvement in the socio-economic outlook of the host country are a few benefits derived from FDIs. Nonetheless, few researches have been found on benefits accruable to home/investor country. It will seem incongruous the continual support given to distressed MNBs if the home country does not reap any benefit from them.

Researches on the impacts of internationalized non-financial service sectors on their home country are readily available. Blomström, et al., 1997 presented in their

analysis that whereas US MNCs tend to allocate most of their labor intensive jobs to developing countries, the Swedish MNCs allocate a few with most of the production done in the Swedish economy. Comparatively, jobs creation tended to be high in the Swedish economy than the US economy. Herrero and Simon, 2006 explain that the juxtapose outcome is due to the internationalization strategies of these economies. While the US MNCs are interested in production cost reduction, Swedish MNCs place importance on natural resources and technical advantages.

In the case of the financial sector, there has not been any evidence found on the direction of employment creation. However, it is important to argue that when banks internationalize their operations, there is a likelihood of exporting high skilled personnel from the home country to manage and instill organizational culture in the working environment. This will mean finding replacement for the expatriated personnel in the home country. Hence it obvious that there will be transfer of skilled labor to the host country, although empirical evidence has not yet be established. An observation of the MNBs operating in most developing countries supports the contention that most of the top leveled managers are expatriates.

Other benefits reaped from FDIs by home country are the progressive growth experienced in the economy. The source countries benefit from growth in exports and whereas the MNCs grow their market power and capital size (Blomström and Kokko, 1994). Although there is no supporting evidence for the MNBs, it can be stressed that MNBs are financially better off than non-MNB banks during recessionary periods. That is, when there is an economic insurgence or negative macroeconomic shocks in the home country, MNBs are able to borrow funds from their subsidiaries/ branches operating in different jurisdictions. Under this condition, they are able to partially safeguard the entire collapse of the home banking sector.

The increase participation of banks in the global context has a tendency of strengthening both the capital and the foreign exchange market of the home country. Albeit no empirical evidence has been found yet on the correlation between

internationalization and growth in the capital and foreign exchange market, theoretically, it can be assumed that successful MNBs tend to be well capitalized and have bigger money creation capacities in their home countries. The more internationalized banks become, ceteris paribus, the larger market power they acquire. Large banks possess large capital size and able to finance expensive R&D. With more investment in research there will be an increase in innovation spawning. Thus, their innovativeness will spill over to less leveraged banks, which in a nutshell will improve the overall banking sector.

Also, when banks diversify their operations geographically, they tend to be preview to foreign currencies. Repatriation of these foreign exchanges has impact on the general welfare of the economy. When foreign currencies are readily available in the home country, there is less downward pressure on the local currencies. This will also reduce the inflation likelihood commonly experienced in developing countries.

Furthermore, it can be said that, though not empirically supported, governments of home countries benefits from MNBs in the form taxes on repatriated profits. Although some MNBs and MNCs have device a number of strategies to evading the payment of these taxes, governments still derived some tax revenues. For instance, US charges a 35% corporate tax rate on US firms operating outside the US. This is common to many economies in the world, though it may appear ineffective in developing countries due to inadequate data on their MNCs and MNBs.

3.4. Knowledge about foreign markets

Banking has over the years appeared to be one of the riskiest investments that an investor can undertake. The riskiness of the sector tends to be more severe in developing countries and some emerging economies where there is lack of implicit guarantees (Gulamhussen et al., 2014; Torres, et al., 2015). Despite its gigantic risk exposure, the industry globally never ceases to grow. Whilst banks are springing up on daily basis in the world, only a few of these banks are able to benefit from the waves of financial globalization in the 21st century. At the heart of this paper is to

understand why only few banks succeed in the internationalization process, and why some local banks have not attempted internationalizing in spite of their longevity of operation in their home sectors. Hence, an examination on previous literatures shall be made on the knowledge insufficiency about foreign markets facing banks' internationalization

Knowledge about foreign markets and networks is gaining enormous relevance in firms' capacity to internationalize. A significant analysis has been made by a couple of research that in the case of non-financial firms, knowledge tend to be a crucial depriving factor denying expansion of firms. (Agndal and Chetty 2006; Basly 2007; Zhang, et al., 2015; Meyer, et al., 2015; Felicio, et al., 2016). It has been established that firms with sufficient knowledge about foreign markets possess competitive advantage to internationalize. As a result, information resources seem very crucial for the survival of firms going abroad. In analyzing firm-bank relationship in their quest to internationalize, Bonis, et al., 2014 showed that there exist a positive relationship between MNBs and firms' FDI. Thus, when firms become knowledgeable about the existence of their bankers in a new market, the likelihood of firms' expansion tends to increase

Similarly, Meles, et al., 2016 demonstrated in their analysis that the financial performance of US bank improves when they are able to manage their knowledge techniques efficiently. They posit that knowledge which is a firm's intellectual capital is very crucial for the firm's survival and progress. In spite of the depression most economies experienced after the 2007 economic recession, a couple of banking regulators in the global financial markets are ensuring improvement in their banking sector by ensuring a reduction entry requirements in pursuant of increasing participation and competition. A historical analysis of Korean banks showed a reduction in international participation after the 1998 financial crisis, however, after the 2007 financial crisis, Korean banks increased their presence in the global context, especially in the African market. According Lee, et al., 2014 the growth can be accounted to the extensive research about foreign markets.

Human capital and managerial characteristics have been suggested by a few literatures as being a catalyst for firms' internationalization (Oystein and Servais, 2002; Pinho, 2007; Crick, 2009; Chen, et al., 2015). It is maintained that sophisticated management and CEOs are more decisive on their internationalization capabilities than low skilled management (Karami, et al., 2005; Oesterle, et al., 2016). As a result knowledge and networking play important role in internationalization plans (Hutchinson, et al., 2006; Muzychenko, 2014).

Prior to the 1960s, the Australian banking sector experienced huge congestion. This was ensued by an increase in both domestic and international banks participation in the sector. Merrett 2002 claimed that information advantage enjoyed by the Australian banks spurred their internationalization. Therefore it can be supported by the evidence of Chelliah, et al., 2010; Vithessonthi and Recela, 2015 that firms that invest in new knowledge and build foreign networks experience improvement in their international performance. Chelliah et al. 2010 continued that despite the capital size of a firm, knowledge and managerial roles are big factors that influence firms' internationalization. Nevertheless, firms that internationalize their operations regionally tend to perform better than firms that go global (Sui, et al., 2012).

Monteiro, et al., 2013 concluded on their analysis on the relationship between firm size and its performance in the global economy with inconsistent results. However, several international business literatures have maintained a strong direct relationship between firms' internationalization and their size. Ruzzier, 2012 showed in his analysis on Slovenian SMEs internationalization that smaller firms had difficulty expanding beyond the national borders. On the contrary, Abdul-Talib, et al. 2011; Vithessonthi, 2016, showed that firm size and internationalization of firms possess a negative association. They added that knowledge about foreign markets is very crucial in determining the fate of firms in the international context.

In the case of banks' internationalization, Demsetz and Strahan, 1997; Buch et al., (2011, 2014) argued that bank size is an essential ingredient relative to their

internationalization. They claimed that larger banks have large market power and also enjoy economies of scale. Their largeness predisposes them to investing in expensive R&D and they tend to be well equipped against international risk exposure and negative macroeconomic shocks. Although large banks tend to have high risks exposure in their geographic diversification (Kotrozo and Choi, 2006), their size seem to lower their chances of failure and expected losses (Haubrich, 1998). Ozdincer & Ozyildirim, 2008 concluded that banks that are highly diversified often have higher credit risk exposures but also record incremental returns on their investments.

However, it can be noted that not all forms of diversification improves banks' performance (Liu, 2009). evidence from the work of Hayden, et al., 2006 on the relationship between banks' diversification and returns showed that there is no significant benefit derived from extensive diversification. They continued that the impact of banks' risk diversification is a factor of the risk level. Kotrozo and Choi, 2006 corroborated with their empirical analysis that banks that diversify their activities usually gain improvement in their yeild whereas banks that diversify geographically have high risk levels and lower return on stock. A study on Mauritian banks' risk management showed that market risk is the riskiest diversification factor facing the banks. Nevertheless, the banks are better off managing risks diversification associated with different portfolios locally than managing geographical diversification (Odit, et al., 2011).

Sternad, et al., 2013 showed that while the size of a firm is important in its internationalization, knowledge about the international market and network and commitment appear to be very essential to the international success of the firm. Also, Alfaro, et al., 2004 maintained that adequate knowledge about foreign markets helps banks identify conducive countries with conducive banking climate to diversify. An explorative study conducted by Tamirisa & Igan, 2008 in some selected countries in central and eastern Europe showed that weaker and smaller banks experience significant growth in their loan creation during the rescessionary period relative to larger banks. It can be observed from this analysis that knowledge adequacy and an

increased appetite for risks were instrumental factors determining the loans boom in these regions. It can be positiioned that knowledge about foreign markets is very vital for banks geographic diversification (Aguirregabiria, et al., 2015).

3.5. The Money creation role of banks

Contemporary banking transcends the goldsmith's tale of banking in their modules of operations. The boom and bust of every economy is largely determined by the operations of banks. Inflation and deflation appeared to be partly dependent on the invisible hand operating in the banking industry. Evidently, the nebulous 2007-2008 global recession experienced in the global system according to research was instigated by the financial sector (Jackson and Dyson, 2012). Banks are not just financial intermediaries; instead they create and destroy money. From the view of McLeay et al (2014), deposits made at banks are lent to borrowers. These deposits could have been made to firms in the form of paying for purchases made. From this analysis, it clear to note that savings does not increase the broad money in circulation.

Essentially, a healthy economy tends to be anchored on strong regulated financial institutions (Ryan-Collins et al, 2011). In this sense, it will seem imperative to examine the role of foreign banks in both their domestic and host markets as engineers of change and growth of an economy. However, if the strength of an economy lies on the wheel of the banking industry, it will be important to reckon the operations of banks and how they foster boom or bust in an economy.

Modern economic researchers indicate that money printing is invariably just a little fraction of money creation process. They point out that supply of money is largely a resultant of credit creation made by banks. Therefore, the more credit made, the increase availability of money circulating in an economy. McLeay et al (2014) pointed out that albeit commercial banks are empowered to create money, the ultimate determinant of money creation is interest rate fixed by central banks. They largely influence the money supply of an economy either by quantitative easing or interest rate fixation.

In the world of banking, money is always created when loans are made. While money supply is influenced by credit creation, it is also subjected to destruction. Thus, when repayment is made by a borrower of a bank, the money created initially via the loan acquisition is destroyed. Practically, when a person calls a bank to secure a loan, the bank is not require to take money from its vault, rather the money is created instantaneously when the loan contract is agreed by both parties with the borrower's promise of repaying with an interest.

In this regard, since banks are by law empowered to create money, they tend to create more money than deposits in their reserve. This practice known as the fractional reserve banking enables banks to create about nine times the deposits in their reserves. Insofar, money created is destroyed the moment repayment is made by borrowers.

