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Motives, Choice of Entry Mode, and Challenges of Bank Internationalisation: Evidence from China

By

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Abstract

This study examines the motives, entry mode choice and challenges of the international expansion in an emerging country context. Data was collected via interviews from 30 senior managers based on a sample of 10 Chinese commercial banks (CCBs) involved in international expansion over the period of 2001-2013. This study finds that greenfield and mergers and acquisitions are the most popular foreign entry mode used by CCBs. The motives of emerging market banks' internationalisation appear to be intrinsically linked to market development to serve customers operating in overseas market, government policies and strategic knowledge sourcing. In terms of challenges, the study finds lack of management resources/technical capacity, culture, adapting to the host country regulatory environment, and lack of experience to be the main challenges to bank internationalisation.

1. Introduction

The removal of investment restrictions and institutional constraints that impede capital flows have led to a significant increase in capital movement worldwide over the past three decades (See, Bekaert and Harvey, 2003; Mulder and Westerhuis, 2015). Researchers such as Mulder and Westerhuis (2015) point out that these developments have changed the competitive structure of firms and internationalisation has become a strategic imperative for firms to maintain their competitive advantage. As a result, international cross-border investments have increased each year over the last 30 years (Hoskisson et al., 2000; UNCTAD, 2015). In the context of China, official statistics of Chinese government indicate that Chinese OFDI reached US$118 billion between 2002 and 2007 (MOC, 2008). By December 2007, nearly 7,000 Chinese firms had invested in 173 countries, both developed and developing, establishing over 10,000 overseas enterprises (MOC, 2008). Most of these investments (about 86%) were in non-finance sectors and generated US$338 billion in sales revenue (Luo et al., 2010).

Commensurate with the rising trends in cross-border investment, a large number of studies have focused on why and how firms internationalise, and what organisational form (joint ventures, mergers and acquisitions, wholly owned subsidiary) they choose (see Dunning, 1998; Buckley et al., 2007; Boateng et al., 2017). Whilst these studies have generally looked at the manufacturing sector, more recent economic activity has witnessed considerable growth in internationalisation in the service sector, in both developed and developing countries, and particularly in financial services (Parada et al., 2009; Batten and Szilagyi, 2012). Significantly, financial entities differ from manufacturing firms in that their products

and services tend to be information-intensive (Clara and Leonardo, 2001). In addition, the challenges of internationalisation are heightened by governments' approaches to financial services regulation, which often further differentiates national markets (Parada et al., 2009).

In this study, we extend the prior literature on bank internationalisation by examining entry mode choice, motivation and challenges of bank internationalisation in an emerging country context. The examination of banks from an emerging economy (EE) is important for several reasons. First, most banks in emerging countries are state-controlled, and so government policy plays a key role in their internationalisation (see Hitt et al., 2004; Du and Boateng, 2015). Second, internationalising banks from EEs are generally latecomers and thus lack ownership advantages in terms of strategic resources and international experience, which in turn has implications for their success. Third, the existence of distinct cultural differences in EEs merits specific attention as cultural distance between home and host country markets can affect market entry strategies (Berry et al., 2010).

Operating within a leading emerging economy that has experienced significant growth in the internationalisation of its commercial banks, Chinese banks are now ranked among the top banks in the world (Alexander, 2010). Despite Chinese Commercial Banks (CCBs) having a presence in most of major financial centres across the globe, little systematic research has been undertaken to understand in detail how banks from China, and EEs in general, expand into international markets, and the challenges they face. This paper therefore attempts to shed light on the motivations and market entry strategies of, and challenges faced by CCBs entering into foreign countries. We do so through 30 in-depth semi-structured interviews with senior managers of 10 CCBs which embarked on international expansion abroad over the

period of 2001-2013. The use of qualitative approach via interviews, instead of quantitative approach is a significant departure from previous studies which often adopt quantitative methodology to examine entry mode, motivation and challenges of internationalization which are not easily captured in quantitative data analysis. As relatively little is known about the motives and challenges of internationalization by emerging economy banks, we believe the use of qualitative approach would provide deeper insights and extend our understanding on this subject.

This paper contributes to the literature in several ways. First, we show that the asset-exploitation perspective which argues that firms' internationalisation is driven through firm-specific advantages is insufficient to explain EE firms' internationalisation. The findings of this study suggest that government policy has a significant influence on the internationalisation strategy of EE firms. In particular, our results reveal that supportive government policies are a key element in enabling CCBs to overcome their latecomer disadvantages in international markets. This lends support to the role of institutional theory, as opposed to the asset-exploitation perspective. Lastly, this study demonstrates that the distinctive cultural features of emerging countries can affect the extent of internationalisation, as well as the choice between the greenfield, acquisition and joint venture as a mode of entry, thereby enriching the literature concerning the cultural effects of internationalisation.

The rest of this study is organised as follows. Section 2 reviews the theoretical background for this study. This is followed by the research method adopted in this study in Section 3. Section 4 presents and discusses the results, whilst section 5 provides the conclusion and implications of the study.

