



ASHESI UNIVERSITY COLLEGE

**INVESTIGATING THE IMPACT OF FOREIGN BANK PRESENCE ON
LOCAL BANKS AND BANKING INNOVATION IN GHANA**

BY

SANDRA BAAKE AMINARH

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DECLARATION

I hereby declare that this Applied Project Report is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

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I hereby declare that the preparation and presentation of the Thesis were supervised in accordance with the guidelines on supervision of applied projects laid down by Ashesi University College.

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ABSTRACT

Over the past ten years, the number of foreign banks in Ghana seems to be increasing at a very fast pace and it appears this will not slow down anytime soon. The purpose of this study is to investigate the effect of foreign bank presence on local banks and banking innovation.

The study was exploratory in nature and employed primary data to draw its conclusions. Purposive sampling methods such as expert sampling and snowballing were used to identify the participants of the research. The participants were engaged in semi – structured interviews and qualitative content analysis was used to analyze the data.

The results suggest that domestic banks are being positively and negatively affected by foreign bank presence. On one hand, local banks were reaping the benefits of implementing new technologies and processes that foreign banks introduced when they entered the country. However, because of the advanced technologies that were used by foreign banks as well as their easier access to capital, they have created serious competition for the local banks. As a result, most local banks are losing their market share and even in some cases, they have closed down because they cannot keep up with the competition

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Chapter 1 – INTRODUCTION

1.1 Background

Financial institutions are intermediaries that connect surplus funds available to deficit funds. The capital market in Ghana is not very developed; as at 2011, there were 27 listed companies, 10 brokerage firms, 5 mutual funds and 1 unit trust company on the Ghana Stock Exchange (PriceWater House Coopers, 2013). Similar to many developing countries, the financial systems in Ghana tend to evolve around the banking system; they ensure the mobilization of funds from various sources and allocate savings to more productive activities. They are a principal source of funds for businesses, thus their survival and performance is very important. They not only benefit investors and borrowers but the economy as a whole (Saka, 2010).

The banking industry has seen tremendous developments over the years mainly because of what many are describing as the proactivity of The Bank of Ghana, the regulator of banks and banking activity in Ghana. The Bank of Ghana has implemented several financial sector reforms within the banking industry to regulate, supervise and direct the banking system and credit system to ensure the smooth operation of a safe and sound banking system. Notable among these reforms are the Economic recovery program, which concentrated on the stabilization process of the economy through the liberalization of controls and The Financial Sector Adjustment Program (FINSAP) aimed at addressing institutional weaknesses of the financial system by restructuring distressed banks and developing money and capital markets. Also, until recently, the banking sector was divided into four sectors:

commercial, corporate, industrial and agricultural banks. However, in 2004 the central bank passed a reform known as the Banking Act 2004 which introduced the universal banking concept and also saw an inflow of foreign banks from mainly Nigeria, Liberia and India (Koranteng Kumi, Owusu Amoamah, & Ernest, 2013). This also coincided with Nigeria's recapitalization that increased minimum capital requirements more than tenfold (25 billion naira). This caused Nigerian banks to expand internationally, setting up subsidiaries across the continent, thus increasing the number of banks in Ghana (Alade O, 2014).

The influx of banks owned by foreigners into Ghana reached its peak after 1992. Prior to 1992, specifically between 1975 and 1991, the country was not open to foreign investment. Economic mismanagement, corruption and bad leadership characterized the period. It is therefore understandable that in this 16-year period, there were only three foreign banks in the country. In 1992, Ghana became a democratic nation; it sought to use this to solve its political, economic and social problems. At the same time, the country also adopted the conditions imposed by the World Bank and IMF, which required some fundamental economic changes known as Structural Adjustment Programs (SAPs). The adaptation of SAPs and the democratization of Ghana served as incentives for an increase in FDI. This resulted in economic liberalization and encouraged foreign owned banks to enter the Ghanaian banking industry (Acheampong, 2011). In Ghana, the number of foreign banks has significantly increased; in fact, the ratio of foreign banks to local banks was 12:14 as of 2013 (PriceWater House Coopers, 2013). Foreign bank entry can be both beneficial and damaging to different stakeholders in the host country. On one

hand, these banks may bring with them advanced technologies and better management techniques, also they may have access to a geographically diversified credit portfolio which will have enough funds to lend out to people and or institutions during stressful periods. Furthermore, foreign banks could also foster the efficiency and development of financial products in the host country, in Mexico; foreign bank participation in total assets is 82%. The participation in derivatives operations (measured by the operations' notional amount) also increased with that growing foreign bank presence in Mexico. From this, it can be seen that when foreign banks come in, they bring new capital into the country consequently increasing the money available for borrowing. However their entry raises some concerns, foreign bank entry and participation may cause the host country to be affected by international events that will cause detriment to the economy and also influence efficiency performances of local banks (Cardenas, Graf, & O'Dogherty, 2004).

The two consequences that are most important to this dissertation are the advanced technologies that foreign banks bring with them and the performance of local banks when foreign banks enter the country. There is little documented evidence on these consequences. Thus, the aim of this thesis is to investigate the effect of foreign bank entry on local banks as well as the banking innovation in the host country.

1.2 Problem Statement

Michael Porter (2008) describes the threats of new entrants as one of the five forces that create competition. Generally new entrants to an industry bring with them capacity and a desire to gain market share. These entrants are

mostly drawn to highly profitable industries with low entry barriers (Porter, 2008). In the case of Ghana, banks are very profitable and it is relatively easier to establish a bank now than it was 20 years ago (despite the increase in minimum capital requirements) because of the recent legal reforms and information availability (Saka, 2010). This has made it feasible for foreign banks to set up subsidiaries in the country.

Developing countries are constantly in a dilemma with regards to letting foreign banks into the country because of the advantages as well as disadvantages that their entry brings. Foreign banks bring in new products, technology and sound corporate governance culture that local banks can emulate and improve their own systems, however because of their technological progression and skill set it is very easy for them to take all the market share from the domestic banks (Saka, 2010).

Prior to the year 2003, Ghanaian banks behaved in a non-competitive manner that could debilitate financial intermediation. This led to high profitability, which seemed to indicate lack of competition (Buchs & Mathisen, 2005). This has however changed drastically; the Ghanaian banking sector has grown from 16 banks in 2000 to 24 banks by the end of 2008, diversified in geographical region and extensive reach in global financial markets. The number of foreign banks in Ghana grew from 6 in 2000 to 12 in 2014. Has the increase in foreign banks caused the banking sector to become more competitive? Has their entry influenced domestic banks positively?

1.3 Research Questions

The study seeks to answer the following questions:

- How has foreign bank presence impacted competition in the Ghanaian banking industry?
- What is the effect of foreign bank presence on banking innovation?