3.6. Impacts of MNBs in Host country

The present financial turbulence in the global commercial system has significantly influenced lending in some developing and emerging economies (Detragiache, et al., 2006; Maechler et al, 2009; Claessens and Horen, 2012). The revision of credit creation contraction came as a result of the perceived tightness in the financial liquidity of the global financial market and the need to control financial and market risks.

Furthermore, MNBs have been seen as influential agents of change in economic development, especially in developing countries. They appear to efficiently enhance capital allocation, improve and expand the financial market through innovation and competition. This part of the paper is comprehensively align to the role foreign banks tend to play in new markets as well as how they are influence by competition emanating from these markets serving as a catalyst for their international competence.

As a result of financial liberalization, banks have intensified their international participation (Claessens and Horen, 2012). Their market share, international performances, subsidiaries or/and branches are increasing rapidly (Acharya, 2008).

The expansion of banks activities and presence globally albeit poses threats to banks in host economies, appears to be a complimentary tool to developing both home and host markets (Bhattacharya, 1993; Cardenas et al, 2003; Lehner and Schnitzer, 2008; Claessens & Horen, 2012; Haber and Musacchio, 2013). The free market system tends to offer competition as best allocator of resources. This is evident in enterprises quest to garner more fraction of the market share and increase revenue base. However, the proof of success in capitalism resides in resources allocation.

Usually, the globalization of the financial institution tends to be deeply rooted in competitive advantages enjoyed in their home markets. It is important to note that innovation in the banking industry also plays pivotal stake in the internationalization of the industry. Hence foreign banks are seen to be forerunners of financial technology in host countries and are also perceived to enhance the competition in the industry via their efficient allocation of resources and their size (see Cardenas et al., 2003).

3.6.1. Augment the financial markets of Host country

The history behind banks' internationalization is always been attached to the notion that, banks follow their customers (Bhattacharya, 1993; Cardenas et al, 2003). While multinationals companies (MNCs) expand their operations, they tend to pull their local bankers along. Out of fear of losing their MNCs to competing banks in the host country, banks are pushed to internationalize Buch, 1999; Weller, 2000). Also it appears that due to the capital intensive nature of some international operation carried out by MNCs large banks and other financial service providers are pushed into new markets (Cameron & Bovykin, 1992). Local banks mostly appeared to be less competent to augment the financial capacities of these MNCs.

It is important to note that the innovativeness and efficiency of banks are key sustainable determinants of their success in foreign markets; also foreign banks accrue some benefits from the complex global markets through systematic learning as ensued from keener competitions they are prone to. These experiences and new

technologies they encounter are usually imported back to their home countries to improve their market competitiveness. Going global has currently been dominated with the motive of reducing a firms exposure to market risks (Demsetz and Strahan, 1997; Liu, 2009), however succeeding in new markets appear to be more risky (Odit, et al., 2011). In the words of Bulmash (2005), globalization serve as a catalyst some firms consider to supplementing their capacity. Claessens and Horen (2012) point out that with the yearly growth in the financial globalization processes; banks undertakings in terms of their assets and capital record annual improvement.

3.6.2. Expansion of assets of internationalized banks

Financial market, unlike the merchandise market has suffered setbacks in pursuit to its liberalization. While it possess numerous benefits to both home and host economies, some countries have shown fervent skepticism to the importance of totally eliminating barriers militating the global competitiveness of the industry. The notion of foreign banks threatening local industry, the increase in capital volatility, the collapse of a state's monetary and banking system are some factors that influence policy makers from liberalizing their economies entirely (Hersh and Weller, 2002; Claessens and Jansen, 2009).

As they remain very important and influence growth of an economy, banks either enhance or impair a country's economic growth performance. However, efficient foreign banks have appeared to positively influence economic development of most countries. It is obvious in their expansion as a result of their money creation roles, enhancing efficient allocation of resources, as well as encouraging savings (see for example Claessens and Jansen, 2009; Claessens and Horen, 2012). Internationalized banks tend to possess more resources and are financially viable than domestic banks, thereby having stronger money creation potential. Their ability to create money in a wider sphere than their competitors in the market gives them more leverage to withstand financial distress that faces the industry. In this respect, their diversification of risks ultimately helps them reduce their exposure (Cardenas et al, 2003). Importantly, the table below points out the growth of foreign banks' assets and capital

in the Africa economy. Reasons attached to considering Africa depends on variable market penetration indicators used by member countries within the region.

Economic history and trend relative to the internationalization of Ghanaian enterprises is deeply rooted in the fact that firms going global always incept their adventure by first testing neighboring markets. There is a high direct correlation between Ghanaian enterprises globalization and initial entrants to neighboring economies. This phenomenon appears direct because of the social-cultural familiarity existing among the countries, as well as the creation of single market within the West Africa Economies via ECOWAS and the AU. Claessens & Horen, 2012b showed that geographic diversification which is close to the source country tend to be more profitable for foreign banks.

The removal of trade barriers makes entry easy among members within the bloc. The entry requirements in these countries tend to be less demanding relative to industrialized countries. These are some reasons that influence investors within the Ghanaian market to consider regional countries as initial globalizing market environment.

Table 1 below shows foreign banks capacities in domestic markets in relation to their assets and capital share. A number of globalization theories have theorized the benefits accrued to foreign banks and enterprises in the complex global system. The figure shows a significant amount of increase in assets share of foreign banks in host markets. It is glaring to note that out of the number of cases shown in the table; about 33% of foreign banks are considered to have assets above 50%.

This presents the picture that domestic banks appear to be less powerful in their own markets in terms of assets and market domination when foreign banks increase their presence (Claessens & Horen, 2012b). Conversely, when foreign banks are less internationalized, their influence of the market share tends to be less. As pointed out by Bhattacharya (1993), foreign banks international performance may be negatively influenced by terrorism, political instability, and forced compliance with banking

regulation as well as unfavorable banking regulations that tend to protect domestic banks.

Table 1: Foreign banks assets among total Assets in percentage

COUNTRIES	2004	2005	2006	2007	2008	2009
Angola	50	48	49	50	52	57
Benin	-	45	54	46	49	-
Botswana	77	77	69	72	66	66
Burkina Faso	77	79	80	76	100	100
Burundi	42	40	36	58	64	-
Cameroon	74	71	74	85	-	-
Congo	45	46	61	67	74	-
Cote d'Ivore	89	89	-	-	-	-
Ethiopia	0	0	0	0	0	0
Ghana	-	-	-	58	60	65
Kenya	46	46	43	37	44	44
Madagascar	100	100	100	100	100	100
Malawi	49	46	46	29	31	30
Mali	25	28	30	40	52	-
Mauritania	5	3	0	4	10	-
Mauritius	37	44	58	69	60	52
Mozambique	-	99	99	100	100	100
Namibia	-	44	35	35	44	40
Niger	68	72	74	69	-	-
Nigeria	-	-	5	4	2	3
Rwanda	41	62	60	48	56	-
Senegal	56	62	94	92	93	90
Seychelles	57	52	57	60	67	27
South Africa		22	21	23	21	22
Sudan	-	1	8	21	23	22
Swaziland	82	80	81	83	81	88
Tanzania	-	92	93	94	80	78
Togo	53	50	48	46	51	-
Uganda	88	89	95	95	86	89
Zambia	70	70	72	89	100	100
Zimbabwe	-	-	-	-	-	-

Source: Claessens & Horen, (2012)

3.6.3. Improve efficiency in Host country

Internationalization of banks improves their experiences and know-how in undertaking their activities. Most companies and individual consumers tend to invest more assurance and confidence in their activities and operations (Bhattacharya, 1993; Claessens and Horen, 2012b). Their expansion in capacity enlarges their credit creation and tends to have more access to resources unlike the domestic banks thereby attracting more clients (Cardenas et al, 2003). When the market possesses confidence in the operations of a company, ceteris paribus, there is higher improvement in the market share of the company. The more confidence built in them, the higher enterprises and individuals would want to transact with these firms.

Foreign banks in significant ways influence development of the banking industry of the host economies in diverse ways. Competitions often induce the employment of new financial technologies used to increasing the financial products available to the markets (Cardenas et al, 2003). By efficiently allocating resources, foreign banks, considering their size attract higher share of the host markets and influencing development via the financial packages offered to the markets.

Irrespective of their size, Cardenas et al (2003) demonstrated their influence in the economic development of a country cannot be underscored. For example, companies usually expand their operations through the help of banks in the form of credit. Research shows that presence of foreign banks in host countries enhances the financial sourcing of companies and individuals (Haubrich, 1998). In the same vein, foreign banks usually in the developing economies appear to be the main supplementary source of government revenue. Thus, government apart from benefiting from foreign banks through their intermediary role of buying and selling governments' debt to the markets as well as off-shoring assets , governments' budget deficits are usually partly financed by foreign banks through borrowing. For instance, between 1870 and 1914, the capital exports to the United States appeared to be the

source of funding that largely transformed the outlook of America's economy (Cameron & Bovykin, 1992).

3.6.4. Stability of parent banks

It worth mentioning that while foreign banks are known to be exporters of new financial technologies and sophisticated personnel, foreign banks by the virtue of the competition they face in the host market also learn new technical experiences which are imported back to their home countries to augment their capacities. By virtue of their transnationality, parent banks appear to support their branches and subsidiaries financially and via human capital to spur their growth in the new markets. Concluding the work of Yepifanov and Shpyh (2006) it is interesting to know that branches and subsidiaries always support parent banks in the same regard through borrowing of foreign currencies and personnel. Also, essential to their experience, foreign banks are usually in the position of withstanding financial crises. For example, Cerutti et al (2007) indicated that parent banks undertake actions at different levels to equip the financial capacities of their subsidiaries and branches. In the same scenario, branches and subsidiaries are also well positioned to helping parent banks when experiencing financial distress.

For example, prior to the 20th century, Great Britain appeared to perform outstandingly compared to its major rivals such as United States and Germany. With its rivals increasing their domestic investment during the 19th century, Great Britain on the other hand invested less of its savings in the domestic economy thereby exporting larger percentage of the savings. This according to Cameron & Bovykin (1992) positively influenced the international competitiveness of Britain against its competing nations. As banks increase their capital exports, evidently, there is a higher financial stability experienced by both parent and branches of the banks in their performance (see Cameron & Bovykin, 1992).

3.6.5. MNBs' impact on the economy of Home country

Several literatures have shown the correlation between growth of financial FDIs and corresponding expansion of host economies and growth of the host financial markets. Little empirical evidence has been developed to fish out the benefits accruable to home countries of internationalized banks. Herrero and Simon (2006) highlighted that while foreign banks largely expand host markets, they also tend to influence their home markets in some significant ways.

They demonstrated that financial, production, and employment expansion appear to be some benefits home countries gain from their internationalized banks. Buch (1999) also showed that cross-border financing in itself is considered an export and there by expands that economy of the home country. On the other hand, Herrero and Simon (2006) insisted that cross border financing might not enhance home economy's development if the foreign bank is retail oriented.

Parent banks help stimulate home countries through their global competitiveness. They expand the financial markets, boost credit creation in home markets as well as improving the capital account of an economy through borrowing from branches and subsidiaries (Yepifanov and Shpyh, 2006).