2. Literature Review

2.1 Institutional Theory

Institutional theory has emerged as one of the frequently applied theoretical approaches in foreign entry mode literature (Brouthers and Hennart, 2007; Schewens, Eiche and Kabst, 2011). Institutions defined as 'the rules of the game in a society' (North, 1990: 3), compose of three pillars, namely, the regulatory (existing laws and rules); the cognitive (widely shared social knowledge and social perceptions that are taken for granted); and the normative (social norms, values, and culture. Together these three pillars shape emerging country firms internationlisation strategies and entry mode choice (Scott, 1995; Khoury and Peng, 2011; White et al., 2015). Prior literature (see Khoury and Peng, 2011; Schewens, Eiche and Kabst, 2011) contends that institutional context influence entry mode choice in two important ways. First, institutional context determines the magnitude of cultural distance between a firm's home and host country distance. For example, emerging country firms entering a high culturally-distant countries face challenges to bridge the cultural differences between the home and host country market (Cuervo-Cazurra and Gene, 2011; Estrin et al., 2009). A number of researchers such as Brouthers and Nakos (2004) have found firms facing challenges in respect of host country cultural distance tend to use non-equity modes as their entry strategy. Second, the institutional context determines the degree of formal institutional risk in the host country. In the case of high formal institutional risk, firms going abroad face additional risks, restrictions, and costs associated from less advanced or incomplete political, economic, and legal institutions (Meyer et al., 2009).

In addition, EE firms also may be confronted with resource scarcities and obsolescence when they transfer to more market-oriented institutional environments (Wright et al., 2005; Chi, 2015). Comparatively, EE firms may often have weaker innovative ability, lower quality human capital, and include fewer world-recognised brands, as well as a lower capability in terms of managerial skills (Wright et al., 2005; Li, 2007). High levels of government involvement, the ongoing institutional reforms and ownership patterns can all significantly influence EE firms' strategic decisions in the internationalisation process (Hoskisson et al., 2000; Filatotchev et al., 2003; Peng, 2003). Despite the frequent application of institutional theory, Schewens, Eiche and Kabst (2011) point out that existing findings of the effects of institutions on foreign entry mode choice are mixed and inconclusive. This study therefore shed more lights on the effects of institutions of an country that has been at the forefront of emerging countries' internationalization.

2.2 Bank Internationalisation

Prior studies such as Caves (1996); Hennart (2009); Dunning (1980, 2009) indicate that both the nature of the firm, its assets and competencies (internal factors), and external factors such as cultural differences, institutions and other country specific-factors, all drive foreign investment decisions. Similarly, Dunning (1980, 2009); Hennart and Park (1993); Deng (2004) contend that firm's resources, capability or competitive advantages are key to the international expansion. Recent studies have reinforced the importance of country level factors such as government policies and cultural differences between home and host countries

in explaining the international production activity (Kalotay and Sulstarova, 2010; Malhotra and Sivakumar, 2011; Contractor et al., 2014).

In the context of service firms' internationalisation, Alexander and Myers (2000) argue that two main reasons underpin bank international expansion. First, firms which have homegrown competitive advantage internationalise in order to maintain that advantage (Daniels et al., 1989; Jensen and Petersen, 2014). For example, Kindleberger (1983) argues that banks follow their customers abroad to continue to service them and protect valuable business from overseas competitors. This 'follow-the-customer' approach is seen as a defensive strategy aimed at preventing loss by retaining a valuable customer both at home and abroad. Williams (2002) argues that 'follow-the-customer' appears to be a dominant reason for banks' expansion into overseas markets. Other studies such as Qian and Delios (2008) have extended the literature on defensive expansion hypothesis. For example, Qian and Delios (2008) found that Japanese banks undertake foreign investment to obtain internationalisation benefits by following their existing customers and to achieve economies of scale in the use of their intangible assets in foreign markets.

The second driver of bank internationalisation is to obtain strategic assets and competitive advantage (Contractor, 2007; Hennart, 2009). This is consistent with a resource-based view, which highlights the importance of firm resources and capabilities in achieving sustainable competitive advantage (Barney, 1991). Makino and Neupert (2000) and UNCTAD (2006) support this contention, and point out that Asian firms go abroad in search of superior assets and skills in advanced countries that are unavailable at home.

Further reasons for bank internationalisation found in the literature include: seeking profitable international growth opportunities (Goldberg and Grosse, 1994; Focarelli and Pozzolo, 2005); risk diversification (Goldberg and Johnson, 1990); economies of scale (Sijbrands and Eppink, 1994); domestic market competition (Schoenmaker and van Laecke, 2007); and the pursuit of growth in size in the foreign market (Goldberg and Grosse, 1994).

2.2 Entry Mode Choice and Challenges to Bank Internationalisation

The literature identifies the main ways banks enter a foreign market as including greenfield entry, merger and acquisition (M&A), and joint venture (JV) (Curry et al., 2003; Petrou, 2009). It is argued that the choice of entry mode is crucially important in any internationalisation strategy. This is because the choice of entry mode affects the amount of resources to be committed, the level of control, market implementation strategy and, ultimately, firm performance (Brouthers and Nakos, 2004; Nisar, Boateng & Wu, 2017). Entering a foreign market via greenfield entry allows banks to extend their existing technology, systems and business practices into their new branches, with little cost in integration and retraining (Curry et al, 2003). On the other hand, the acquisition of an existing bank in the host market (M&A) ensures immediate access to core deposits in the new market (Shapiro, 2008), enabling local lending with a pre-existing deposit base (Peek et al., 1999). Despite potential integration and retraining costs, in a strategy calling for comprehensive foreign retail networks, and especially one in which moving quickly is imperative, acquisition may be a better option (Caiazza et al., 2012).

When considering the challenges that banks face expanding into a foreign market, acquisition strategies may be advantageous in overcoming cultural and psychological factors. Cultural, linguistic and institutional differences are mitigated by acquiring already-operating foreign businesses which have established local staff, knowledge and customer bases (Curry et al, 2003). Adapting to national regulatory requirements can be another significant challenge for banks. In a foreign market where these requirements are low and the value aggregation potential is considerable, a greenfield strategy can typically facilitate exploiting economies of scale and replication (Grant and Venzin, 2009). By contrast, Grant and Venzin (2009) point out that where national regulatory adaptation requirements are high, the need for local knowledge means mergers and acquisitions are the most suitable internationalisation vehicle.