1.4 Research Objectives

The purpose of this study is:

- To understand the impact of foreign bank presence on competition in the Ghanaian banking industry
- To examine the effect of foreign bank presence on banking innovation.

1.5 Significance of the Study

This dissertation examines how the presence of foreign banks in Ghana has affected local banks and banking innovation. The recommendations from this study will assist governments and Central Banks in emerging market economies to develop rules and regulations that will help improve the efficiency and profitability of domestic banks. Senior management of domestic banks that are struggling could use the outcomes of this study to develop strategies that would help improve the profitability of the banks in the light of competition from foreign banks. Also, foreign banks could use the outcome of the study in developing strategies that would help them survive in developing countries. Banks are very important in economic development because they are a major source of funds all over the world and this research will enlighten the reader and also contribute to the existing body of knowledge and literature on the topic.

1.6 Theoretical Framework

The active development of international banking began in the 1990s after a general increase in international capital flows, foreign direct investment as well as liberalization of the financial market and entry barrier elimination. Central and Eastern European countries have seen over 60% increase of the market share of foreign banks. (Uiboupin & Sorg, 2006).

Increasing foreign ownership in banking sector raises questions about the entry process of foreign banks and their effect. For this study, two theories will be employed to aid in explaining this; the eclectic theory for the entry process and the acquisition vs. Greenfield theory for their effect.

The eclectic theory, also known as the OLI model, developed by Dunning in the 1980s states that in order for foreign direct investment to be beneficial, there must be certain conditions; (O) ownership advantage, (L) location advantage and finally (I) internalization advantage, hence the name OLI model/paradigm. The ownership advantage indicates who is going to produce, locational factors influences where to produce and internalization factor addresses why firms would engage in FDI instead of licensing other firms to use their proprietary assets. Thus firms must possess competitive advantage to be able to offset additional costs incurred by setting up and operating overseas (Dunning, 1988). Although the theory has been criticized as being too “eclectic” because of the encompassing list, it is necessary as it is able to incorporate different approaches.

Previous writers like Yannopoulos (1983) and Uiboupin & Sorg (2006) both applied the eclectic paradigm to the banking sector, suggesting that foreign

banks have location specific advantages, which include following their client and country specific regulations. Ownership advantages may be, easy access to channel currency and internalization advantages as informational advantages and access to local deposit bases.

The second theory, acquisition vs. Greenfield, seeks to test how the distribution of information between foreign and domestic banks may differ depending on their mode of entry. As a result, the degree of competition will be influenced. Sophie Claeys and Christa Hainz of the European Central Bank developed the theory in 2006. The model was first tested on 10 Eastern European countries, because they experienced an intense increase in foreign bank entry over the decade (10% in 1995 to 70% in 2003). There are two ways that foreign banks enter markets; by acquiring a local bank and inheriting their portfolios or by establishing a foreign Greenfield (new) bank. The mode of entry thus determines the distribution of information between foreign and domestic banks, which affects the degree of competition and average lending rates. Domestic banks that have been in the market have an advantage, as they possess information about incumbent firms, however both foreign and domestic banks have the same degree of information about firms that have newly entered the market. Thus a foreign Greenfield bank will only enter the market if its ability to screen new clients makes up for their disadvantage of having no information about incumbent firms. On the other hand, a foreign acquired bank inherits a credit portfolio that contains information about incumbent clients so in addition to having a strong client screening process, they also have ready clients to begin business with. As a result, the mode of entry determines the distribution of information between

foreign and domestic banks and thereby affects the degree of competition.
(Claeys & Hainz, 2006)

1.7 Methodology

This research is qualitative and exploratory in nature. Data related to the research questions were analyzed using qualitative content analysis (QCA). To collect data, key players involved in the banking sector were interviewed. These included representatives from 7 banks (foreign and local) in the country, 2 representatives from Bank of Ghana. Unfortunately, due scheduling conflicts, the planned interview with a GIPC official could not be interviewed. The sampling method used was purposive sampling, specifically expert sampling and snowballing. Experts on the issue were able to provide more viable information to enhance the credibility of the paper. The research was conducted in the Greater Accra Region because it houses the head offices of all the banks and regulatory bodies.

1.8 Chapter Disposition

The study is divided into five parts:

Chapter One introduces the research and provides a brief background. It also presents the problem statement, the objectives and research questions of the study as well as the significance and scope of the study.

Chapter Two reviews the related literature concerning the study and the theoretical framework used.

Chapter Three expounds the methodology employed to achieve the research objectives.

Chapter Four offers a report on the analysis, discussion and the presentation

of results. Finally, Chapter Five presents a summary of the entire study with major findings clearly spelt out. Based on these findings, relevant and informed conclusions, as well as recommendations that are useful and practicable are made.

CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

This chapter begins with an examination of the current structure of Ghanaian banking sector. It discusses theoretical literature on what makes any market look attractive for banks and also summarizes the existing literature on the effect of foreign bank presence on domestic banks and banking innovation.

2.2 Overview of The Ghanaian Banking Sector

The financial system in Ghana is made of banking institutions (including rural and community banks), insurance companies, discount houses, finance houses, leasing companies, savings and loan associations, credit unions, a stock exchange and more recently microfinance institutions. Banks are by far the largest component of the financial system, whether measured by assets or customer base (Buchs & Mathisen, 2005). Between 1996 and 2000, the banking sector grew rapidly, reflecting in part the financial deepening as well as loose monetary conditions. After reaching 44% in 2000, the total assets to GDP ratio dropped to 38% in 2001 and further to 31% at the end of 2003 reflecting tightened monetary policies. Buchs and Mathisen describe the Ghanaian banking system as rather diverse; of the 17 banks operating in Ghana, there were 9 commercial banks, 5 merchant banks and 3 development banks. Commercial banks engaged in traditional banking business with a focus on universal retail services. Merchant banks are fee based banking institutions and they mostly engage in corporate banking services and development banks specialized in the provision of medium and long-term finance. Three of the largest commercial banks accounted for 55% of total assets of the banking sector, which is relatively moderate compared to other countries in the region. However, 25% of total assets and 20% of

deposits were held by a single state owned commercial bank. Both development and merchant banks accounted for 30% of total assets. The banking penetration ratio at one bank branch per 54000 inhabitants was relatively high, but only 5% of the population received formal bank coverage. Even though the Greater Accra region represents less than 13% of the country's population, 35% of bank branches were there (Buchs & Mathisen, 2005).