3.7. The history behind internationalization of banks

Following the easing out of trade regulations among nations, the manufacturing and industrialized sectors of most states have increased their global presence. MNCs notably originating from Europe in the 18th century stirred up the global economy with most internationalizing their operations in the Latin America countries.

Economic integration after the WW2 became eminent as a drive to boost global economies that suffered from the catastrophe. It became essential the need for economies to unionized markets to promote development among members. This and other crucial reasons gave birth to regional trade blocs in our modern complex environment. While MNCs where expanding their capacities and establishing branches in new markets, it is believed that their banks also foresaw the need to

follow them (Seth, et al., 1998; Buch, 1999; Esperanca and Gulamhussen, 2001). Most banks internationalization motive has been intrinsically knit to the maintenance of existing relationships with their MNCs that have extended their branches in new markets and competitive advantage ensued from efficiency (Herrero and Simon, 2006). Their preview to clients' information, according to Paula (2002) gave them comparative advantage in new markets. They have foreknowledge about the financial strength of their corporate clients and hence were better positioned to finance their operations abroad.

Their international expansion process was basically in the form of providing offshore credits, subsidiaries, and branches. That is, their corporate clients were their source of motivation to internationalizing and hence globalised as subsidiaries or/and branches in new markets promoting investments.

Nonetheless, prior to the 1970s, the international integration of banks was very minimal, with only few big banks crossing their national borders, although some remained in their domestic markets exporting capital. It was felt that banks improve economic efficiency through competition and funds allocations. Their internationalization facilitated entrants of sophisticated technologies and establishing international networks. It became crucial for most monetary policy makers across the globe to deregulate the financial sector in order to increase competition and improve performance of the sector. As a result of this measure, the international performance of banks grew significantly leading to a resounding improvement in the socio-economic development of recipient countries.

Today, banks have universalized their activities in both their home and host markets. The distinction between investment banks and retail banks in the modern banking system is becoming elusive since both tend to practice universal banking. In this respect, foreign banks regardless of their internationalization approach universalize their banking activities. Hersh and Weller, 2002 indicated that one of the reasons for domestic banks making small loans arises from the fact that MNBs cherry pick loan

applicants with high quality. Hence entrants of MNBs result in domestic banks reducing their credit creation. As a result of this practice, domestic banks are often prone to staunch competition with less leveraged banks crowding out of the market (Weller, 2000; Bruno and Hauswald, 2008).

3.8. The banking industry of Ghana

About half a century ago, the financial sector of Ghana housed three banks of which two were foreign banks (Bank of Ghana). However, trade liberalization in the 20th century saw the escalation of commercial banks operating in the country. Currently the industry trumpets a significant growth of over 30 commercial banks including 18 locally owned banks

In 2013, the Bank of Ghana in concomitance with the IMF capitalization regulations, recapitalized the commercial banks' minimum stated capital by 100% of the previous GH60millions Cedis making entrants to new investors cumbersome (Weller, 2000; Ecobank, 2013). Out of the top ten leading banks in the country that possess about 70% of the market share, it appears that only two of these banks are Ghanaian owned banks (Joy news, 2014).

The 2013 national income statistics showed that, the service sector contributed 50% to the GDP out of which the financial and insurance services compositely influenced this with a 5.2% (GSS, 2013). According to an Ecobank 2013 report, the top five banks in Ghana which includes a locally owned bank possess 45.8% of the industry's total assets. This reflects a poor performance of locally owned banks in the country and, hence, the apparent need to adopt the proactive approach to internationalization. The banking sector appears to be the second largest after Nigeria with a USD 14.27bn in the West Africa Monetary Zone (Ecobank, 2013). Nonetheless, the growth of the sector is powered by MNBs.

With the locally owned banks proliferating in figures, it seems odd their unwillingness to penetrate foreign markets. Hence, this thesis is in pursuant of

identifying insufficient knowledge about foreign markets as a hindrance obviating locally owned commercial banks from transcending their present domicile market.

4. RESEARCH DESIGN

4.1. Hypothesis Formulation

Empirical modern research in the internationalization of the manufacturing sector has shown that the role of firm size measured by capital size and experience as a key determinant of success in international business has back dropped managerial characteristics and roles (O'Cass and Weerawardena, 2009). Similarly to the manufacturing sector the service industry tend to experience similar circumstances in the globalization process (Moen and Servais, 2002; Karami et al, 2005; Kahiya, 2013). Since top management are conspicuously identified as decision makers and policy formulators of every organization, their knowledge, experiences and attitudes to a larger extent influence the growth of their enterprises (e.g. Hutchinson et al 2006). This notion is extant in their international orientation. Prior knowledge about the highly commercialized global environment equips management with requisite information about the nature of foreign markets (see Basly, 2007). "In business, there is no such thing as a pleasant surprise; any surprise is worrying because it indicates weak intelligence systems" (Moeller and Brady, 2014). Successful enterprises are often staffed with knowledgeable, optimistic and pragmatic management who acknowledge the essence of scanning the external environment for data relevant for innovation and expansion of their frontiers (Sternad et al, 2013). An underpinning to this paper is the hypothesis that explores knowledge insufficiency about foreign markets as the underlying setback precluding indigenous Ghana banks from internationalizing.

4.2. Methodology

This paper is designed to explore at length how managerial knowledge about foreign markets affects the survivability of commercial banks in international competitions.

Centrally, it seeks to analyze how insufficient knowledge about foreign market has affected the internationalization of Ghanaian indigenous banks. In ascertaining the correlation between knowledge about foreign markets and internationalization of firms, a comprehensive data gathering approach shall be employed to acquiring data. A multiple case study shall be consider appropriate for garnering data from the industry in order to ascertain realistic factors inhibiting the internationalization of the industry. Both the qualitative and quantitative data collection methods shall be utilized.

Firstly, the qualitative approach shall be used to generate possible factors and issues that are likely to preclude locally owned banks from going international. This method will be employed due to the paucity of data available. The website of Bank of Ghana (BOG) shall be the point of call in collecting these data.

Secondly, the quantitative methods shall be employed for the purposes of systematically drawing comparisons in the light of establishing credible results. With a population of eighteen locally-owned and controlled banks, eleven banks were sampled. The sampling size reflects 61% of the population, an indication of deriving reliable and credible findings for the paper.

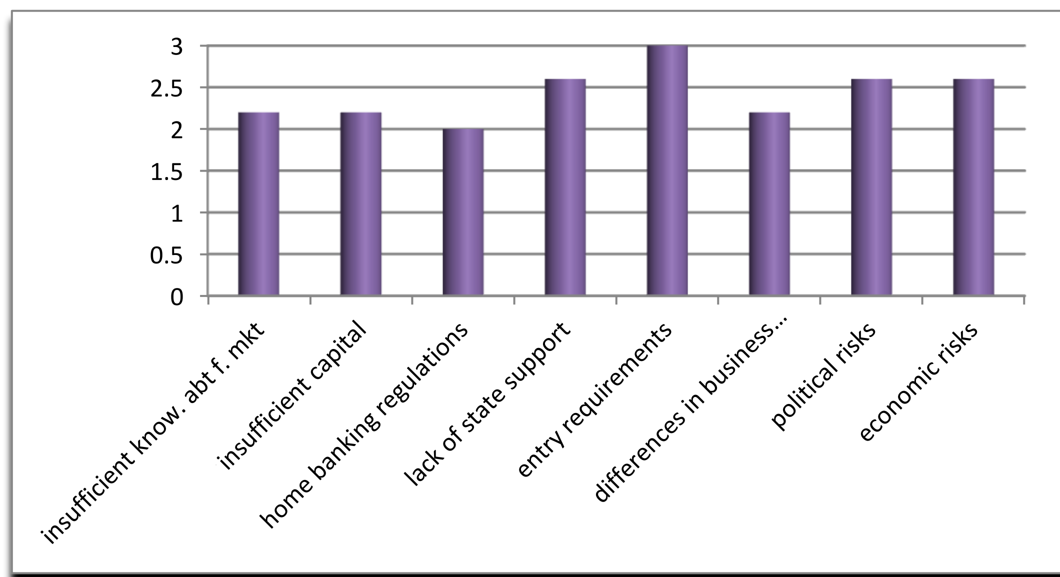
Email and telephone calls are utilized during the studies to collect data. However it tends to be ineffective and slow, as a result, personal contact will also be made to collect data from respondents. The whole population is the targeted objective for the analysis.

4.3. Data

Many factors have been argued as hindrances to internationalization of firms and enterprises by a number of researches (Herrero and Simon, 2006), however, one of the less studied factors explored is managerial knowledge about how foreign markets operates and how to delve into such risky markets regardless of their capital size. This paper focuses mainly on how management and employers’ knowledge about external markets affect the growth and success of Ghanaian indigenous banks.

With this factor as the control variable, other factors that tend to affect internationalization are also examined. These factors include firm/capital size, home/domestic banking regulations, state support for distressed banks, entry requirements, and host country culture, political and economic risks. An ordinal scale of measurement was used for gathering responses. The scale ranges from a response of "very high" which is numbered as "4" to "low", numbered as "1" (That is, 4 represents very high). Figure **1** shows the variables with their respective frequencies. The analysis considers eleven banks, out of which two have expanded their operations beyond the Ghanaian banking market. the bar chart shows that the banks inability to internationalize is not only limited to capital size and knowledge about overseas markets, rather requirements needed by host markets to grant them banking license is the most disturbing factor.

