Journal of International Management 13 (2007) 376–397

Multinational banks from developing versus developed countries: Competing in the same arena?

Andreas Petrou *

Cyprus International Institute of Management, 21 Academias Avenue, Aglandjia, 2107 Nicosia, Cyprus

Received 1 July 2006; received in revised form 1 April 2007; accepted 1 May 2007
Available online 13 July 2007

Abstract

The emergence of global competitors from developing countries brought back the issue of how Multinational Enterprises (MNEs) from developing countries compete in international markets. As the small number of studies of MNEs from developing countries concentrates on manufacturing firms, this study examines service multinationals by comparing multinational banks (MNBs) from developing and developed countries.

Managers' international strategic motivations were measured directly by collecting data on 112 new foreign ventures of banks worldwide. Findings suggest that both MNB groups are motivated to exploit ownership and internalization advantages. However, location motives, location choices and location entries differ which is attributed to different levels of capability. MNBs from developing countries are more likely to follow clients from home whereas MNBs from developed countries are more likely to enter developing countries in search for foreign market opportunities. These findings suggest that currently there is little overlap in international competition among these two groups of MNBs.

Findings do not reflect the situation in manufacturing where some MNEs from developing countries became leading international competitors in their industries and therefore, more research should be directed in this area to understand how international service firms should compete internationally and what factors would improve competitiveness.

Keywords: Multinational; Banking; FDI; Developing country

* Tel.: +357 99375522; fax: +357 22331121.
E-mail address: andreas.petrou@ciim.ac.cy.

1075-4253/$ - see front matter © 2007 Elsevier Inc. All rights reserved.
doi:10.1016/j.intman.2007.05.006

1. Introduction

A phenomenon of the globalization of the world economy is the increasing foreign direct investment of companies based in developing countries. The emergence of global competitors of the likes of Haier, Lenovo and Cemex raises questions about how firms from developing countries compete with rivals from developed countries, a research issue identified by a number of international business scholars (Li, 2003; Ramamurti, 2004; Yeung, 1994).

Most researchers studied Multinational Enterprises (MNEs) without considering whether they originate from a developed or a developing country assuming that these two groups of MNEs are similar (Caves, 1982; Chen et al., 2004; Dunning, 1980). However, studies of MNEs from developing countries suggested that these multinationals have certain differences compared to MNEs from developed countries; they are smaller, less international and may not possess ownership advantages during their first steps of internationalization (Giddy and Young, 1982; Mathews, 2002; Van-Hoesel, 1999). Given that FDI theories suggest that possession of ownership advantage is a requirement for internationalization (Hymer, 1976; Kindleberger, 1969), this raises the question of why MNEs from developing countries internationalize in the first place. This may also suggest that, more research on this issue is required before we start creating consensus (Makino et al., 2002).

In addition, studies of MNEs from developing countries concentrated primarily on manufacturing firms as researchers studied mostly MNEs from South East Asia and China (Makino et al., 2002; Lecraw, 1993; Li, 2003; Van-Hoesel, 1999). Service firms which have different characteristics from manufacturing firms such as simultaneous production and consumption and perishable products which often constraint internationalization options have not been studied from this perspective despite the fact that internationalization motives may be different. For example, a major internationalization motive of service firms is to follow their clients which have not been shown to be a major driver of manufacturing firm internationalization (Akbar and McBridge, 2004; Enderwick, 1989; Erramilli, 1991).

The purpose of this study is to compare directly multinational service firms from developing countries with similar companies from developed countries in order to understand how MNEs from developing countries compete in a globalized environment with fewer resources and less international experience. We are particularly interested to understand a) differences in foreign market strategic motives; b) differences in location choices and location entry strategies. Ownership, location and internalization related motives identified in the literature and patterns of foreign investment will be compared across the two groups in order to establish differences that may explain different FDI behaviour. Furthermore, managers' strategic motives will be measured directly rather than using proxy variables, unlike most FDI studies, because it is difficult to capture perceptual constructs like motives, with proxy variables (Cyert and March, 1963; Makino et al., 2002).

In order to control for service industry differences (Boddewyn et al., 1986) this study will focus on commercial banking. This industry is more regulated which results in differences in local markets, and assets are mostly financial which increases the cost of failure. Furthermore, this is an important topic for banks as the last two decades we saw a significant increase in internationalization from banks from developing countries. For example, HSBC started as a small bank in East Asia to become a major force in global banking by pursuing more than twenty foreign market entries the last two decades in countries like UK, US, France, Turkey, Brazil and India, which raises the question of how could a bank from a developing country with little international exposure such as Bank of China become a credible international competitor. In addition, cross-border activity in Europe such as in Eastern Europe, in the Balkans, in the Baltic countries as well as in main markets such as Italy and