	Ownership (Percent)		Total Assets (Bns of cedis)	As Percent of GDP	Number of Branches	Share of Total (Percent)		
	Ghanaian	Foreign				Total assets	Net lending	Deposits
Banking system			18,668	38.2	309	100.0	100.0	100.0
Commercial banks			13,055	26.7	229	69.3		
Bank 1	97	3	4,624	9.46	134	24.8	16.9	20.8
Bank 2	10	90	2,710	5.55	24	14.5	18.1	16.9
Bank 3	24	76	3,011	6.16	23	16.1	16.3	18.8
Bank 4	46	54	1,713	3.50	38	9.2	10.2	8.8
Bank 5	39	61	470	0.96	6	2.5	2.1	2.6
Bank 6	53	47	128	0.26	4	0.7	0.6	1.0
Bank 7	0	100	120	0.25	3	0.6	0.3	0.8
Bank 8	9	91	230	0.47	1	1.2	0.5	1.2
Bank 9	100	0	49	0.10	1	0.3	0.3	0.3
Merchant banks			2,875	5.9	18			
Bank 10	100	0	751	1.54	5	4.0	4.8	5.4
Bank 11	6	94	1,325	2.71	4	7.1	8.2	6.2
Bank 12	34	66	409	0.84	3	2.5	2.1	2.6
Bank 13	71	29	286	0.59	2	1.5	1.5	2.0
Bank 14	100	0	104	0.21	1	0.6	0.4	0.7
Development banks			2,738	5.6	62			
Bank 15	100	0	1,847	3.78	42	0.0	11.2	8.4
Bank 16	100	0	538	1.10	14	0.0	3.8	2.0
Bank 17	100	0	352	0.72	6	0.0	1.9	2.0

Sources: Breidenkamp and others (2003) and IMF Staff Country Report no. 396/03.

* As of December 2002. The housing bank established in 2003 has been excluded from this study.

In line with financial sector reforms, Universal banking replaced the three – pillar-banking model; development, merchant and commercial banking. The policy was geared toward supporting the development of a well-capitalized and robust financial system. This has leveled the playing field, and opened up the system to competition, product innovation and bank entry. By the end of 2005, there were 21 deposit money banks and 120 rural banks. The deposit money banks included eight universal banks, two merchant banks, three

development banks and eight commercial banks. However by the end of 2008, with macroeconomic conditions and prospects, the banking industry had grown to 25 deposit money banks and over 120 rural banks diversified in geographical origin and reach in global financial markets. Currently, all banks in the country are operating as Universal Banks (Saka, 2010).

Table 6: Some key developments from 2000 to 2008

Year	Key Developments
2003	<ul style="list-style-type: none"> • Universal Banking License was introduced; banks with ₵70 billion (GH₵ 7million) in capital permitted to carry out any form of banking. • Maintenance, transaction, and transfer fees charges by commercial banks were abolished
2004	<ul style="list-style-type: none"> • The Banking Act 2004 (Act 673) replaced the Banking Law 1989 (PNDCL 225)
2006	<ul style="list-style-type: none"> • Secondary deposits reserves requirement (15%) was abolished • Foreign Exchange Act 2006 (Act 723) and • Whistle Blowers Act 2006 (Act 720) came into effect
2007	<ul style="list-style-type: none"> • Credit Reporting Act 2007 (Act 726) and • Banking (Amendment) Act 2007 (Act 738) were passed • National Reconstruction Levy was abolished • Re-denomination of the cedi (₵10,000 = GH₵1)
2008	<ul style="list-style-type: none"> • Borrowers and Lenders Act, 2008 (Act 773), • Non-Banking Financial Institutions Act, 2008 (Act 774), • Home Mortgage Finance Act, 2008 (Act 770) and • Anti-Money Laundering Act, 2008 (Act 749) were passed • Banks to comply with International Financial Reporting Standards (IFRS)

PricewaterhouseCoopers (2009)

One area that has seen fierce competition in the banking industry is the product development. New products such as the international funds transfer, school fees loans, car loans negotiable certificate of deposit etc. Another area

that has seen immense development over the last decade is the computerization and networking of branches. Bank operations and information processing have vastly increased. Also Automated Teller Machines (ATMs) have become common, giving clients the freedom to transact business at their convenience; telephone banking and SMS banking have also been introduced (Hinson, Mohammed, & Mensah, 2006).

2.2 Determinants of Foreign Market Entry for Banks

In the discussion of the literature, there were four distinct determinants that ran through; “follow the customer”, the market potential of the host country, the location or the distance between the host country and the bank’s country and the legal origin as well as tax demands of the country. These factors, depending on how big or small they are, play a key role in the entry modes of the banks.

2.2.1 Host country’s market potential

Banks are businesses and are established to make profit and increase shareholder’s wealth. As a result, the market potential of the country they are entering is very important to them. Hsieh and Shen (2010), Hryckiewicz and Kowalewski (2008) and Fernando de Paula and Alves (2006) all agree that this factor is the most important for foreign bank entry. If there is no profit potential for the business, there is no need to go to that country. This is also very important for the entry mode of the bank, if there is a very high market potential, the bank is more likely to choose a high entry mode, meaning they would want to go in full force, build branches etc. Also the impending gains in efficiency are much higher in emerging markets. Generally, banking efficiency is lower than in developed countries, this allows the foreign banks to use their

competitive advantage of financial development to increase their market share, as developed economies will be comparatively choked (Fernando de Paula & Alves, 2006). Additionally, results from developed countries suggest that subsidiaries of foreign banks are more likely to engage in the retail and small business lending, however the opposite was found in Central European countries where foreign banks subsidiaries operate in the niche business providing such services as car loans and mortgages (Hryckiewicz & Kowalewski, 2008). This could be due to two reasons: there may not be enough players in the area of developed products in the developing countries, this creates an opportunity for these foreign banks to use their experience and knowledge to create new markets, also it may be that these niche markets are the only markets that are capable of providing the revenue that matches up to the operational risk that the foreign banks are facing in the new environment. Foreign bank expansion may be very useful to a bank as a source of risk diversification if the foreign market's business cycle is not highly positively correlated with the host market's business cycle. For instance, Latin America will be a likely host country destination since European and Latin American recessions do not necessarily happen at the same time. In 2001 and 2002 when European countries were experiencing a slow down, Latin American countries continued to grow steadily (Kraft, 2002).

2.2.2 "Follow the customer"

This is one of the many determinants of foreign bank presence in countries. Most of these banks tend to move because foreign banks usually follow their clients. Even though these foreign banks can serve their local client from the headquarters or through correspondent banks, they prefer to have a presence

abroad as this means the bank can react faster to whatever needs the client may have in the given situation. One key strength of foreign banks in this case is the fact that the banking industry is an information intensive industry. Banks gain client information on their financial needs; therefore, they are able to create customized financing, information brokerage and transaction banking needs. This is firmly rooted in a longstanding relationship with the client (Wezel, 2004). Grubel (1977), who agrees with this school of thought, came up with the term "defensive expansion" to further explain this idea that to prevent MNCs from soliciting local banks or foreign competitors, banks are forced to open a branch or subsidiary abroad themselves in order to defend their unique bank- customer relationship. Asian banks are also customer followers, meaning that the more investments abroad, the more attractive it is for their banks to adopt an entry mode with a higher degree of control (Hsieh & Shen, 2010).