Figure 1: variables with their frequency distribution



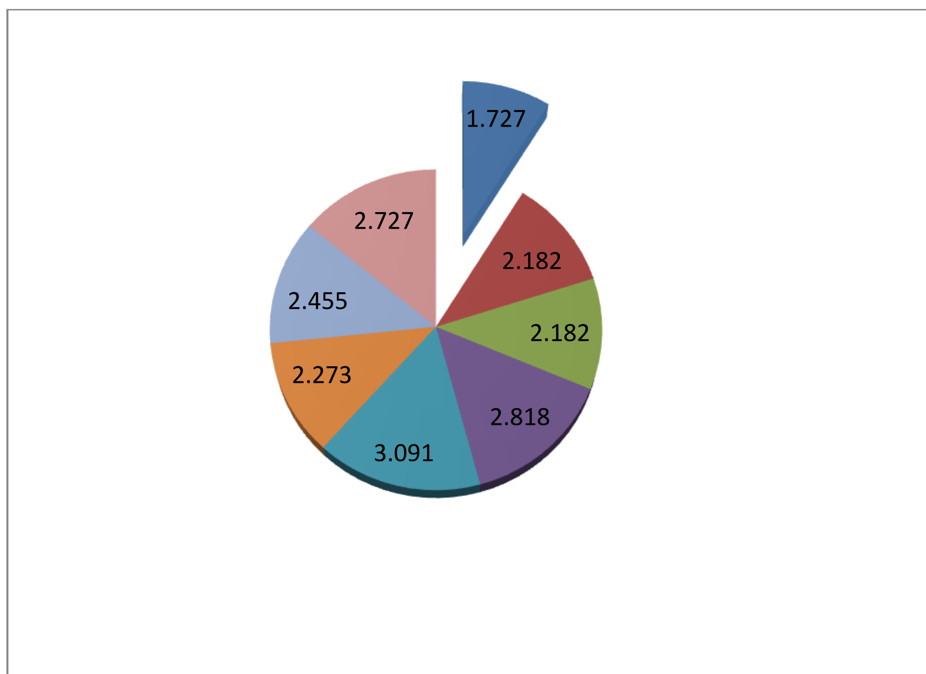
4.4. Description of Variables

4.4.1. Knowledge about foreign markets

It is commonly argued that growth and international success of an enterprise is highly correlated to the experience and managerial characteristics of management and

owners (see Karami et al, 2005; Moen and Servais, 2008). Nevertheless, new knowledge ushered in by the globalization waves has demystified networking and knowledge about foreign markets as a crucial element to internationalization (Agndal and Chetty, 2006; Pinho, 2007). Most born global firms that have acquaint themselves with adequate information about foreign markets have benefited significantly from the gains associated with cross border trade over the years (Sui et al. 2012)

Figure 2 Frequency for knowledge insufficiency about foreign markets



Knowledge sufficiency about foreign markets is very imperative for every firm desiring to expand its operation whether within its jurisdiction or beyond its jurisdiction. Having a competitive advantage in an economy's sector is inadequate to compensate for insufficient knowledge about foreign markets. Knowledge about foreign markets tends to make an organization more flexible in its international orientation. It reduces the risk of failure and provides an edge to withstand the keenest competition to be faced in foreign markets. An examination of Figure 2

shows the role knowledge insufficiency has on Ghanaian indigenous banks inability to expand their market power.

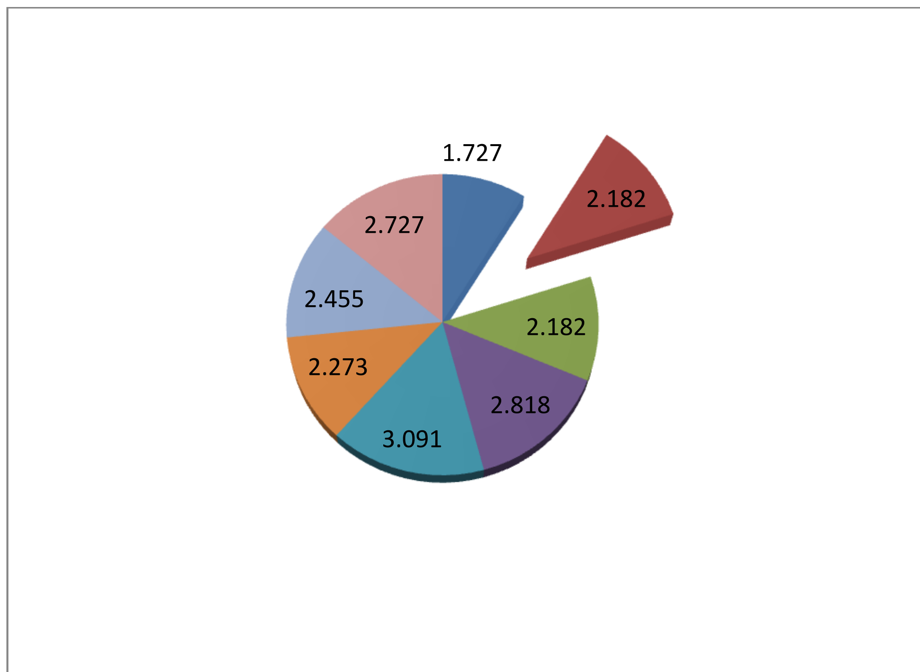
Knowledge about the business culture, climate, socio-cultural aspects and the eco-political views of a foreign market acts as a safety fence, where firms can lean on. Claimed by Basly, 2007, a firm becomes proactive in its internationalization process when it is acquaint with adequate knowledge about its destination market and/or when its management has strong networks with overseas counterparts.

On the other hand, it takes a reactive approach to internationalization when its knowledge or network is minimal. In this respect, knowing very well that knowledge about foreign markets is critical to the degree of internationalization, it becomes essential to consider this factor as relevant to the thesis. As was rightly highlighted by Hutchinson et al 2006, performance of firms in the international markets is not only dependent on the resources they possess, rather, information resources and networking are very important to their performance in foreign the markets.

4.4.2. Capital/Firm size

Over the decades, the commonness barrier most firms claimed they are faced with is finances (Gambacorta and Shin, 2016). It was argued that firms with smaller capital size had difficulties expanding their production intensities and thereby were disadvantaged from the benefits associated with economies of scale. Till today, growth of firms is hinged around capital size. Firms’ size appears to play an enormous role in their ability to internationalize. Firms with huge capital capacities often possess competitive edge over smaller firms in their degree to internationalize (O’Cass and Weerwardena 2009).

Figure 3: frequency distribution for firm size



Firm size is suggested to play huge role in their quest to internationalize. Smaller firms on average spend close to a decade before expanding their production/marketing frontier beyond their domicile markets. This, though is determined by a remarkable number of factors, the size of the firm appear to be very instrumental. Quite a few small sized business entrepreneurs are risk lovers and defile all odds to internationalize despite their size.

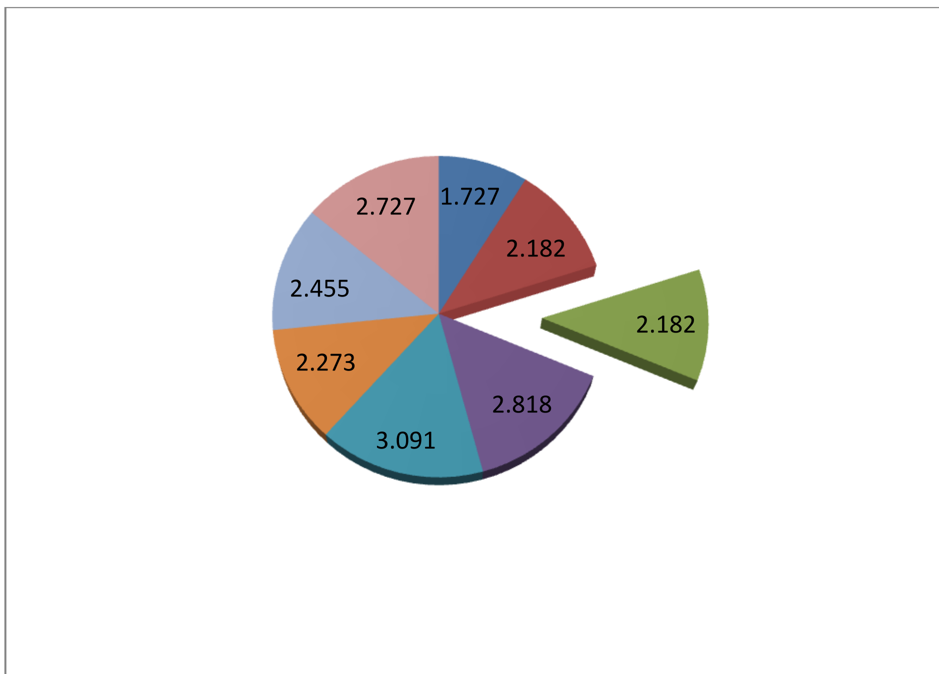
In the banking sector, one will argue that large banks with huge market power possess low risk of internationalizing than smaller banks. On average, it is an undisputed claim that most banks that have internationalized their operations in the past enjoyed significant market power in their home market before internationalizing (see Buch et al, 2011). Currently, with the role technology is playing in the banking sector, small sized banks with innovative products are also garnering adequate competitive advantage over the traditional large banks. This advantage provides them with the platform to internationalize their operation despite their capital size. Although capital size is often argued by commentators as one crucial hindrances of

banks internationalization, on the contrary, an observation of Figure 3 shows that capital size has less effect on Ghanaian indigenous banks' internationalization with a frequency of 2.182 points.

4.4.3. Home banking regulations

Home banking regulations have enormous influence on banks operations and desirability to internationalize. Minimum capital requirements, changes in banking market interest rates, reserve requirements, etc are some of the media used by central bank authorities to improve efficiency and reliability of the banking system in their jurisdictions as well as reduce the likelihood of moral hazard problems. While these measures are taken to safeguard bank depositors' interests, they also tend to affect banks ability to create more money and also reduce their capacity to internationalize.

Figure 4: frequency distribution for home banking regulations



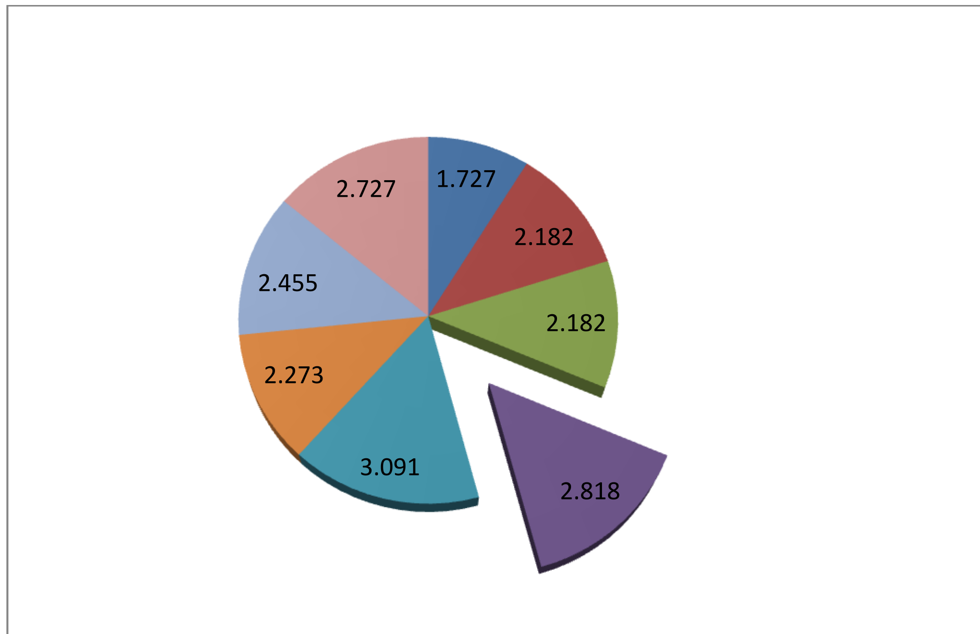
Every successful economy in the world tends to have some correlation between its development and sanity in its banking system. This makes the banking system the heart of the economy and as a result tend have numerous regulations used to promote

strong and predictable economic activities. Economics crises since history have been suggested by many economic commentators as being created mostly by poor and frivolous banking regulations. Examples can be cited from the Australian banking crisis of 1893, the Great Depression of 1931, US savings and loans crisis of 1989-91, Asian crisis of 1997-98, Russian crisis of 1998, world economic crunch of 2007-09 and the Greek banking crisis of 2012-15. A consideration of home banking regulations as a variable appears to be very salient reckoning the fact that a very tight set of regulations affects the operations of banks and their probability of internationalizing.