Another important barrier that banks face, like many other businesses, is “psychic distance” when entering a foreign market. This occurs where the language and cultural differences, levels of education, business practices, political systems, and/or levels of economic development are hugely different from the home market (Johanson and Vahlne, 1977). This “psychic distance” is obviously greater for banks with less international experience. Importantly, the existence of “psychic distance” can create additional costs through a need to adapt to a host country’s cultural context or the challenge of controlling overseas affiliates (Child and Rodrigues, 2005). “Psychic distance” may therefore increase the costs that multinational companies bear when operating in foreign markets (Hymer, 1976; Morris et al., 2008), resulting in a competitive disadvantage until that ‘distance’ is overcome (Zaheer, 1995). This challenge is more serious for EE banks with little international experience.

3. Data and Method

3.1 Data and sample

The population of interest is CCBs that have participated in internationalisation activities by establishing overseas institutions over the period from 2001 to 2013. This is a period during which China joined the World Trade Organisation (WTO), and CCBs started to take part in international activity. Consequently, all banks which carried out internationalisation activities and had physical presence in at least one foreign market over 2001-2013 period were selected. Overall, we identified ten banks, including the Big Five state-owned commercial banks － Industrial and Commercial Bank of China (ICBC), Bank of China (BOC), China Construction Bank (CCBank), Agricultural Bank of China (ABC) and Bank of Communications (BOCOM), which account for 92 per cent of overseas institutions, and another five joint stock commercial banks － China Merchants Bank (CMB), China Minsheng Bank (CMBC), China Everbright Bank (CEB), Guangdong Development Bank (GDB) and China CITIC Bank (CNCB). A profile of the sample banks is provided in Table 1.

Table 1: Profiles of sample banks

Sample Banks	Ownership	Going international	Entry mode	Location in world (Continent)
ICBC	State-owned	1992	Greenfield, M&A	Asia, Europe, America, Africa, Ocean
BOC	State-owned	1929a; 1979b	Greenfield	Asia, Europe, America, Africa, Ocean
CCB	State-owned	1991	Greenfield, M&A	Asia, Europe, America,
ABC	State-owned	1995	Greenfield	Asia, Europe, North America, Ocean
BOCOM	State-owned	1989	Greenfield	Asia, Europe, North America, Ocean
CMB	Joint stock	1998	Greenfield, M&A	Asia, Europe, North America
CMBC	Joint stock	2004	Greenfield	Asia
CEB	Joint stock	1992	Greenfield	Asia
CGB	Joint stock	1993	Greenfield	Asia
CNCB	Joint stock	2009	M&A	Asia, North America

Source: compiled by the authors based on the secondary data collected from the sample banks' websites and annual reports.

Note: a) the first time that the BOC entered the foreign market; b) the re-entry into the foreign market after the re-establishment of the bank)

The data for this research consists of two types - primary and secondary. The primary data for this research was collected via 30 in-depth semi-structured interviews with senior managers, working in a sample bank either in China or overseas. The questions for the interviews were divided into two main parts: i) the motivations for, and mode of entry choice used in the banks' internationalisation; and ii) the motivations and challenges of bank internationalisation.

The interviews were carried out between March and November 2014 - 26.7 percent face-to-face and 73.3 percent telephone - with senior managers who were and/or are key decision makers in their bank's internationalisation. In total, 70 percent of the interviewees

were senior managers in an international department at their respective bank's head office, and 30 percent were senior managers of overseas branches or subsidiaries. Sixty percent of interviewees were with employees of the first tier banks, namely, BOC, ICBC, CCBank, ABC and BOCOM. The remaining forty percent of interviewees were from the smaller joint-stock banks.

The length of the interviews varied from 30 to 60 minutes. As all of the interviews were conducted in Mandarin, transcripts were recorded in Chinese and were then translated into English. The translations were cross-checked by a professional translator in order to ensure their accuracy, and the analysis was undertaken based on the English transcripts.

Secondary data relating to the sample were collected from a range of different sources such as the banks' annual reports, banks' websites, publicly available internal documents, magazines, journals, industry reports and statistics from government departments, as well as published press releases relating to bank internationalisation. The adoption of multiple sources of information permitted triangulation in order to increase the reliability and validity of the analysis whilst also helping reduce the possibility of bias.

3.2 Analysis

Inductive, thematic analysis (Corbin and Strauss, 2007) was used as the analytical approach for this study. Each interview was coded according to common themes and the data was explored in three steps as shown in figures 1 and 2