Certain banks, especially those entering emerging markets are taking this factor to a whole new level; the "follow the customer" behavior has been replaced by a search for client's behavior. Due to the financial development occurring in Central European countries, new opportunities emerged and banks began to expand to these countries to look for clients, be it multinational corporations or local firms who had a potential to increase growth and market share. It could be argued that with developed economies, foreign banks typically move there to follow their client as seen in the case of Germany (Hryckiewicz & Kowalewski, 2008). With developing economies, however, banks move in to search for clients, build relationships with these clients and provide them with the financial development that their firms will

need when they begin to expand.

2.2.3 Distance between home and host country

The location of the country is a very important factor for the foreign bank entry. Countries like Turkey and Russia are more prone to foreign bank entry because of their location. Turkey is situated at the intersection of Europe and the Middle East and will therefore see more foreign bank entry as compared to another country that is far removed Aysan & Ceyhan (2008). Also, given that most of the banks that went into Hungary, Czech Republic, Slovakia and Poland were from developed countries in Europe, it can be seen that foreign banks usually establish themselves in countries in close proximity to them (Hryckiewicz & Kowalewski, 2008).

Distance in this case is not limited to geographical distance but also cultural distance. In Asia, between the period of 1999 – 2005, in countries with greater culture distance, banks tended to establish low control entry modes to avoid uncertainty (Hsieh & Shen, 2010). However, banks with greater international experience were the exception to the rule. When the cultural distance is great, it is more difficult to monitor and to communicate with the overseas unit. That is, the cost of using organizational or hierarchical mechanisms will be higher than the cost of using the market mechanism.

2.2.4 Banking Regulation of the Country

Coppel and Davies (2003), Berger, DeYoung, Genay, and Udell, (2000) and Weller (2001) agree that regulation is one of the key factors that contribute to foreign bank entry. In fact, they conclude that deregulation is what attracts foreign entry. Coppel and Davies (2003) discuss how regulation plays a very significant role in foreign bank entry within economies of East Asia as the

main regulatory reforms underpinning greater foreign participation have been policies designed to strengthen competition in the banking sector. In 1998, the South Korean government announced a policy of ending direct interference in bank management. Similarly, Indonesia has eased restrictions on foreign participation in existing banks and removed obstacles that prevented the opening of foreign branches.

Ghana has also seen its fair share of regulatory reforms that have helped liberalize and improve the banking sector. The reviews and updates of these regulations have created a comparatively educated market that is advancing into newer financial products every day.

Berger, DeYoung, Genay, & Udell (2000) also strongly holds that regulation is very important to foreign bank presence as well as cross-country consolidation. In fact, the deregulation of geographic and harmonization of regulatory and supervisory environments have provided important boost to the consolidation of. The single market programme, a framework implemented by the EU over the past two decades, has made it more possible and less costly for financial institutions to operate across national borders within the EU. Similarly, the First Directive (1977) established minimum requirements for authorizing credit institutions, introduced (but did not implement) the concept of national treatment by which foreign branches would be subject to the banking restrictions of their home country and not the host country; it forbade host countries from denying entry of a foreign bank on the basis of economic need and it began the process of unifying prudential regulations across the member states. Barriers to FDI in the banking sector like very stringent regulation, high legal costs and high taxes cause distortions in the allocation

of capital between different economies, between foreign and domestic investment and between different sectors. The effects of this manifest through a variety of channels which include but are not limited to higher prices, less consumer choice, lower capital stock and lower productivity (Coppel & Davies, 2003).

2.3 Cost Benefit Analysis of Foreign Bank Presence

Banks go into foreign markets driven by one or more of the different motives discussed above. How does their presence affect the financial market of the host country? There are two main schools of thought; those that believe that the benefits of foreign banks presence outweigh the costs from them and vice versa. It must be noted however the effects of foreign banks are very different in developed and developing countries. Kraft (2002) and Cardenas, Graf, & O'Dogherty (2004) found that in the emerging market, subsidiaries of the foreign banks enjoy higher interest rate margins and profitability compared to domestic banks, however with developed countries, foreign banks do not possess greater know how and technological advantages, thus they are less profitable than domestic banks.

Foreign bank entry adds new players to the domestic competition thus increasing competition. The intensity of competition is dependent on the aim of the foreign bank, if they are interested in a narrow market segment, then it would be less intense, however the competition is very high if the bank is interested in broader markets. This could be both beneficial and damaging to the domestic market. On one hand, the competition could cause domestic banks to shut down or sell out if they cannot match up. This amounts to replacement of less efficient banks by efficient ones but it also results in

further problems like unemployment and increased foreign control. The good thing on the other hand is that, it can cause them to step up their game and come up with better strategies that would help them realize shareholder's wealth and satisfy consumer needs. Domestic banks could emulate foreign banks to gain their skill and technology and also use their management techniques to cause growth in their business and the industry in general (Kraft, 2002). Furthermore weak domestic banks taken over by foreign banks are upgraded by international rating agencies, new financial products and services thus increasing positive competition in the banking sector (Cardenas, Graf, & O'Dogherty, 2004).

Another key effect of foreign penetration is stabilization during crisis period, because they are more conservative during the lending process and less affected by business cycles. As a result, during domestic crisis, they are turned to, to save the day. However the support they can give is often very limited because the foreign bank market share is little or the limited exposure may be directed from the parent country (Aysan & Ceyhan, 2006). Study on Latin American countries showed that foreign bank responsiveness to host country shocks increased in time, this was related more to positive shocks than negative shocks (Peria, Soledad, I.V, & Powell, 2002). In contrast, another study (Peek & Rosengren, 2000) shows a case in Japan where foreign banks were much more affected than the domestic banks. Japanese banks with operations in the American mortgage markets transmitted the financial problems of the late 80s and early 90s to the US.

Even though foreign banks bring stabilization to domestic markets, they can

also bring destabilization through their operations. When the conditions that attracted foreign banks disappear, the foreign banks tend to sell their subsidiaries to local banks and investors. This may lead to a crisis; however (Crystal, Dages, & Goldberg, 2002) argue that there is no evidence that suggests foreign banks leaving the country immediately after a possible crisis. Foreign banks also cause increased foreign deficits as a result of the profit transfers they make to their parent company (Aysan & Ceyhan 2006).

The relationship between bank performance and development is very crucial, because a stable and well functioning banking system is important for economic growth. Research has also shown that restrictions on foreign entry constrain productivity growth and financial development and increase risks in the financial sector (World Bank, 2005). Gupta (2002), who agrees with this, argues that for a well functioning banking system to be achieved, long-term reforms should be undertaken to help with the financial development of the region. Import tariffs should be decreased, foreign exchange regime and bank regulations should be strengthened and technology and human skill should be supported.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter discusses the research tools and method used in order to collect data and ensure representativeness. It explains the reasons behind the choices of the sources of data used, the sample size, etc. It concludes with the limitations of the research methods.