4.4.4. State support

Ever since SMEs gain footprint in the minds of policymakers and politicians, especially in the developed and a few emerging economies, there have been quite a number of state support packages designed to capacitate them (Danson, et al., 2005; Hutchinson et al 2006). Quite a remarkable number of economies boast of SMEs being instrumental in creating more jobs and also improving government revenues. As a result, governments are playing significant roles in internationalizing their operations in order to expand their global market power and capacity.

Figure 5: frequency distribution for state support



Many banks exposed to the 2007 crises in the developed and a couple of some emerging economies in the past and now have regained their economic capacities via the inexorable supports from their governments. While some economies posit the importance of allowing the invisible hands of the market force to determine the fates of banks, others contend the importance of the state reviving them in difficult moments. In most developing economies, the fates of banks are dependent on the wheels of the market. This usually disciplines banks' appetite for risks, thereby reducing their ability to give more loans which in turn affects their willingness to explore new markets.

Unlike banks in some developing countries, banks in the developed economies who receive financial boost in the form of asset/debt purchases from their government when faced with crises, appear to be risks lovers. This has appeared to be an underpinning factor driving these banks to foreign markets. In turbulent moments these banks tend to receive financial supports from their governments in the form of bailout or debt purchase. For instance, during the Greek crisis, European Central Bank (ECB) supported the commercial banks with an enormous resuscitative fund

with the primary interest of supporting MNBs operating in the Greek financial market. Again references can be made to the financial bailout of American banks by the Fed during the economic crunch of 2007-09.

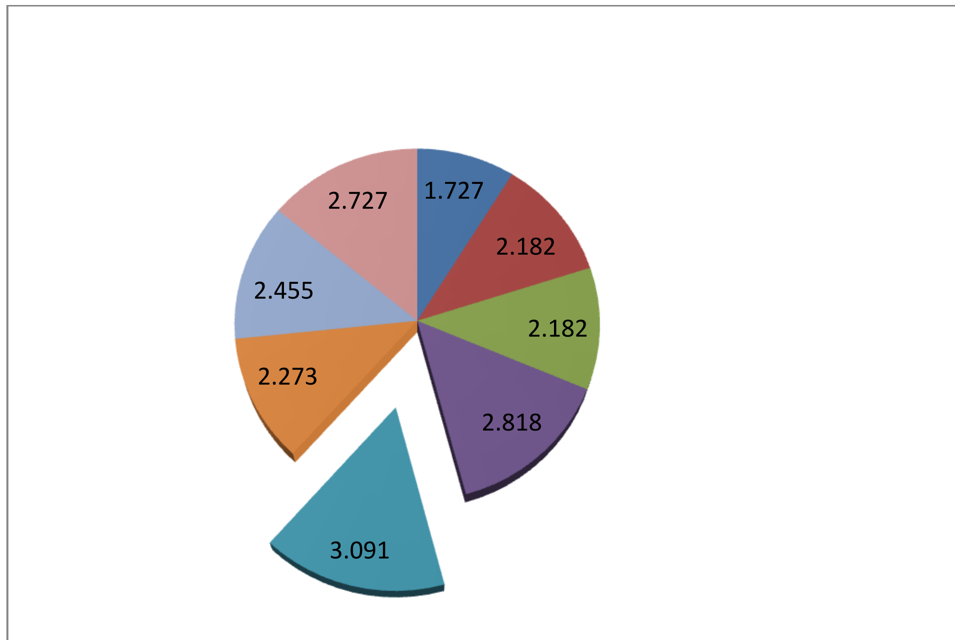
As a result of the support received by commercial banks originating from developed economies, they have tremendously grown their international presence and dominance. They tend to possess greater market power in most developing countries and they as well appear to record higher profit/asset ratio compared to the domestic banks in these countries (Bending et al. 2015). On the contrary, MNBs originating from developing countries tend to have insignificant influence in developed markets (Claessens et al, 2001).

4.4.5. Entry requirements

In an attempt to reduce the adverse selection problem in the banking system of an economy, banking regulators always ensure the protection of depositors' welfare by instituting stringent banking entry requirements. Banking is one of the unsafe ventures to invest in. the survival of banks is mainly determined by the amount of loans they make, banks may easily fold up when borrowers defaults payment of loans. When banks are bankrupt, savers and depositors suffer magnificently.

In order to reduce this moral hazard problem, most bank regulators around the world ensure tighter policies to manage and control behavior of banks. Pessarossi and Weill (2013) showed in their writing that when entry requirements such as the capital requirements are increased, there is improvement in the efficiency of banks. Entry requirements of banks are put in place to reduce banks overreliance on depositors' savings for survival. Therefore, this serves as a safety net for banks in adverse economic periods.

Figure 6: Frequency distribution for entry requirements



The banking sector of almost every nation plays a gigantic role in the socio-economic development of that economy. In spite of this it also has high regulatory measures. The banking sector acts as a good master when managed well but ruins an economy when mismanaged. In maintaining trust and confidence in an economy, monetary policy makers ensure adequate control to avoid speculations that may lead to disruption of the banking system. Among the variables under analyzation, entry requirements according to Figure 6 appear to be the most devastating hindrance facing locally owned banks desiring to transcend the Ghanaian market.

The entry requirements often used include; capital requirements, deposit insurance requirements, restrictions on branch creation, mode of entrance (having a link with an existing bank in host market), higher taxes, price and interest rates restrictions etc (see Biggar and Heimler, 2005). While some banks are tightening their regulatory frameworks after the global recession of 2007-09, quite a few countries on the contrary are loosening the entry requirements with the aim of expanding economic activities. In 2013, the Bank of England, for instance, reviewed its entry requirements with the aim of reducing barriers to entry as well increasing competition in the sector.

This has resulted in an increase in financial centers interests in transforming into banks as well serving as bait to attracting foreign banks (Prudential Regulatory Authority, Bank of England, 2014).

In developing countries where the fate of banks is determined by the market forces, without any bailout in liquidation periods, regulators always ensure high entry requirements in order to reduce lemon banking. This appears to be one of the reasons why most banking sectors in developing countries are controlled by MNBs (Claessens et al, 2001). Figure 6 above gives a ratio of the sampled banks concerned regarding entry requirements. It seems entry requirements are key hindrance to the internationalization of Ghanaian indigenous banks.

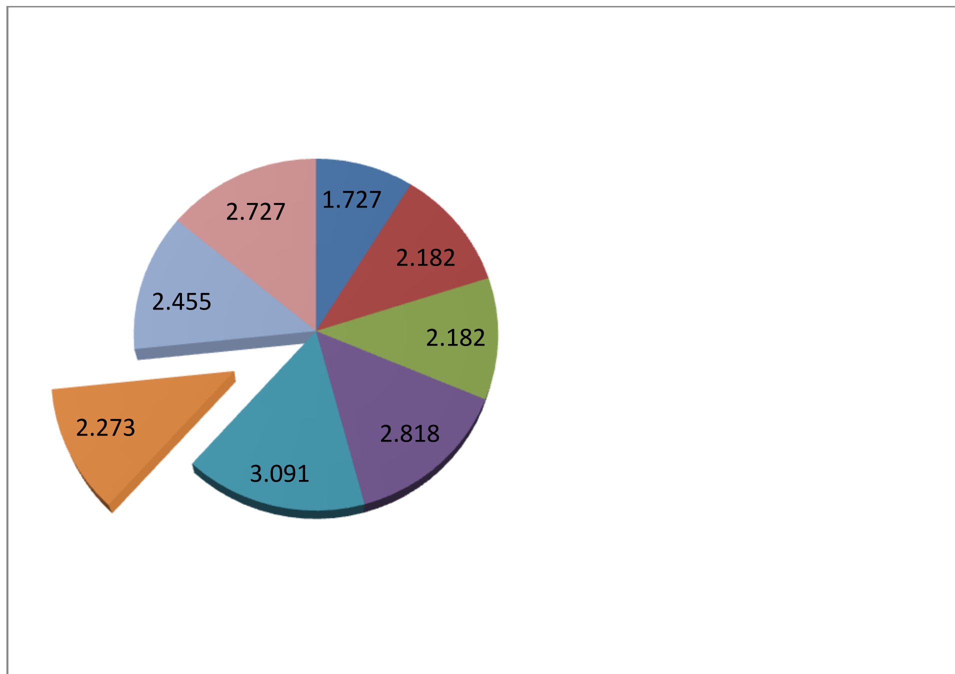
4.4.6. Culture

One of the importances of acquiring information about foreign markets is to be conspicuous of cultural, economic and political dimensions of a country. Some international business commentators have proposed over the years that culture is very relevant to the success of a business, and that firms going global should initially locate to markets that possess similar cultural dimensions. This, they argue, is easily adaptable and understandable (Letestu and Holmgren, 2012). The more different cultures are the harder it is to understand, adapt and operate in them. Often, cultural differences tend to have some effect on the mode and approach a firm undertakes its activities.

The more proximate two cultures are, the smoother it becomes conducting business in each culture. A glance at Figure 7, shows how cultural familiarity influence banks' potential to internationalize. The figure shows that ghanaian domestic banks have a mean point of 2.273 of internationalizing to markets with similar culture. The role is culture in international business has been in existence since history but received an inconsiderable attention at the time. Contemporarily, a remarkable number of studies are being conducted on growth of businesses in new and unknown cultures. The growth in literature on culture explains its importance. More recently the national

cultural dimnesions proposed by Geert Hofstede appear to ease out the difficulty beseiging international cultural analysis.

Figure 7: Frequency distribution for culture



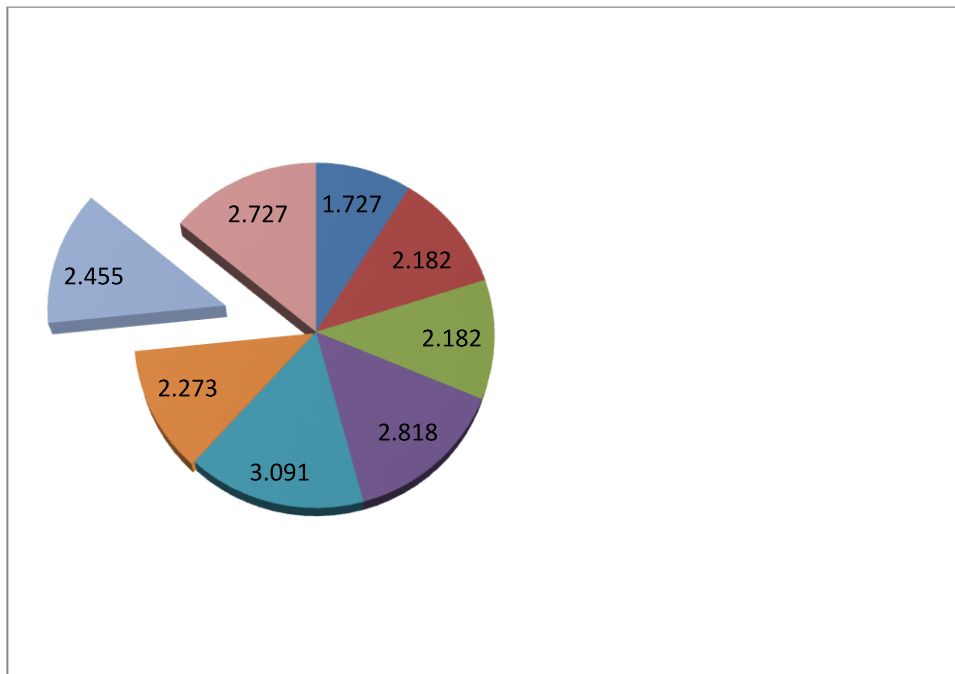
4.4.7. Political risks

Every investment undertaking always has the ultimate goal, of yielding earnings. Whether it involves the state providing public goods or a private investment, there is always a high investor's interest in such investments, which usually ranges from profitability to survivability. Hence, investors are often skeptical of growth of their investments in turbulent environments. While political risks could range from war, terrorism, political upheavals etc, to an investor, political risks often relate to consistency of government policies and stability of the business environments.

