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Long Range Planning 42 (2009) 614–632

LRP long range planning

http://www.elsevier.com/locate/lrp

Foreign Market Entry Strategies in Retail Banking: Choosing an Entry Mode in a Landscape of Constraints

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International expansion by retail banks can involve different modes of foreign entry, the most common being acquisitions, start-ups and joint ventures. But there is only limited consensus over which represents the best option, and banks choose the same or different modes when entering different countries. This article investigates the question of how managers make these choices by testing a mode selection model based on the perceptions of managers involved in 124 foreign market entries. The model considers their control and resource objectives, their willingness to trade off control for access local resources and the constraints on their entry: levels of local regulation, home/host country differences and entrants' resources. The results show that internationalizing banks choices of entry mode are influenced by managers' desire for control over their foreign ventures and by their local market resource requirements, as well as by foreign regulatory constraints and the differences between home and foreign markets - but not by entrant's size. Identifying the factors influencing banks' entry mode choices allows us to point out a number of key factors managers should take into account when planning their internationalization strategies.

Introduction

Over the last decade there has been a significant increase in cross-border entries by retail banks, spurred by saturation in home markets and the relaxation of regulations in many host countries. As banks seek fast growth overseas, the most popular entry modes have been joint ventures and

0024-6301/$ - see front matter
doi:10.1016/j.lrp.2009.09.001

acquisitions. Thus, for instance, HSBC alone has concluded over ten retail banking acquisitions in the last decade, in both developed and emerging markets, in its efforts to diversify its revenue streams, resulting in the Asian contribution to its total revenue being reduced from almost 100% to approximately 40%.

The choice of entry mode is an important decision for multinational banks (MNBs). Different modes can support different strategic objectives, but each also involves both committing and obtaining different levels of resources. A bank entering a foreign market will commit some home country resources (such as capital and managerial skills), while also seeking to access other resources locally which it cannot itself develop quickly - typically, distribution, local image, market know-how and customer base.[1] Although retail banks' own resources are important issues in foreign entry (and closely linked to bank size), the primary focus of this study is entrants' needs to access local resources, as these are critical to the successful execution of their foreign market strategies.

A further consideration is their desire for control: different entry modes offer different levels of control over the foreign unit. A bank undertaking a start-up in a foreign market will have control over its local unit and thus the flexibility to do what it wants, but scaling-up to achieve a viable size in the foreign market — even to cover specific market segments such as small and medium size enterprises (SMEs) — involves the time consuming process of building local resources from scratch. Alternatively, an acquisition can provide the MNB with instant access to local resources, but may require significant financial investment. A joint venture (JV) facilitates access to local resources via a partner, but control is shared, which increases the difficulties of managing the foreign venture. (Here bank joint ventures are defined to include both start-ups that are jointly owned by a local and foreign bank, as well as the situation where a foreign bank acquires a significant equity stake in a local bank.[2]).

Making the wrong entry mode choice - for instance, over-investing in foreign market resources via an acquisition, or establishing a start-up that is unable to create an adequate presence to exploit local opportunities - can have serious consequences. Thus the Greek Alpha Bank's start-up entry into the Bulgarian market resulted in a local branch network that was significantly smaller than those of its rivals Euro Bank and National Bank of Greece, both of whom had acquired local banks. Entry mode choice is not necessarily straightforward, as a bank may pursue different routes in different foreign markets for different reasons, and there will often be constraints to foreign entry in the retail banking sector, which add to complexity of this problem. All this suggests it is important to try to understand which factors retail banking managers consider when selecting foreign entry modes: this attempt is the subject of this article's research.

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To illustrate the range of possible entry mode choices in retail banking, Table 1 lists Société Générale key foreign entries in the period 2001—2006. The bank employed all the equity-based entry modes available in entering geographic locations in Europe, Africa and Asia, and into different business areas such as finance, consumer and SME banking. Other MNBs have also utilized diverse entry modes: over the past five years Crédit Agricole of France, for example, acquired Emporiki Bank in Greece, opened a finance branch in New York and acquired a 19% stake in Spain's Bankinter; while over three years the National Bank of Greece purchased a minority acquisition of Finansbank in Turkey (46%, which it subsequently increased to