3.2 Research Design

Past research done in the Ghanaian financial sector particularly on the capital market (Acquah - Sam, 2014), Crowd investment in Ghana (Ahoussi, 2014) and the Banking sector (N'Ketsia, 2012) used both primary and secondary data. For analyzing the primary data, the authors used both quantitative and qualitative research designs.

For this study, a purely qualitative approach was adopted; the study is also exploratory in nature. Qualitative research aims to get a better understanding through first hand experience, truthful reporting and quotations from actual conversations. It seeks to understand what the participants derive from their surroundings, and how their meanings influence their behavior (California State University , 2014).

Primary data was collected from four groups of people:

- Group 1 – The regulators: This group is made of banking and financial officials at Bank of Ghana, the central bank of the country. According to the Bank of Ghana Act 612, the bank is responsible for regulation, supervision and direction the banking and credit system as well as to ensure the smooth operation of the financial sector. It is also

responsible for promoting and maintaining relations with international banking and financial institutions and implementing of monetary agreements in which Ghana is a party (Parliament of Ghana, 2012). In simple terms, Bank of Ghana is responsible for overseeing operations of both local and foreign banks. Another thing that makes them very important in this research is that, the future of banking is in their hands, as the laws they implement now will determine how the sector will progress or retrogress. Also their position as a regulator means that they should not favor one bank over another and their views should be free from bias.

- Group 2 – F.D.I. Experts: This group will consist of financial and investment experts at the Ghana Investment Promotion Center. The GIPC was created as a government agency to encourage and promote investments in Ghana to create an attractive, incentivized framework and a predictable facilitating environment for investments in Ghana (GIPC, 2014). GIPC is very important in this research because they can provide insight on existing F.D.I. policies (relating to banks) and how they have contributed to the entry of banks as well as their impact. Also they can provide acumen as to what additional ones would be needed. Unfortunately, they were not interviewed because it was difficult to reach them within the limited time.
- Group 3 - Local Banks: The local banks are very necessary in this research because they can show how regulatory evolution has helped or marred their progress. Also they can give useful insight on the effects of foreign bank presence on them.

- Group 4 - Foreign Banks: Foreign banks gave insight into what made the Ghanaian market attractive to them, what determined their entry mode and how hard/easy it was for them to enter the market.

3.3 Description of Sample Area

For the primary data, the study used Ghana as its sample area because the experts and regulators to be interviewed reside in Ghana and are the erudite ones as far as the law of Ghana is concerned. Also the banks chosen, both foreign and local, operate in the Ghanaian business environment.

3.4 Sampling Technique

For all the groups involved in this study, purposive sampling was used to select the participants. Purposive or non-probability sampling is a sampling method where the researcher strategically selects a group of respondents who are tied to the objectives of the research (Palys, 2014). This technique was selected because the study is one that requires technical knowledge on the banking sector, its regulations and the impact that its stakeholders have.

3.5 Sample Size

The sample size for the entire study was to have been 10 participants. Out of these 9 participants, 7 of them were representatives of all the licensed banks in Ghana. The other two were representatives from the Bank of Ghana. This was so because of the inability of the researcher to fully get the sample size of 30 determined earlier due to scheduling conflicts and unreceptive gatekeepers.

3.6 Data Collection Method

One-on-one interviews was used to obtain data from all participants. This enabled participants to feel comfortable to give more information and

explanation about the topic. The interviews lasted for approximately 20 minutes, to allow ample discussion time. The interview was however shortened or extended depending on the interviewee. Participants were asked different interview questions depending on what group they belong to, be it regulators, experts or banks. Samples of interview questions are attached in the appendix. All interviews were recorded with consent of the respondents.

3.7 Data Analysis Tools

Qualitative Content Analysis was used to analyze the interviews. Qualitative content analysis is an approach of empirical, methodological, controlled analysis of text within their context of communication, following content analytic rules without rash quantification (Maring, 2000). This method was chosen because of the need to understand the conversations with interviewees in order to make a case on the impact of foreign bank presence on local banks and banking innovation

3.8 Ethical Consideration

The Ashesi University Human Subjects Committee has approved this research. This means that the study was proven to cause no harm to participants.

- No participant were coerced into the research
- Participants were not identified by name in the work unless they required so
- All participants were given consent forms, therefore they were ensured of confidentiality

3.8 Limitations

Some challenges that were encountered during data collection include:

- Unwillingness of some representatives to give out sensitive information relating to their performance
- Inability to cover initial sample size skewed research results
- Time allocated for interviews may not be adequate

CHAPTER FOUR: DATA ANALYSIS

4.1 The Regulators

Two top executives at the Bank of Ghana was interviewed in order to understand the regulatory environment for the Ghanaian banking industry. They were also consulted because of the position that they would be free of any bias. The interviews focused on the evolution of the sector in the last ten years and how it can be developed further, the major problems faced by the banks and the attractiveness of the Ghanaian banking industry to foreign banks.

4.1.1 Major Problems faced by Banks in Ghana

High operational cost and high interest environment was described as the biggest challenges for these banks. Over the past two years, there has been serious load shedding in the country that gets worse and worse, also the economy has generally been bad. There have been currency fluctuations and a general economic downturn. This has therefore increased the operational cost of banks. Also it has been increasingly difficult for banks to recover their loans because of how bad the economy is.

4.1.2 Evolution Of The Banking Sector

Over the past ten years, the banking sector has really evolved, there's more competition now, it is one of the most prominent factors in the banking industry. This is consistent with a study by (PriceWater House Coopers, 2014) where senior bank executives were made to choose their top three factors that they believe would have the biggest impact on banking over the next five

years, they chose competition, legislation and regulations and technology as the first, second and third factors respectively. To keep up with the competition, banks are raising their targets for their staff and coming up with innovative ways to increase their market share. Also over financial depth in the country has increased. There are more people with bank accounts, increasing from about 15% ten years ago to 27%. Also regulations in general have tightened, there are more requirements for banks to have, like having a risk team. Relationship managers from Bank of Ghana are also constantly working with banks to help them improve.

4.1.3 Measures Put In Place To Ensure Continual Development

To ensure the continual development of the industry, the Bank of Ghana came with a framework known as the base rate framework, the function of this framework is to ensure the standardization of pricing and to promote uniformity and transparency within the banking industry. Also for banks that have regional presence like Ecobank, Guaranty Trust Bank etc., Bank of Ghana liaises with central banks in other countries to come up with consolidated solutions for them. This is very important because it goes a long way to make it less costly for banks to run cross-country operations. In fact, the deregulation of geographic and harmonization of regulatory and supervisory environments is very crucial for foreign bank presence. The single market programme, a framework implemented by the EU over the past two decades, has made it more possible and less costly for financial institutions to operate across national borders within the EU (Berger, DeYoung, Genay, & Udell, 2000).