Countries where changes in government results in changes in policies that directly and indirectly affect business operations, profits and survival tend to have few foreign firms in operation. The importance of political risks is noticeable in Figure 8, with a 2.455 frequency. This means Ghanaian indigenous banks have a mean chance of

2.455 point of operating in countries with stabilized political climate. Political risks are measurable on the macro and micro scale. The macro level include risks that could affect every business, for example, when there is a political insurgency, while the micro leveled risks are more pertinent to a sector or industry.

Figure 8: political risk with its frequency

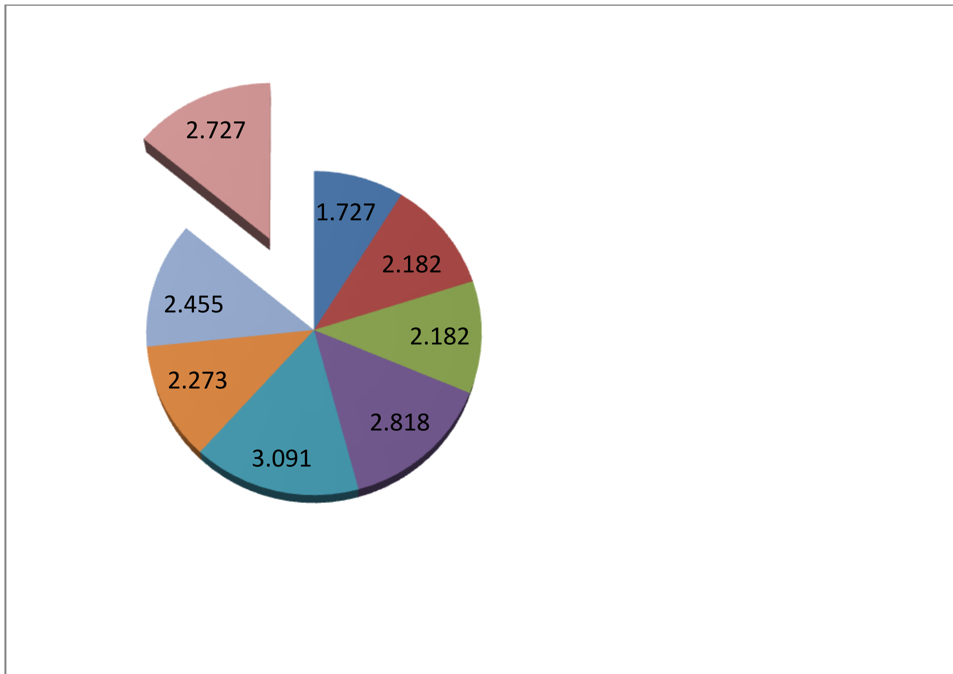


4.4.8. Economic risks

Risks diversification has for awhile been perceived as a secret to the success of most giant enterprises. This always lowers an investor's risk exposure and also provides safety nets in recessionary times. While investing in a politically conducive climate appears to be imperative to every investor, economic, market and country risk factors also take preference in their decision to diversify. For the purpose of the thesis, geographic risk diversification is the main form of the analysis. This is concerned with investments made in a new market, meaning, banks establishing a branch/subsidiary in a new market.

Also, financial, market, currency and country risks are treated as economic risks for the purposes of simplicity and brevity. Figure 9 below gives a brief account of how economic risks toll down the capacity of Ghanaian indigenous banks to internationalize.

Figure 9: Economic risks with its frequency



5. DATA ANALYSIS

5.1. Descriptive Analysis

Table 2 below delineates the variables descriptively. It can be observed from the table that entry requirements appears to be the most challenging barrier with a 3.091 mean score and a 0.302 variability among the observations, and it is also highly skewed to the right of the bell curve with a score of 2.467. State support follows with an average point of 2.818 and with a slightly dense variation of 0.982 among the observations. It is negatively skewed with the value of 0.834. Again, from table 2 it can be seen that insufficient knowledge about foreign market and capital size score average points of 1.727 and 2.182. This explains that on average knowledge

insufficiency about foreign market and capital size ware not real setbacks preventing the banks from going international.

Table 2: descriptive analysis

Variables	Mean	Std. deviation	Minimum	Maximum	skewness	observations
Internationalized	0.273	0.467	0	1	0.885	11
Insufficient know. Abt. F. mkt	1.727	0.905	1	3	0.481	11
Firm size	2.182	0.751	1	3	-0.245	11
Home banking regulations	2.182	0.603	1	3	-0.021	11
State support	2.818	0.982	1	4	-0.834	11
Entry requirements	3.091	0.302	3	4	2.467	11
Culture	2.273	0.467	2	3	0.885	11
Political risks	2.455	0.522	2	3	0.158	11
Economic risks	2.727	0.467	2	3	0.885	11

5.2. Regression Analysis

The data is qualitatively analyzed, with 0 representing banks that have not internationalized and 1 representing Ghanaian banks that operate in foreign markets as well as the home market. Out of the eleven observations sampled, two banks appeared to be operating in other markets aside the Ghanaian market. The regressand/outcome variable is named *internationalized*; to mean whether a bank has a branch/subsidiary abroad or not. Usage of the regression models have tended to be very common to scientific literature. Considering its common place in literature, it is widely perceived to be easily interpretable and comprehensible. However, for the nature of the paper, a binary regression analysis shall be used. This is employed to help have a reliable and credible predictive power for the outcome/regressand

variable. Since outcome variable takes a value of 0 or 1, the binary analysis becomes essential in producing an unbiased estimate.

5.3. Validity and Reliability

An ordinary least square (OLS) modeling for the analysis will take the following form:

$$y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n \qquad 1$$

Usage of OLS will appear problematic because of it will focus its analysis on the regressand variables with 1- values.

On the other hand, a use of the logit modeling analysis may take the following form:

$$P_i = E(y=1/X_i) = \frac{1}{1 + e^{-(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n)}} \qquad 2$$

It can be seen in equation 2 that P_i ranges from 0 to 1, whereas in equation 1, y_i takes the value of 1. As a result equation 2 satisfies the modeling requirements but also violates the linearity assumption of the regression model. This means using the OLS model for a binary regression analysis will produce an invalid and unreliable result (Gujarati, 2004).

The logistic (logit) regression analysis is employed for the analysis because it appears to produce more robust estimates. The following reasons explain its analytical power over other qualitative analytical tools:

- The logit regression analysis is efficient in predicting the qualitative outcome variable from regressors possessing continuous values. It is a best fit modeling technique for analysis with binary outcome variables.
- Also the logit regression is employed to make up the deviation on the assumptions of the OLS by the qualitativeness of the regressand. Since the

regressand is binary in nature, it deviates from the linearity assumption of the OLS. Using the logit helps correct the defect.

- With the logit regression, the nonlinear model is transformed into a linear model that meets the linearity assumption through a logarithmic transformation. With this transformation, the variables become rightly predicted.
- The important part of the analysis is that the technique generates the probability of success and failure, which are dependent on the regressors' estimates.

Under the linear regression analysis, it is essential that assumptions of the OLS are fulfilled in order to derive reliable and credible results. As such, it is important to ensure that best, linear, unbiased, and efficient (BLUE) estimates are derived.

Although the OLS may generate linear, unbiased and consistent estimates, the presence of heteroscedasticity will make the standard errors inefficient. In order to have minimal errors that are not correlated with the predictors, using a Generalized Least Square (GLS) becomes a best fit for the analysis (Tonidandel and LeBreton, 2011). Using the GLS produces efficient, unbiased and consistent estimates. With the GLS, the heteroscedastic model is transformed into a new model which becomes homoscedastic and fulfils the underlying assumptions of the OLS. Reasons making the GLS statistically inclined and reliable technique includes.

- “The GLS is a generalization of the OLS, such that when the classical assumptions of the OLS are fulfilled, the GLS produces the same estimates as the OLS.
- It weights individual observation to get efficient estimator, usually when variance are unequal with uncorrelated errors
- It transforms a correlated and heteroscedastic model into a new model that satisfies the assumptions of the OLS” Winship’s diary, 2009 (Seth Gabienu, 2016).

In producing a statistical significant result the Chi square method is chosen ahead of the coefficient of determination (R^2) in testing the null hypothesis. This is because the R^2 tends to produce limited values in a qualitative regression model. Its output has less consideration for outcome variables with zero values and will ultimately generate a result which is very low (Gujarati, 2004).

5.4. Estimation Results

The maximum least square estimation (MLE) output shown in figure 10 presents a summary of the logit regression output for the variables. Although the descriptive analysis accounted for variations in the data relative to their arithmetic means, in brevity it can be observed from Figure 10 that the deviance residuals give a concise and detailed variation of each regressand and its residual observation. The lower the deviance residual, the more likely the data tend to give a good representation of the population. An observation of the deviance residuals in the analysis explains the best fitness of the model with values less than 2.

An examination of the second column of the output presents the coefficients of the regression analysis. It is observable that holding all other variables fixed a unit change in the entry requirements will result in an inverse effect of 166 percentage points on the banks capacity to internationalize. That is, an increase in the entry requirements by foreign banking regulators, ceteris paribus, reduces the capacity of

Ghanaian indigenous banks to expand their operations abroad by 166 percentage points.

Political and economic risks take after entry requirements with 76.97 and 46.62 scores respectively. This explains that Ghanaian banks take more preference in operating in politically serene climate as well as economically stabilized countries. Keeping other variable constant, a unit increase in political and economic disturbances will results in a decline in interest to internationalize by 76.97 and 46.62 points respectively.

An observation of the control variable indicates that a unit increase in knowledge insufficiency about foreign markets with other variable held constant will results in a decrease in Ghanaian banks ability to internationalize by 25.63 points. The inverse relationship explains that a unit change in the each variable will results in an opposite effect.