Figure 1: The structure of developing motivations of CCBs internationalisation

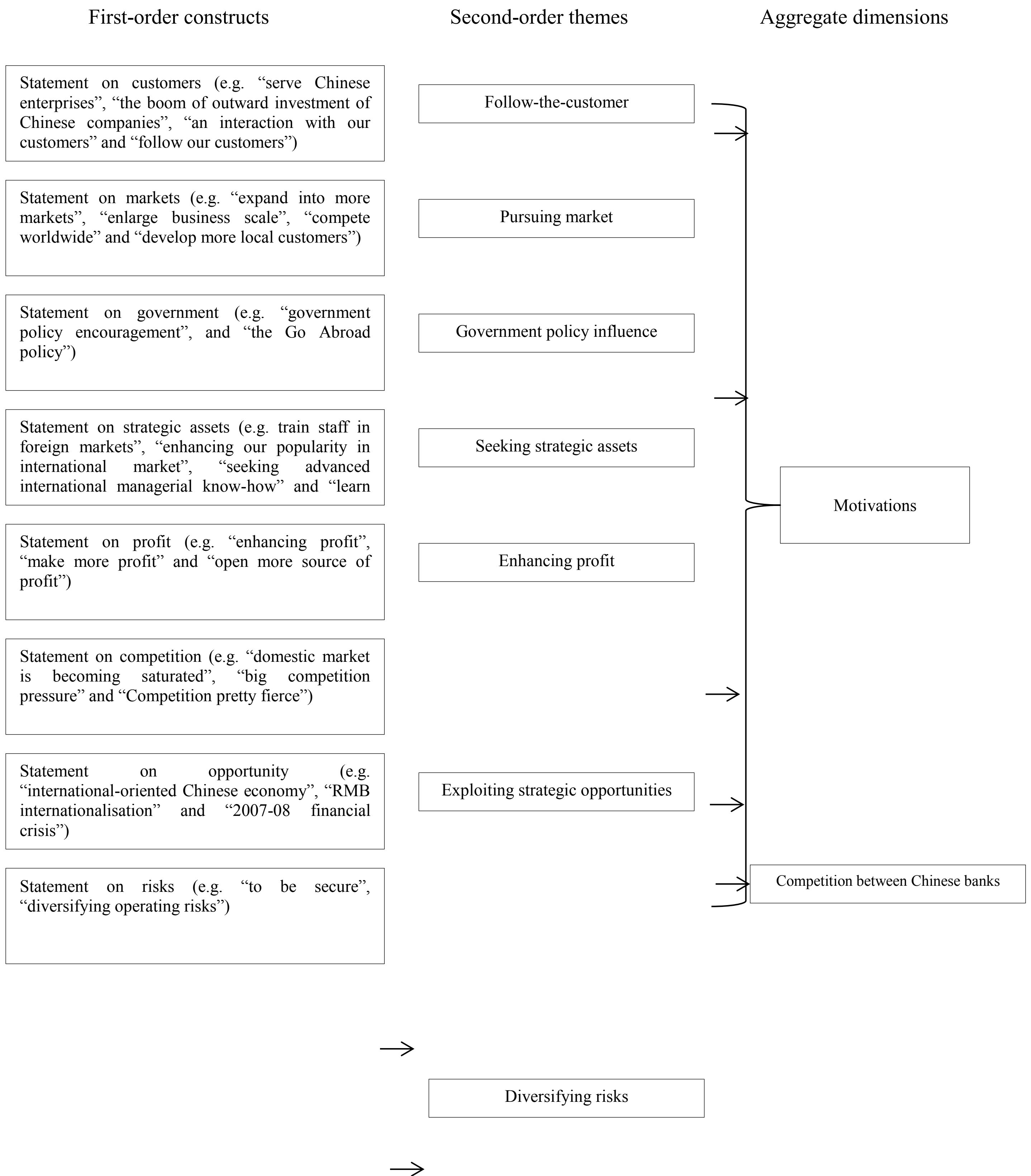
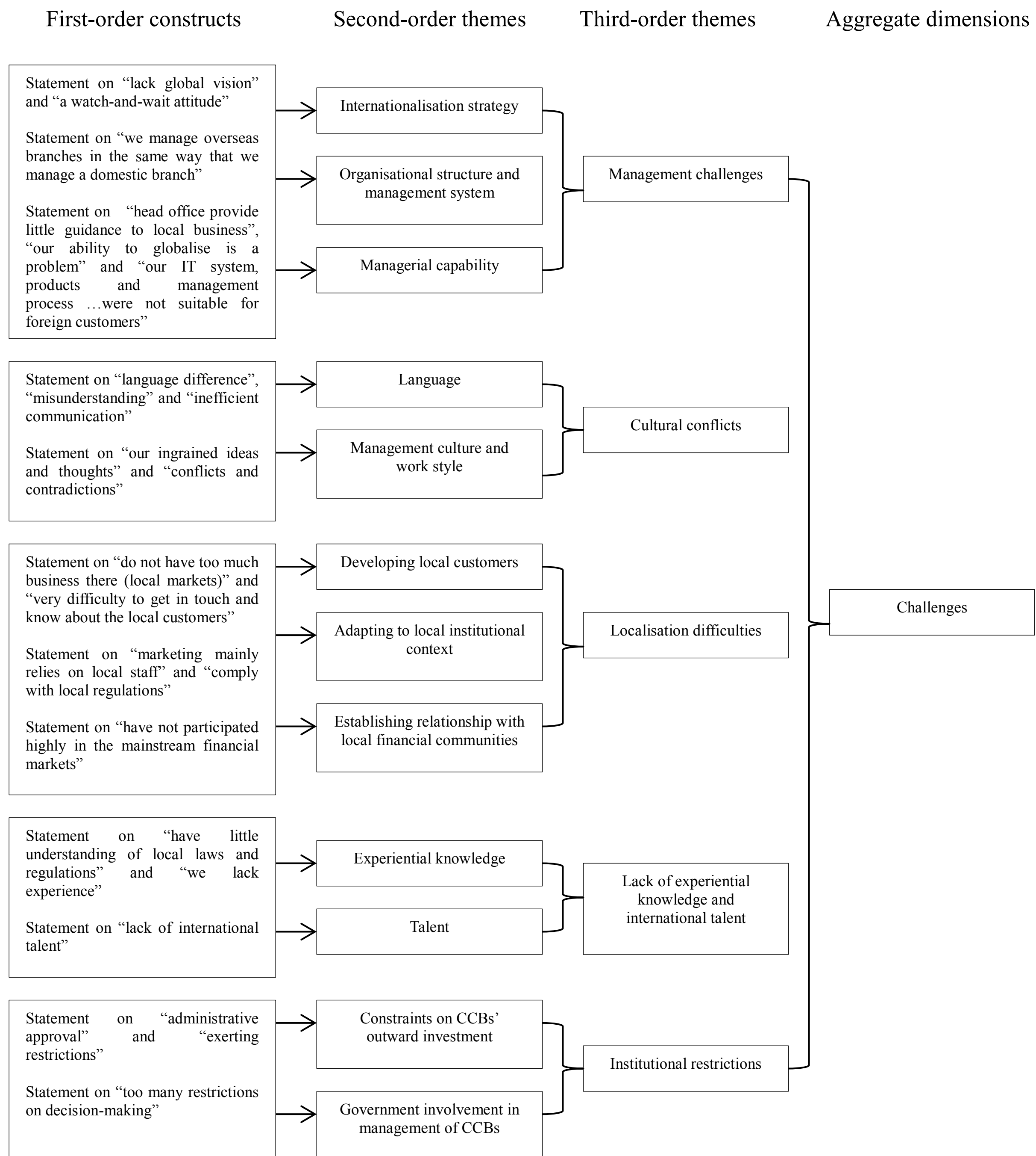