4.1.4 Influence of Sector Reform on Foreign Bank Entry and Presence

The fact that Ghana has been classified as an emerging market economy is a key reason for foreign bank entry. This is because emerging market economies are supposed to have new business opportunities and a good growth potential. Fernando de Paula & Alves (2006) also observe that the impending gains in efficiency are much higher in emerging markets because the banking efficiency is lower than in developing countries and foreign banks can therefore use their financial development to increase their market share. In addition to this, reforms such as the 3-point BOG mandate also promote foreign bank presence because it promotes efficiency in the sector. The 3-point BOG mandate instructs that banks maintain price stability, promote efficient operation of banking and payment systems and support general economic growth. By promoting efficiency, the regulator is encouraging healthy competition between banks. This is what is being addressed when Coppel and Davies (2003) discuss how regulation plays a very significant role in foreign bank entry within economies of East Asia, as the main regulatory reforms underpinning greater foreign participation have been policies designed to strengthen competition in the banking sector.

4.1.5 Benefits, Risks and Challenges Faced as a Result of Foreign Bank Presence

Foreign banks are very important to the economy of Ghana. By coming in, they provide more resources that help open up the economy. In other words, they introduce new technology, emerging trends, better organizational skills and operational experience as well as better financial management. This seems to be a running theme in this research; most interviewees hold that foreign banks do initiate innovation and better systems in the economy. It is

also a very prevalent theme in the literature reviewed as shown by Kraft (2002) and Cardenas, Graf & O'Dogherty (2004). Also foreign banks are more stable institutions because they have a lot more resources and are not affected so much by business cycles, according to Aysan & Ceyhan (2006) foreign bank penetration bring stabilization during crisis period because limited exposure to the country they are in. However how long will they be immune to the negative shocks of host countries?

Foreign banks also come in with a number of risks. According to the interviewees, the liberalization of the sector works in the favor of foreign banks; occurrences like unhampered capital flight become difficult to check. Also the foreign banks have a free rein to fix service fees and interest rates nowhere near what they can levy back home. As Kraft (2002) describes, foreign banks in emerging markets tend to enjoy higher interest rate margins and profitability compared to domestic banks.

As a result of foreign bank presence, local banks face certain challenges. First, the foreign banks selectively pick lucrative sectors of the economy whilst the local banks are enjoined to support government, for instance Ghana Commercial Bank pre - finances Tema Oil Refinery and crude oil imports and ADB has in the past, funded social interventions like GYEEDA. As a result of this, the state debt burden dilutes profit margins of local banks particularly the public owned institutions (National Investment Bank).

4.2 The Local Banks

Senior executives from four local banks were interviewed in order to better understand how the banks feel about foreign banks coming into the country, the benefits and the challenges they face as a result of this. The interview

also focused on how the banking sector has evolved in terms of regulation, technology, customer services and marketing and branding. These officials were from Unibank, Fidelity Bank, National Investment Bank, The Royal Bank. All the banks interviewed operate with the universal banking license (also known as the Class I Banking License) and this license is given by Bank of Ghana in accordance with the Banking Act, 2007 (Act 738). This allows the holder to transact domestic banking business (Bank of Ghana, 2007).

4.2.1 Key Services They Offer

All the local banks interviewed were mainly focused on SME banking. The SME market is growing steadily and has the potential to contribute to national prosperity. In fact, this is the main reason why Fidelity Bank acquired Procredit in order to acquire their strategy to servicing the SME sector. All the participating banks use the annual turnover of the clients to consider them as SMEs or otherwise. When speaking to The Royal Bank executive, he spoke about how the bank further segment their SME customer portfolio into medium enterprises and small enterprises still based on turnover. According to *The Report: Ghana 2012*, most locally owned banks are making the SME market their primary area, in 2011, Unibank, (one of the banks interviewed) had SMEs accounting for around 70% of their loan portfolio or 85% according to international definitions (The Oxford Business Group , 2012). The official from Unibank stated that they created bespoke products for their clients in order to cater to their special needs.

4.2.2 Major Requirements That Need To Be Met To Stay In Business

All the banks mentioned the stated capital ratio as the major requirement that they had to meet to stay in business. Apart from Unibank, the banks interviewed did not have a problem raising this money at all. In fact, Fidelity

Bank and The Royal Bank were able to raise \$127 million and a GHS100 million respectively. This made Fidelity Bank the third most capitalized bank in Ghana. According to the Unibank official, it is sometimes difficult to raise this money because they are an SME focused bank and even though the SME market is growing, it has its own problems and its still quite small. Also every year, Bank of Ghana does an audit for all the banks, to prepare for this, all banks conduct internal audits. Other requirements that the banks mentioned include BSD 1 (Liquidity Reserve Return) BSD 2 (Statement of Assets & Liabilities), Capital Adequacy ratio and Primary reserve requirement.

4.2.3 Evolution of the Banking Sector Over The Past Ten Years

According to the NIB official, more banks have come into the system, both foreign and local. Also Bank of Ghana has licensed a lot of microfinance institutions, as at 22nd July 2014, Bank of Ghana had registered a total of 409 microfinance institutions (Bank of Ghana, 2014). As a result, there is competition for customers, deposits, human capital and even office space. In terms of regulation, because there are more players, the regulations have tightened as expected. In addition to this, the Fidelity Bank official pointed out that in the last 10 years, there has been an influx of Nigerian banks especially. This foreign bank entry has caused local banks to step up their game with the kinds of services they provide. There is a lot more attention on product development as well as using the best technology to get clients. In fact, (Kraft, 2002) advises domestic banks should emulate foreign banks to gain their skill and technology and also use their management techniques to cause their own businesses to grow. The Unibank official talked about how certain innovative management techniques like giving their staff members monthly

targets were one of the many things that foreign banks presence taught local banks.

4.2.4 Forms of Competition that Banks Face

All the banks interviewed mention that foreign banks are their greatest form of competition because most of these foreign banks are from bigger economies and thus have access to larger pools of capital. Besides this, other forms of they face come from Savings and loans companies, rural banks, microfinance, forex bureaus and choice of advertising medium. Microfinance institutions can provide lesser amounts of money to clients and this makes them big competition. However, Unibank did not see microfinance institutions as competition for them because most of these microfinances are their clients as well as other banks and the banks provide them with loan facilities.