Also noted in column 2 are cultural familiarity, firm size, state support, and home banking regulations with beta coefficients of 155.77, 39.72, 38.23, and 29.83 respectively. It can be observed that Ghanaian banks are more likely to operate in economies whose cultural values are similar to the Ghanaian culture. With a strong and direct relationship of 155.77, it can be interpreted that holding other variables fixed, Ghanaian banks have 155.77 probability of operating in similar cultural settings. Also, the bigger a firm, the more probable it is likely to internationalize with a chance of 39.72 holding other variable constant. When banks receive supports from the state or government in distress periods, they have a 38.23 likelihood of diversifying their operations geographically.

Figure 10: Logit regression analysis

```
Deviance Residuals:
         1           2           3           4           5           6           7           
8  
-2.110e-08  -8.098e-06   8.098e-06  -2.110e-08  -8.762e-06   6.586e-06   5.898e-06  -5.73
0e-06  
         9          10          11  
-3.971e-06  -1.198e-06  -9.365e-06  

Coefficients:
                              Estimate Std. Error z value Pr(>|z|)
(Intercept)                     237.71  855452.15       0        1
insufficient.know..abt.f..mkt   -25.63  244698.37       0        1
firm.size                        39.72  269784.71       0        1
home.banking.regulations         29.83  496730.73       0        1
state.support                    38.23  496113.08       0        1
entry.requirements             -166.40 1034086.82       0        1
cultural.familiarity            155.77 1263516.85       0        1
political.risks                 -76.97  739678.51       0        1
economic.risks                  -46.42  535115.18       0        1

(Dispersion parameter for binomial family taken to be 1)

    Null deviance: 1.2891e+01  on 10  degrees of freedom
Residual deviance: 4.2384e-10  on  2  degrees of freedom
AIC: 18

Number of Fisher Scoring iterations: 24
```

In order to ascertain the role elicited by the parameters in explaining the overall fitness of the model, it is important to examine the null and residual deviance. The null deviance of the output with the value of 12.891 and 10 degrees of freedom (df) tells us that the outcome variable is unexplainable by the predictor variables; rather the intercept is the only explanatory variable of the outcome variable.

Whereas the residual deviance with the value of 0.0004 and 2df asserts that the outcome variable is dependent on both the parameters and the intercept. That is, banks ability to internationalize is explainable by the predictor variables and also the intercept. The residual deviance is employed to test whether the null hypothesis is true, thus, it test if the response variable of the model is only explained by the intercept. From the analysis it appears with a 10df, the null deviance takes the value of 12.891. When the predictor variables are included, the degrees of freedom reduced to 2 and the residual deviance falls to 0.0004. This shows that both the null and the

residual deviance explain the model very well. However, the residual deviance possesses a stronger explanatory power or fits the model better.

Additionally, it is important to test the significance of the model in order to know whether to accept or reject the null hypothesis. In testing whether the null hypothesis is true and should be accepted, the chi-square (X^2) statistics was employed to test the significance of the model. The X^2 analysis on the null and residual deviance reads as follows:

```
> 1-pchisq(12.891,10)
[1] 0.2298302
> 1-pchisq(0004,2)
[1] 0.1353353
```

An observation of the X^2 analysis on both the null and residual deviance, it can be seen that the goodness of fit scores are 0.230 and 0.135 respectively. Since the p-value for null deviance is larger than the residual deviance. It explains that the test result supports the null hypothesis. Therefore, knowledge insufficiency about foreign markets can be argued not to have an influence on the internationalization of Ghanaian indigenous banks reckoning the evidence given by the chi-square results.

6. DISCUSSION AND POLICY IMPLICATIONS

In running the test significance for the model, it is evident that, knowledge about foreign markets has insignificant impact on the internationalization of Ghanaian indigenous banks. However, there have been a couple of publications pointing to the fact that this variable plays an enormous role in determining the ability of banks to internationalize (Paula, 2001). Sternad et al. (2013) reasoned that banks with competitive advantage in resource allocation, internationalization knowledge and those having significant networks have greater prospects of performing well in the international market. Smaller firms possess meager resources and tend to have little chances of expanding their market frontiers to foreign markets. This is because of the limited personnel and knowledge they possess. Responses from the participating

banks confirmed that although knowledge insufficiency about foreign markets may serve as a setback, it is usually a trivial factor in the banking system. Considering the analysis, entry requirements, bank size, state support, culture and eco-political risks factors tended to possess more explanatory powers.

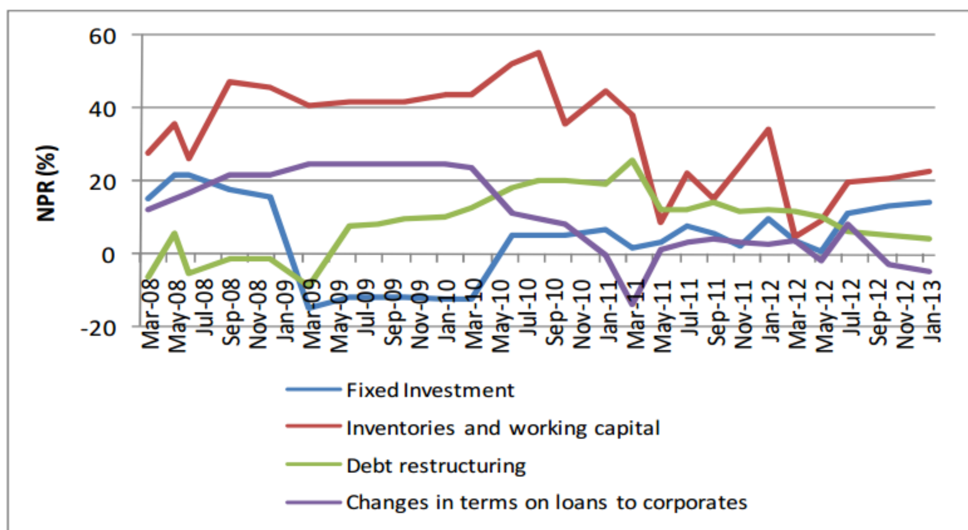
In the early 1990s, three commercial banks were in full operation in the Ghanaian banking sector, due to the reforms and policies initiated by the monetary policymakers over the years, the sector presently boast of over 30 commercial banks with bank capital adequacy ratio improving at 1.2 percent point between 2011 and 2012 (BOG, 2012). This presents a picture of the resonance of the sector. While the sector experiences its continual growth domestically which is reflected in the bank capital per asset ratio, its ability to create money via loans grows at a slow rate (see Table 3.).

The absence of debt reliefs, assets purchase programmes and bailouts continue to hamper the growth of domestic banks, so that their capacity to create more credit seems limited (see Figure 11). Figure 11 presents a remarkable fact that due to the absence of an asset purchase programme, banks tend to have excess liquidity, a demonstration of their limited capacity to make loans. A credit creation comparison made between Ghanaian banks and German banks shows that the Ghanaian banking sector provides about 20% credit of what its German counterpart provides (see Table 3).

Another important fact to note is that, the Ghanaian banking sector is controlled by the MNBs. Whereas the MNBs control about 60% of the market share, indigenous banks with 40% market share tends to experience difficulty competing with MNBs on both the local and the international market frontiers. Also, Ghanaian indigenous banks tend to be less capitalized and tend to depend on the central bank for credits. Gambacorta and Shin (2016) showed that less leveraged banks are often unlikely to create more money. As a result, bank size tends to be very crucial in their determination to internationalize. Bending et al. (2015) in their analysis showed that

resource-endowment and business environment played a greater role in increasing MNBs exposure to the Ghanaian economy. With the continual growth in the country's natural resources, a number of MNBs have followed their MNCs to the economy. This then results in crowding out of local banks via keen competition.

Figure 11: Usage of credit



Source: Bank of Ghana monetary policy statistics

The fundamental factor identified in most entry requirements is the minimum capital threshold. Though other elements found in the entry requirements compliance are essential to regulators, the minimum capital requirements appear to be very crucial. Gambacorta and Shin (2016) demonstrated that banks equities are very essential to their ability to create credits and fund their operational costs. They showed that a point increase in capital to asset ratio will result in a reducing debt financing by 4 basis points and long term credit creation of 0.6 percentage point. Considering the market share and capital size of the Ghanaian indigenous banks, it becomes challenging for some banks to expand their capacities internationally.

Therefore, it can be argued that when regulators begin to recognize the importance of bailing out distressed banks in turbulent times, local banks will amass the propensity

to engage in more risky ventures and expand their market and capital shares. These in the medium to long term will capacitate them to expand their operations beyond their national jurisdictions. On the other hand, if the status quo remains immutable, or when the entry requirements continues to be tightened, indigenous banks will have difficulty creating more domestic credits and internationalizing their operations.

In addition, it can be argued that formation of mergers and syndicates will boost the financial capacity of Ghanaian indigenous banks. Banks that do not benefit from the bailout programmes tend to have very low risk exposures, make few loans, experience little expansion and also have difficulty operating abroad.

Table 3: Comparing the money creation ability between Ghana and Germany

year	Banks' capital/asset ratio	Ghana's domestic loans made by banks/GDP	Germany's domestic loans made by banks/GDP
2006		21.1	127.4
2007	10.3	22.9	120.5
2008	10.4	27.9	122.3
2009	12.6	28.7	128.5
2010	13.3	28.4	164.8
2011	13.8	27.5	162
2012	14.8	31.3	157.1
2013	14.7	34.9	137.1
2014	14.3	38.2	140.6

Source: World Bank macroeconomic indicators

An observation of deposit interest rates (DIR) banks pay to their central banks for saving and time deposits as well as credit creation by some selected emerging and developing countries highlights an opposing approach regulators adopt to manage monetary policy (see Appendix 2). A comparative analysis shows that whereas

emerging economies are reducing their DIR in order to capacitate commercial banks to create more loans and grow their assets, developing countries tend to record higher DIR. This partially explains the reason behind MNBs dominance in developing economies. Basic economic literature expounds that a bank is both a borrower and a lender. When its DIR is high, it also needs to increase its Lending Interest Rate (LIR). When interest rates are high, enterprise demand for credits reduces (see Appendix 3). Therefore, banks with higher equities like MNBs benefits from the market. Since they have more funds to lend from, they are able to lend at lower rate compared to the low funded banks.

A tightened monetary policy coupled with the absence of state support during negative macroeconomic shocks appears to be instrumental in the inability of Ghanaian indigenous banks to expand their operations beyond the Ghanaian market. Therefore, improvement of the home banking regulations will seem imperative to the success and progress of the Ghanaian banking system. In the last decade, Bank for Housing and Construction (BHC), Bank for Credit and Commerce, and Co-operative bank, which were owned by a group of Ghanaian business moguls, were liquidated on the account of huge loan defaultment.

Due to the high DIR charged by the Bank of Ghana, commercial banks are made to charge higher LIR; this often results in a greater chances of loan defaultment. On the other hand, counterpart banks in some emerging and developed regions that enjoy asset purchased programmes also benefit from low DIR, which places them at vantage positions to access more credits from their central banks for expansion.

Therefore, the banking sector, unlike other merchandize sectors needs adequate financial capacity to internationalize. The financial capacity is dependent on the equities of the banks, policies and initiatives of the banking regulators and the ability of the bank to create more credits. Although knowledge about foreign markets is crucial, the evidence from the thesis shows that entry requirements, eco-political, firm

size and home banking regulations possess huge beta means, a sign of how vital these variables are to the internationalization of Ghanaian indigenous banks.