Figure 2: The structure of developing challenges CCBs face in internationalisation



4. Findings and Discussions

This section reports the findings of the research and their implications. In so doing, a number of propositions are put forward in relation to the internationalisation of CCBs, based upon the findings.

4.1 Mode of Entry

The respondents indicated that two primary modes of entry, namely, greenfield and mergers & acquisitions, were used by Chinese banks, as reported in Table 2.

Table 2. Mode of entry choice of CCBs' internationalisation (by end-2013)

Mode of Entry	Organisational Form	No. of Banks	%
Greenfield	Branches & Subsidiaries	7	70
M&A	Subsidiaries	3	30

Among the ten banks interviewed, 70% adopted greenfield while 30% used M&A as their main modes of entry. Amongst the greenfield entrants, common responses were:

> "We currently set up all our overseas institutions by greenfield." (Interviewee: 3).
>
> "We set up overseas institutions via greenfield through wholly-owned subsidiary and branch." (Interviewees: 23 and 24)

One manager's response below was echoed by other interviewees:

> "We now establish institutions in geographically distant foreign markets mainly by greenfield, while in Southeast Asia, we tend to use M&A." (Interviewee: 9)

The use of greenfield and mergers and acquisitions as an entry mode by Chinese banks is supported by the secondary data compiled from the annual reports of the banks over the period of 2001-2013 as also shown in Table 3.

The use of greenfield as a mode of entry may be explained by the motives of, and degree of internationalisation pursued by, Chinese banks. Many Chinese banks are motivated to service the needs of their domestic customers doing business abroad, hence the opening of a branch in the relevant country may be enough to satisfy their needs. For example, the response of Interviewee 6 below captures the views of most of the respondents: *"Using greenfield by establishing branches is good enough for us to follow our customers going abroad and serve them." (Interviewee: 6).* However, more recently, Chinese commercial banks have used M&A to serve largely Chinese communities abroad, as well and those non-Chinese intending to visit or transact business in China. Again, the comments of Interviewee 9 above may suggest that M&A is adopted where the costs of 'psychic distance' are low. These results appear consistent with the findings of Child and Rodrigues (2005) and also echo the assertion of Goldberg and Saunders (1981); that in seeking to enter overseas market, a bank normally has two options: to open a new branch or to buy an equity share in another bank.

Table 3: Foreign market entry modes used by CCBs (2001-2013)

Bank	2001-2005			2006-2013			2001-2013 in total		
	Overseas Banks	Greenfield	M&A	Overseas Banks	Greenfield	M&A	Overseas Banks	Greenfield	M&A
ICBC	11	8	3	43	35	8	54	43	11
BOC	35	35	0	36	36	0	71	71	0
CCB	7	6	1	18	16	2	25	22	3
ABC	2	2	0	8	8	0	10	10	0
BOCOM	4	4	0	12	12	0	16	16	0
CMB	1	1	0	4	2	2	5	3	2
CEB	0	0	0	1	1	0	1	1	0
CGB	1	1	0	1	1	0	2	2	0
CMBC	0	0	0	2	1	1*	2	1	1*
CNCB	0	0	0	1	0	1	1	0	1
Total	61	57	4	126	112	14	187	169	18

(Source: Compiled by the authors according to annual reports of each bank. *: an acquisition was carried out by CMBC in 2008, but failed in 2009)

Proposition 1*: CCBs' traditionally enter foreign countries through mainly greenfield with M&As becoming increasingly popular since 2006.*

Table 3 also reveals that international expansion has more often been undertaken by the Big Five state-owned banks; while the joint stock banks have been relatively less engaged in the international market in terms of the number of overseas expansions. Overall, this is perhaps not surprising, given that the Big Five constitute the biggest commercial banks in China in terms of capitalisation and have far more resources to engage in international expansion compared to small joint stock banks. It nevertheless underlines China's heavy reliance on state-owned banks in the process of banking internationalisation.

Proposition 2*: The large state-owned banks are the main players in the process of CCBs' internationalisation.*

4.2 Motivations for Internationalisation

Table 4 shows the motivation for CCBs' internationalisation, indicating that internationalisation is not motivated by a single factor, but by a number of factors.