4.2.5 Effects of Foreign Bank Competition

All the banks outlined foreign exchange advantage as the main effect foreign banks have on their businesses. Most of these foreign banks are from more developed countries, thus they have access to a bigger pool of capital so after paying the capital requirements, they still have a lot more to give to clients. Also because their cost of capital is lower than most banks they can provide capital at lower prices. On the positive side, local banks are able to learn from them in terms of area development and superior technology. According to the Fidelity official, foreign banks like UBA introduced innovative products like mobile banking and wallet as well as zero deposit accounts. This has influenced certain campaigns that Fidelity runs like the “Airtel Fidelity cardless ATM”

4.2.6 Strategies Adopted To Meet Foreign Bank Competition

To champion this, NIB has decided to focus on developing its human capital.

There are a lot of seminars held for new employees as well as old ones every now and then. They are also in a process of updating their IT infrastructure and are tailoring it to serve the needs of their customers. Finally, they have also embarked on expanding their branch network in the country. Fidelity is using product development strategy to meet this challenge. Currently they have set up a number of agency shops which operate out of pharmacies and corner shops, anyone could open a bank account with as little as 5 cedis in under 5 minutes, they can also get an atm card for an extra 5 cedis. Fidelity also acquired Procredit, a leader in the SME space to help improve their strategy in the commercial and SME sectors. Both Royal Bank and Unibank are both focusing on creating a niche market and making products that are bespoke and cater to the needs of the clients specifically.

4.3 The Foreign Banks

To better understand foreign banks in Ghana's perspective on the impact they have on local banks and the banking industry in general, three senior executives were interviewed. The questions focused on what incentives drew them to the country, what strategies they adopt to penetrate the market and what major requirements their banks have to meet each year to stay in business. The executives were from United Bank of Africa, Access Bank and Societe Generale.

All the banks interviewed operate with a universal banking license in accordance with Act 738 of the Banking Act, 2007. All three banks have been operating in Ghana for more than five years.

4.3.1 Key Services They Offer

All the banks interviewed focused a lot on corporate banking or business banking. This means, they focus on dealing with corporate clients. Besides this, they also do a bit of retail banking in order to reach SMEs. They explained that they focus on this because they feel they have the professional skill and capacity to deal with these corporations. On the other hand, local banks focus more on retail banking / individual banking and SME banking. This result was also evident from the literature reviewed. According to (Hryckiewicz & Kowalewski, 2008), in developed countries, foreign banks are more likely to engage in the retail and small business lending but in developing countries (In this case Central European countries) foreign banks were operating in the niche businesses. This is the same thing that is happening in Ghana currently, given that it is a developing country, the foreign banks that are coming in have better sources of capital and technological innovation, thus they engage in more complex and capital intensive business like corporate banking. This, in itself is proof that foreign banks bring innovation to the countries they go into. Due to the fact that they are heavily involved in corporate banking, they focus on capital cities, thus most of their branches are in the capital cities like Kumasi, Accra, Takoradi etc. In fact Societe Generale is currently in the process of closing down branches in the rural areas because of this. Although Access Bank is capital city intensive, they are moving into the outskirts of town now because they have identified potential in the SME sector and to an extent, retail banking.

4.3.2 Incentives That Attracted The Banks To Ghana

The literature reviewed showed that foreign banks go into other countries for four main reasons; most importantly the market potential of the country, the

regulation in the host country, to follow their customers and also the distance between them and the host country. All the banks interviewed stated profit making as the main reason for coming to the country. The Societe Generale and Access Bank officials stated that there was generally large untapped market and there was a huge potential for companies that were not getting the banking attention they deserved. For UBA, even though profit making was a major reason, they also realized that some of their clients had begun to do business in the country, thus they moved here to cater to their needs as well as look for new clients using their innovative management techniques and technology. The OLI model also states that in order for foreign direct investment to be profitable / beneficial, it must have ownership, locational and internalization advantages (Dunning, 1988). The locational advantage looks at where to produce and the advantage of that, this means that foreign banks coming in must have analyzed the country location and seen it as beneficial before setting up subsidiaries here.

4.3.3 Barriers To Entry

Two of the banks, Access Bank and UBA faced a major cultural barrier coming in. The general perception of Nigerians has been people who are dubious, thus when these banks were coming in, people were reluctant to bank with them. However UBA used their excellent services like the zero deposit account, internet banking, aggressive marketing etc. to dispel this and attract more people to their banks. For Access Bank, they came in by acquiring Intercontinental Bank, this made it easier for them in terms of client availability as ICB already had clients. To further mitigate the risk of clients leaving, the Intercontinental Bank employees were given a complete

onboarding process where they were trained to do banking the Access way. Societe Generale also came into the country by acquiring a local bank, SSB so they had a number of clients coming in and did not have to start from scratch. The greenfield vs. acquisition model shows that banks that go into host countries by acquiring other banks have two advantages; their advanced technology for client screening process and information about incumbent clients (Claeys & Hainz, 2006). Also when foreign banks take over weaker local banks, they upgrade them with newer financial products and services thus increasing positive competition in the economy. In addition to this, Societe Generale mentioned the initial capital requirement as one of their barriers to entry; he stated that even though they may have more access to capital, it is costly.

4.3.4 Newer Foreign Bank Competition

For Societe Generale, they are being affected by the newer foreign banks in terms of their market share but not with their pricing as pricing is more for covering operating expenses. Their strategy for overcoming this is to use promotions and incentive rates. The same goes for Access Bank; they are using intense marketing strategies as a strategy for fighting for market share with newer banks. However, even though they are affected by this entry, it is not as strong when they first joined because they have a stronger reputation and so deposit mobilization is not so challenging despite economic conditions. On the other hand, UBA, did not feel that it was being affected by newer foreign bank entry because they are the pace setters for most of the innovative products that are being used in banking now (mobile banking,

internet banking, zero deposit account). Thus because of their reputation, they were not affected by newer foreign bank entry.

4.4 Summary Findings

Objective 1: Impact of Foreign Bank Presence on Competition in the Ghanaian Banking Industry

- Foreign Bank Presence has caused a reduction in the market share of local banks. This is because they have access to cheaper cost of capital and superior technology. Also older foreign banks are very much affected by foreign bank entry as much as local banks are, they also lose market share and are constantly innovating their systems to prevent this from happening. Literature reviewed also shows that foreign banks in emerging market economies tend to enjoy higher interest rate margins and profitability (Kraft, 2002) (Cardenas, Graf, & O'Dogherty, 2004). Local banks are not only experiencing competition in the area of clients and products, but in the area of talent as well. Foreign banks are also poaching the best human resources that these local banks have to offer, thus, local banks like the National Investment Bank are training their staff in order to retain the best.

Objective 2: The effect of Foreign Bank Presence on Banking Innovation

- According to one of the local bank respondents, “foreign bank presence has forced Ghanaian banks to grow faster.” Local banks respondents are using technologies that they would have had no interest in using ten years ago. One respondent remarked on how ridiculous they thought zero accounts were when they were introduced by a foreign bank but they find themselves doing it now and profiting

from it. Also the local banks are now more focused on training their staff in indigenous product development and also making them use radical marketing techniques like target setting and going out to look for customers instead of them coming to the bank. Finally in order to ensure quality assurance, local bank respondents are becoming more and more focused on research and development.