7. CONCLUSION

It is an underpinning practice that every investor analyzes its benefits and costs before venturing into any economic activity. This notion is not far from commercial banks planning to diversify their operations. Some of the cost factors that may decrease the competitive edge of a bank venturing into a new market may include entry requirements, cultural difference, and eco-political factors, information. Examining the factors that give banks the competitive advantage may include efficiency, information, innovativeness, etc (Herrero and Simon, 2006).

Using the logit regression analysis, it become insightful to notice that Ghanaian banks, though considered as having insufficient knowledge about foreign markets as hindrances to their internationalization, they perceived other variables such as entry requirements, firm size, eco-political risks, cultural difference, and home banking regulations as severe impediments to their ability to expand their operation beyond the domicile market. Hence, it is obvious that when a bank's cost of capital is low, it has a competitive disadvantage competing both on the local and the international level.

Also it is worth acknowledging the effect of both domestic and foreign bank regulators on the growth and survival of commercial banks. On the other hand, small to medium size banks which are efficient and innovative in their operations tend to possess competitive advantage comparative to larger banks.

Herrero and Simon, (2006) showed in their analysis that the claims of foreign banks in emerging economies (i.e. Latin America, Eastern and Central Europe, and Asia) have grown enormously with more than 50% recorded in the host country's local currency. They also demonstrated that a similar analysis on Africa took a contrary dimension. The claims and assets of foreign banks in some Africa countries continue

to decrease. This explains the proliferation of banks' interest in diversifying their risks to emerging and advanced economies. A close examination of their empirical analysis, it can be assume that a reduction in the assets of foreign banks implies a decrease in their operational capacity and a signage for local banks to expand their operations in order to benefit from the regional market.

Therefore, despite the insignificant support for the hypothetical claim made by the chi square significance test, it will be incongruous to debunk the claim that knowledge insufficiency about foreign markets has less consequence on banks' decision about internationalization. However, it can be asserted that due to the little literatures found on entry requirements and home banking regulations future studies can be undertaken in these areas to examine their severity on banks' decisions to internationalize.

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APPENDICES

Appendix 1: Foreign Banks presence among the Total Banks by Country in Percentage

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Angola	50	50	50	44	44	50	50	50	50	50
Benin	71	71	71	63	63	67	67	67	67	67
Botswana	44	44	44	44	50	50	44	44	50	50
Burkina Faso	88	88	88	88	88	88	89	89	100	100
Burundi	20	20	20	20	20	20	20	25	50	50
Cameroon	56	56	56	56	56	56	60	70	80	89
Congo	60	67	67	67	67	67	71	71	83	86
Cote d'Ivore	56	70	70	73	73	73	77	75	77	71
Ethiopia	0	0	0	0	0	0	0	0	0	0
Ghana	54	58	54	54	60	65	58	53	53	53
Kenya	27	26	26	28	28	30	30	29	35	35
Madagascar	100	100	100	100	100	100	100	100	100	100
Malawi	29	43	43	43	43	43	43	29	29	29
Mali	38	43	38	38	38	38	44	44	56	56
Mauritania	17	17	14	14	14	14	14	25	38	38
Mauritius	75	69	67	73	73	71	71	67	62	62
Mozambique	100	90	90	90	90	90	90	90	91	91
Namibia	50	50	38	38	38	38	38	38	38	38
Niger	83	83	83	83	83	83	86	86	86	86
Nigeria	9	9	8	9	6	3	11	11	11	11
Rwanda	0	0	0	0	33	50	50	43	57	57
Senegal	60	64	64	64	64	64	85	85	83	83
Seychelles	25	25	25	40	40	40	40	40	40	40
South Africa	14	16	17	17	17	22	22	22	22	22
Sudan	10	10	0	9	15	15	23	31	31	31

Swaziland	80	80	80	80	80	80	80	80	80	80
Tanzania	58	58	55	57	64	68	68	70	70	70
Togo	50	50	50	50	50	40	33	33	33	33
Uganda	67	67	71	71	71	71	79	79	76	82
Zambia	56	63	63	63	71	75	75	88	100	100
Zimbabwe	25	23	21	20	20	21	25	33	33	33

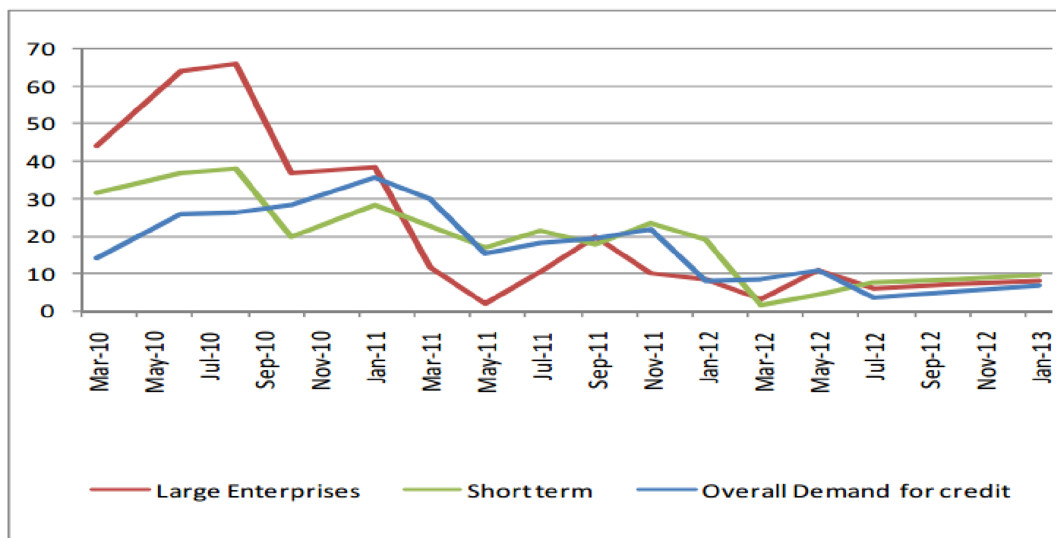
Source: Claessens and Horen (2012)

Appendix 2: Deposit Interest Rates charged by Central banks

Country	2006	2008	2010	2011	2012	2013	2014
	DIR	DIR	DIR	DIR	DIR	DIR	DIR
Armenia	5.8	6.6	9.0	9.2	9.6	10.2	10.4
Azerbaijan	10.6	12.2	11.6	10.9	10.2	9.9	9.2
Brazil	13.9	11.7	8.9	11.0	7.9	7.8	10.0
Chile	5.1	7.5	1.8	5.3	5.8	5.2	3.9
China	2.5	2.3	2.8	3.5	3.0	3.0	2.8
Costa Rica	9.8	4.2	5.3	4.0	4.7	3.9	3.3
Egypt	6.0	6.6	6.2	6.7	7.6	7.7	6.9
Ghana	8.9	11.3	-	8.9	10.1	12.4	12.9
Indonesia	11.4	8.5	7.0	6.9	5.9	6.3	8.3
Kenya	5.1	5.3	4.6	5.6	11.6	8.6	8.4
Namibia	6.3	8.4	5.0	4.3	4.2	4.0	4.2
Nigeria	9.7	12.0	6.5	5.7	8.4	7.9	9.3
Philippines	5.3	4.5	3.2	3.4	3.2	1.7	1.2
South Africa	7.1	11.6	6.5	5.7	5.4	5.2	5.8
Thailand	4.4	2.9	1.0	2.3	2.8	2.9	2.0

Source: World Bank macroeconomic indicators

Appendix 3: Enterprise demand for loan



Source: Bank of Ghana

Appendix 4: Questionnaire

1. What is the name of your bank?

RESPONSE:

2. In what year did your firm start operation?

RESPONSE:

3. What kind of banking system is your bank operating?
   - ☐ Wholesale banking
   - ☐ Retail banking
   - ☐ Universal banking
4. What is your position within the firm?

RESPONSE:

5. What was the approximate turnover of your enterprise 5 years after inception?

RESPONSE:

6. What is the current market share of your bank among the total market shares in Ghana?

RESPONSE (IN PERCENT):

7. Does your bank have any foreign portfolio or joint venture?

RESPONSE:

8. How many years did it take your bank to globalize its operation?

RESPONSE:

9. How many percent of your turnover originates from outside Ghana?

RESPONSE:

10. What legal form has your enterprise outside Ghana?

    RESPONSE: ☐ Branch or
    ☐ Subsidiary
    ☐ Universal

11. Please state the two most important countries outside your home country in which your enterprise has establishment. (most important in both assets and market share growth)

RESPONSE:

12. Does your firm have plans to internationalize?

RESPONSE:

13. How your enterprise does plans to go abroad?

RESPONSE:

☐Merger or acquisition of financial institutions in foreign markets

☐Establishment of subsidiaries and/ or branches

☐ Other, please specify

14. When is it likely for the bank to take off?

RESPONSE:

15. In which country is your bank likely to incept its international operation?

RESPONSE:

Why?.............

16. Is your banking orientation (branch or subsidiarization) likely to affect your internationalization?

RESPONSE:

17. Financial globalization impediments

    Please indicate by checking each box the effect of each variable on your company's internationalization decision making.

Hindrances	Very high	High	Moderate	Low
insufficient knowledge about foreign markets	☐	☐	☐	☐
Is your offering (product) unique and competitive	☐	☐	☐	☐
bank size (Insufficient capital)	☐	☐	☐	☐
Home country regulations about internationalization	☐	☐	☐	☐
Host country regulations about internationalization	☐	☐	☐	☐
State support for internationalization	☐	☐	☐	☐

Entry requirements and corporate taxes	☐	☐	☐	☐
Business culture	☐	☐	☐	☐
Political risks	☐	☐	☐	☐
Economic risks	☐	☐	☐	☐

Other hindrances; please specify….

Supervisor

Rosmeriany Nahan-Suomela (Dr.)

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Note: *interviews conducted were structured and based on the questionnaire*.

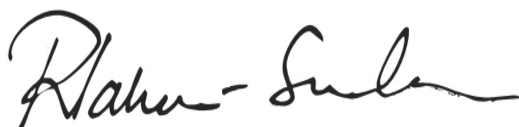
Cover note:

Dear Respondent,
My name is Seth Sylvester Gabienu, a final year student studying International Business at Vaasa University of Applied Sciences. I am writing my thesis on the topic "Does Knowledge about Foreign Markets Affect the Internationalization of Commercial Banks? A case study on Ghanaian Indigenous Banks.

In view of helping improve the global competitiveness of the Ghanaian local chartered banks, I perceive it necessary to identify variables that barricade banks from going global as the purpose of my thesis. Hence, I shall be extremely enthused to have a top level manager's response to this questionnaire.

Please note that your identity shall be kept anonymous and the information you provide will be kept confidentially. It shall be aggregated with data collected from other banks for the intent of the study, Thank you for your cooperation.

Yours Faithfully,
Seth Sylvester Gabienu/thesis writer



Rosmeriany Nahan-Suomela /thesis supervisor
International Degree Programme