Table 4: Strategic motives for CCBs' Internationalisation

Motives	No. of Interviewees	Percentage
Follow-the-customer	30	100
Pursuing new Markets	25	83.3
Government Policy Influence	21	70
Seeking Strategic Assets	21	70
Profit Enhancement	9	30
Competition Between Chinese Banks	7	23.3
Diversifying Risk	5	16.7

Despite the range of motivations, the primary motivation for CCBs' internationalisation appears to be "follow-the-customer". All the interviewees indicated that "follow-the-customer" was the main reason for expanding into foreign markets. Most of the respondents pointed out that: *Many of our customers have gone to many places in Asia, Europe and the America etc.; we follow them out too in order to serve them better. (Interviewees, 3, 6, 17 and 26).*

Other interviewees echoed similar views, noting that if they did not follow, they would likely lose business both in foreign markets and in China.

These findings reflect the increasing foreign trade activities of Chinese firms, which creates a demand for overseas banking services to facilitate financing, receipts and payments of transactions abroad. Given the massive revenues generated through exports by Chinese firms, it is important for Chinese banks to follow their existing customers to satisfy this demand. The results appear consistent with the conclusions drawn by Daniels et al., (1989) that service firms internationalise to service their major domestic customers operating in foreign markets in order and so retain their competitive advantage. In short, CCBs go abroad to support their customers' international trade and outward FDI. At the same time, following customers abroad rather than losing their business is a strategic choice which also involves protecting CCBs' competitive advantage in their home home market, where their main profits are being earned.

The second highest ranked motive was to pursue new markets. Around 83% of the respondents listed "pursuing new markets" as a reason for internationalisation of their banks. Most of the interviewees indicated that:

> (Internationalisation means) to expand our business to foreign markets… (Pursuing new markets) is certainly a key consideration. With the increasing scale of our bank, we need to compete worldwide. There are more and more dealings and cooperation between banks worldwide, so we have to take part and compete in the international market. (Interviewees 17, 26 and 27)

This is in line with Dunning's (1992) assertion that seeking new markets is one of the main motivations for internationalisation. He argues that investment in a new market may be motivated by the market size, or the perceived prospect of market growth, a point emphasised

by Jianqing Jiang (2008), the board chairman of ICBC, who expressed the view that the foreign expansion of CCBs is pursued in order to generate new growth in foreign markets, especially in EEs with huge growth potential. Based on the findings that Chinese bank tend to pursue new markets and follow their customers abroad, we propose the following:

Proposition 3*: Chinese banks are primarily motivated by market development and to defend their competitive position.*

Two further important motives for CCB internationalisation are "government policy influence" and "to acquire strategic assets". Around 70% of the respondents cited government policy as a motivation for their internationalisation. This is captured in the following interviewee statement:

> "The 'Go Abroad' policy has encouraged many domestic enterprises entering into foreign markets around the world. As a result, we are expanding into international markets to follow them." (Interviewee: 27).

Interviewee 10 concurs and points out that:

> "Going abroad is related to national policies. It [national policy] is not going to work if only enterprises go abroad; banks must go abroad along with them as well."

Unsurprisingly, the majority of interviewees expressing this viewpoint were from state-owned banks, indicating the influence of the government on expansion behaviour of those banks. The findings are in line with the conclusion drawn by Buckley et al. (2007) and Du and Boateng (2015). Emerging countries and transition countries like China are characterised by heavy political and institutional involvement in their business systems

(Child and Rodrigues, 2005), which can either support firms' development or restrict it (Du and Boateng, 2015). Most importantly, the lack of ownership advantage associated with emerging market multinationals can be alleviated, at least to some extent, by taking advantage of government policies encouraging firms to go abroad through it "go abroad policies".

Proposition 4*: Chinese government policy plays a crucial role in CCBs' internationalisation.*

As regards the need "to acquire strategic assets", this encompasses both the technology and managerial know-how often available in developed country financial centres. This was aptly summarised by two respondents:

> "We set up institutions in many international financial centres, because there is a huge gap between world leading banks and us, so we still need to learn (from them)." (Interviewee: 5)
>
> "We need to learn advanced financial management experience and acquire technology from banks from developed countries through internationalisation." (Interviewee: 27)

Interviewee 8 explained further, that:

> "Take London as an example, its overall market level and talent level is much higher than [our] domestic [market], so in this respect we are here mainly absorbing [the knowledge of] professionals, learning market practices and knowledge. What we are doing now in London, in fact, is to enhance our strength."

(Interviewee: 8)

This result is in line with the resource-based view and latecomer perspectives which suggest emerging country firms tend to go abroad to address their international competitive disadvantage and acquire for themselves the needed resources and know-how, an important element in their so-called "catching-up" strategy. This is important in China, as even the state-owned CCBs, which are classified as China's national champions, still lag far behind the world leading banks in terms of product innovation, international talent, and managerial know-how in international business and risk management (García-Herrero et al., 2009).

Proposition 5: Acquiring strategic assets is seen as one of the main reasons for CCBs expanding abroad.