Interesting Findings

- Larger local banks have begun imitating foreign bank traits. Usually, it is foreign banks that buy weaker banks or financial institutions to break into a market. However larger local banks have also started doing so. Recently Fidelity Bank acquired Procredit in order to break into the SME sector. Also despite the know how of Nigerian banks, they still faced cultural barriers coming in the country. People felt that they had a dubious reputation and so they did not want to bank in. Finally, local banks that came in during the foreign bank wave (2001 – 2008) did not view earlier local banks as competition.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusion

This study sought to determine what the impact of foreign bank presence was on local banks and banking innovation in the Ghanaian banking industry. The lack of studies, which focus on the analysis of the effect of foreign bank, motivated this study.

The study and literature showed that foreign banks are drawn to host countries because of the market potential of the country, its regulation, and distance between foreign bank country and host country as well as to follow their clients.

Literature and this study have shown that the entry of foreign banks into Ghana has positive and negative sides. On one hand, the foreign banks come in with better technology and better management practices that local banks emulate to help them to improve their general banking conditions. For instance, when UBA came in, it came with a lot of innovative products like zero deposit accounts, Internet and mobile banking and this caused local banks like Fidelity to also come up with technology to rival this. Therefore, foreign bank presence does have a positive effect on banking innovation. Further studies could investigate as to whether there is a point where local banks stop benefitting from the continuous increase of foreign banks (diminishing returns). On the other hand, foreign banks create great competition for local banks because they have access to larger pools of capital; they have better management techniques and advanced technology to enable them to capture a great market share. This competition sometimes even forces them to close down, to mitigate this, most of the banks are adopting aggressive marketing strategies and product development.

The research showed that due to the technological and monetary capabilities of foreign banks, they tend to focus more on corporate banking because their advanced technologies are better suited to corporate bodies. Local banks on the other hand focus more on SME banking. Also banks like Fidelity and UBA focus on redefining their role in the industry by creating and capturing new demand. This strategy has been described by Kim & Mauborgne (2004) as the blue ocean strategy. This is a market creating strategy where players move from trying to outperform rivals in a crowded market space to creating demand in an undefined market space with an opportunity for highly profitable growth. Finally, the researcher found that some local banks are steeped in government business thus the state debt burden dilutes their profit margins making other banks appear more profitable than them.

5.2 Recommendations

Throughout the interview process, all the banks spoke only about the monetary side of regulations as the most important, there was no mention of social or ethical regulations. Also the regulatory officials commented on the lax nature of regulations in Ghana. Thus Bank of Ghana and other regulatory bodies need to review regulations for possible gaps and additions.

Second, local banks should aspire to reach beyond existing demand. This would help them to gain lost market share as well as new clients.

5.3 Future Studies in the Area

- To investigate the point where local banks stop benefitting from foreign bank presence
- The impact of smaller financial institutions (savings & loans, microfinance institutions) on Banks in Ghana
- Financial Sector Reforms and their effect on the Banking Industry.

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APPENDIX

Appendix 1: INTERVIEW GUIDE (THE REGULATOR)

- 1. What are some of the major problems faced by banks in Ghana? -
Instead find out the kind of problems they face, which is the most
severe and how can it be prevented? – what are the main threats
or risks faced by banks in Ghana**
- 2. How has the sector evolved in the past ten years? Instead find out
like the specific laws and find out how that has affected the
progression of the banking industry**
- 3. What different measures have been put in place to ensure the
continual development of the industry?**
- 4. In your opinion, what measures have stumped the development of
the industry?**
- 5. What should be done to ensure the continual evolution of
banking?**
- 6. How have these measures contributed to foreign bank entry?**
- 7. What are the major timeline requirements that foreign banks need
to meet in order to set up subsidiaries in Ghana?**
- 8. What are the major timeline requirements that local banks need to
meet in order to set up a bank in Ghana?**
- 9. Are there major benefits of having foreign banks in the country?**
- 10. Are there major risks from having foreign bank subsidiaries in
the country?**
- 11. What challenges do local banks face as a result of foreign bank
presence?**

Appendix 2: INTERVIEW GUIDE - FOR LOCAL BANKS

- 1. What license does your bank operate with?**
- 2. Instead find key services that they introduce and ask why**
- 3. What requirements does your bank have to meet every year to stay in business? – Find out the requirements on bog website and ask instead which is the most challenging**
- 4. How has the banking sector evolved over the last 10 years?
(Instead find out the regulation that has happened and what they did about it eg how did they meet their minimum capital requirements)**
- 5. What forms of competition have you faced?**
- 6. What is the effect of competition posed by the entry of foreign banks?**
- 7. What strategies have you adopted to cope with the effects of foreign bank entry (cultural, operational, systems, branding and marketing and customer services)**
- 8. For the newer banks find out if the key services they offer is to be able to compete better with the foreign banks.**

Appendix 3: INTERVIEW GUIDE - FOR FOREIGN BANKS

- 1. What is the name of your institution?**
- 2. How long has your institution been in operation in Ghana?**
- 3. What key services do you offer?**
- 4. What incentives attracted your bank to Ghana?**
(eg find the minimum requirement of their country and compare to Ghana as well as profit margins)
- 5. What barriers of entry did you face (Regulation, competition, political)**
- 6. What is the philosophy of your branch distribution policy and why?**
- 7. What are the major requirements does your bank have to meet every year to stay in business? Make same as local bank one**
- 8. As an older existing foreign bank how has recent foreign bank entry marred or benefitted you in terms of pricing, deposit mobilization, market share, loan book size? For these ask older foreign banks how newer foreign banks coming in has worried them if it has? Has it affected price competition of loans etc.?**

Appendix 4: **CONSENT FORM**

I like to ask your permission to be part of my research entitled “ The Impact of Foreign bank Presence on the Banking Sector.” The purpose of this study is to investigate to how foreign bank presence has influenced local banks and banking innovation for better or worse. Your participation will be in the form of interviews and it will be confidential and used only for academic purposes. You are free to be part of this activity, and you are free to stop at any moment during the activity. This risk of being part of this study is that it will take about an hour of your time. The benefit is that you will be contributing to a pool of knowledge about the Ghanaian banking sector and help to improve it. If you have any question you can contact Mr Anthony Essel Anderson of Ashesi University College (aeanderson@ashesi.edu.gh) or send me an email at sandra.aminarh@ashesi.edu.gh. If you agree to be part of this study your work will be confidential and will be treated with respect. This study and consent form has been reviewed by Ashesi IRB for Human Subjects Research. For further information contact the committee through irb@ashesi.edu.gh

Signature _____

Date _____