The lower ranked strategic motives for internationalisation mentioned by the interviewees were profit enhancement (30%); competition among Chinese banks (23.3%); exploiting strategic opportunities (20%); and diversifying risk (16.7%). As regards profit enhancement, a number of interviewees noted that this would become more significant in the longer term:

> "Going abroad' is not for making money in the short-term, but it definitely is in the long-term." (Interviewee: 6)
>
> "In my view, the pursuit of profit is certainly an important one; of course this is a long-term goal… in the long run, it is definitely a pursuit of maximum profit." (Interviewee: 15)
>
> "We think highly of pursuing profit… We may not set up offices all over the world, but our main concern is profit and making profit is the first priority." (Interviewee: 18)

About a quarter of the interviewees indicated that competition between Chinese banks motivates their internationalisation. One respondent summarised the view expressed by many:

> "The domestic market is becoming saturated in terms of growth. For example, we have already had a very high ratio in terms of customers and deposits. We are now in a period of slow growth. So, it is impossible to obtain more customers in the home market in a short time; overseas markets are more like emerging markets to us...." (Interviewee: 25)

This motive for internationalisation is only likely to increase in importance. The increasing development of the Chinese financial sector has led to a more competitive market and narrowing profit margins at home. Consequently, Chinese banks have progressively looked to expand their business beyond their home market.

The lowest ranked motive expressed for internationalisation was to diversify risk. Interviewee 10 indicated that:

> "In the (2007-08) financial crisis, HSBC was least affected, just because it is truly globally-oriented. 'Lose here, gain there', that means the bank will reduce risk simply because of a crisis happening in one region. As this point suggests, we cannot put all bets on China's market. To be secure and to become a hundred year-old company, even to deal with the economic downturn, internationalisation is an inevitable trend." (Interviewee: 10)

Interviewees 3 and 24 also noted that:

> "Distributing (business) around the world can avoid the risk caused by only

operating in one place." (Interviewee: 3)

"Internationalisation can diversify the distribution of our business, by which our risk management could be favoured as well." (Interviewee: 24)

Proposition 6: Profit enhancement, competition at home and risk diversification appear to be less ranked motives which drive CCBs internationalisation.

4.3 Challenges to CCBs' internationalisation

When the interview participants were asked what challenges their banks face in internationalising, the predominant concerns related to capacity, culture and experience. The responses are shown in Table 5.

Table 5: Challenges to CCBs' Internationalisation

Challenges	No. of Interviewee	Percentage
Lack of managerial resources/technical capacity	29	96.6%
Cultural differences	28	93.3%
Lack of experience	19	63.3%
Adapting to host country regulatory institutions	10	33.3%

4.3.1 Managerial Resources/Technical Capacity

Most of the interviewees indicated that lack of technical capacity/managerial resources constitutes the biggest challenge they face when expanding into a foreign country. This was reflected in the responses of a number of interviewees:

"Our management ability (in terms of managing overseas affiliates) is not good enough…" (Interviewee: 21)

"From the inside, our ability to globalise is a problem. We lack global vision and still manage international businesses in (the same) way we manage domestic business." (Interviewee: 5)

"Management ability does matter. We have little experience in managing international operations, which is one of the reasons why our overseas institutions develop slowly." (Interviewee: 7)

For others, developing an internationalisation strategy had only recently appeared on their agenda:

"We (have) only proposed an internationalisation strategy since 2012." (Interviewee: 12)

"We recently (2010) put together an internationalisation strategy." (Interviewee: 23).

This may also suggests that some of the CCBs already operating in foreign markets did not have a clear international strategy before they embarked on foreign growth.

None of this is surprising given our earlier finding that 'follow-the-customer' is the main reason given by CCBs for international expansion (e.g. Qian and Delios, 2008). Another plausible explanation may be due to the Chinese government' policies that encourage firms to go abroad. Particularly, in relation to state-owned CCBs, patterns and timing of Chinese bank internationalisation may be politically driven rather than being based purely on banks' own strategic business imperatives (Child and Rodrigues, 2005).

As regards managerial and technical capacity for internationalisation by banks, Interviewee 26 was typical of a number of interviewees:

"From my point of view, the biggest challenges emerge from ….. IT

systems, products and management processes. All of these were transferred directly from home. They were not directly suitable for foreign customers, which resulted in a poor customer experience". (Interviewee: 26).

As Interviewee 21 also indicated:

"Head office offers resources and assigns tasks to overseas branches, but provides little guidance to local businesses." (Interviewee: 21) and this interviewee added that:

"Our capacity to guide overseas business is low. In terms of overseas risk management, our head office finds it does not have much to do with that. We can only provide the existing risk management policy and regime to overseas branches to comply with, but can do nothing if they fail to do so." (Interviewee: 21)

It is apparent from the above that managerial ability and lack of technical capacity combine to create difficulties in implementing effective international expansion strategies, which in turn has implications for the achievement of long-term performance outcomes.

Proposition 7: Lack of managerial resources and technical capacity appear to be a major challenge to CCBs internationalization.

4.3.2 Differences in Culture

Unsurprisingly, more than 90 per cent of the interviewees regarded cultural differences as a barrier to their international expansion.

"From my point of view, Chinese banks do face cultural conflicts when expanding into European and American markets." (Interviewee: 26)

Interviewee 26 continued that:

> "This is often reflected in many aspects, such as the way of thinking, the way of communication with clients, and internal communication between different nationalities and different ethnic groups." (Interviewee: 26)

Interviewee 6 confirmed this viewpoint by indicating that:

> "Where the internationalisation is progressing well is in markets with similar cultures to China. Where the geographical distance is far, the way of thinking is different from ours, and mutual recognition is poor; it is much more difficult to do business there." (Interviewee: 6)

The interview data revealed that cultural conflict in working practices was apparent in varying degrees in a number of contexts, such as language, work style, value systems, customs and even religious faith. Above all, the interviews indicated cultural differences may be caused by language difference.

Adapting to local institutional context was regarded by interviewees as another cultural barrier. Interviewee 25 underlined the challenges of adapting to the local context:

> "The biggest challenge is to comply with local regulations…we find that it is hard to provide basic products, such as issuing credit card, in local market when you newly come to this market, because this is under the control of many local supervisory and regulatory institutions. We are not able to issue even one credit card in a time of three years since we have been here." (Interviewee: 25).

Regulation is not the only issue. In the banking industry, where personal relationships are fundamental (Focarelli and Pozzolo, 2001), attracting local customers becomes a big

challenge for CCBs. It is a matter of not only providing diverse and marketable products and services, but also of having the ability to assimilate the local culture. In order to adapt to a new local context, CCBs need expertise about the local cultural, economic and legal characteristics of their product market segments, and also to be familiar with the formal and informal rules of that market (Lord and Ranft, 2000). This intimate market knowledge is, to a large extent, tacit and experiential, but has great significance in building reputable brands in local markets.

Proposition 8: Cultural differences constitute a major challenge to CCBs' international expansion.

4.3.3 Lack of prior internationalisation experience

Another challenge pointed out by the interviewees is lack of internationalisation experience. For example, Interviewee 5 indicated that:

> "The overseas experience of individual staff is very important. We have not really been internationalised so far because of the lack of experience … we have not cultivated and reserved a pool of the people needed for international expansion. For example, HSBC train staff in overseas markets massively, while we are reluctant to send many personnel to offshore institutions due to cost saving considerations." (Interviewee: 5).

Interviewees 4, 6 and 21 echoed similar views and emphasised that:

> "We lack experience (in managing overseas institutions and business), in terms of management framework, routes of development and the criteria for choosing target

market.” (Interviewee: 4)

“Few (of our) staff have prior working experience in a foreign bank. The vast majority of staff are trained by ourselves in terms of how to manage overseas institutions.” (Interviewee: 6)

“Staff barely have experiences of international operating as we mainly did business in Mainland China before” (Interviewee: 21).

The evidence suggests experiential knowledge is important for CCBs in the international banking market. If this is not already available in the bank, then they may have to rely on local market staff, which, as pointed out earlier, can create its own problems without careful handling.

4.3.4 Adapting to host country regulatory institutions

As already indicated, host country regulation can be problematic for CCBs. Regulatory and operational restrictions have a significant impact in the context of CCBs’ international expansion. Interviewee 24 indicated that:

“Compliance management is a relatively huge challenge. At home, the decision to go abroad requires approval from the Chinese government thereby increasing transaction cost. In the host country, there are a host of operational restrictions and the need to meet the regulatory standards. The above increase transaction costs.” (Interviewee: 24).

Proposition 9: Lack of experience in managing overseas branches is a huge challenge to CCBs’ international expansion.

5. Conclusions and Implications

This study has analysed the entry mode choice, motivation and challenges of the CCBs' internationalisation over the period 2001-2013. Utilising data collected via interviews of 30 senior managers from a sample of 10 CCBs, alongside a range of secondary sources, this study finds that greenfield and mergers and acquisitions are the most popular foreign entry mode used by CCBs. Regarding the motives for bank internationalisation, we find a number of factors influencing Chinese banks' expansion into foreign markets. These include: follow-the-customer, pursuing new markets, government policy influence, strategic asset seeking, profit enhancement, competition between Chinese banks, and risk diversification. The results suggest that the primary reasons by Chinese banks' internationalisation appear to be intrinsically linked to market development to serve customers operating in overseas market, government policies and strategic knowledge sourcing. In terms of challenges, the study finds lack of management resources/technical capacity, culture, adapting to the host country regulatory environment, and lack of experience to be the main barriers to CCB internationalisation.

5.1 Implications for theoretical development and practice

This study suggests several valuable insights for theory development in the context of EE bank internationalisation. First of all, the findings of this study suggest that the mainstream notion that asset-exploitation (particularly firms' rent-yielding proprietary resources and knowledge-based capabilities) drive developed country firms' internationalisation provide insufficient explanation of EE banks' internationalisation. This study suggests that CCBs'

international expansion is not based on firm-specific ownership advantages, but rather driven by the need to develop overseas market, acquire knowledge and skills to serve major customers operating in foreign countries. It is important to emphasise that Chinese banks are not motived by one single reason but by a set of multiple motives, all of which is facilitated by government policies. This suggests that theoretical development to explain the reasons for bank internationalisation should be approached from a multi-theoretic standpoint utilising institutional strategic behaviour and resource based perspectives.

Another implication from the results of this study is that supportive government policies appear to be a key element of CCBs internationalisation. The results provide a valuable lessons to both managers and governments in emerging countries that governments play a decisive role in firms' international expansion decisions and that managers need to lobby and work in co-operation with governments to catch up with established multinational companies from developed countries and boost a country's national competitiveness.

Lastly, the results of this study suggest that cultural differences and a lack of managerial knowledge and capacity are the main problems that face bank internationalisation of EE firms. The results imply the need to build capacity to ensure the long-term success of EE banks entering foreign countries. For practicing managers, we suggest that for these banks to acquire the requisite experience, knowledge and capacity, senior management should form strategic alliances with leading international banks and invest in skill development for their staff. Such alliances can expose staff to the international best practice. Another way of improving management capability is to widen recruitment of senior management from other cultures by bringing experienced and top-level skilled managers from overseas.

Despite the contribution of the study, it is important to note that, the study is based on a single country hence it there may be limits to the extent to which these results are generalisble to cover all emerging countries. More research appears warranted and we suggest that future research could use data collected from a number of firm in a cross-country context. We also suggest that future research should provide a model or framework to guide senior managers on emerging country bank internationalization.

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